TAX POLICIES AND PERFORMANCE OF SMALL SCALE BUSINESS ENTERPRISES IN MAKINDYE DIVISION

A CASE STUDY LUWAFU PARISH.

BY

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DECLARATION

I SSEKISAMBU PAUL of registration number 1163-05014-06461 solemnly declare that this research proposal is of my original work and has never been submitted in any institution or university for the award of any academic qualification.
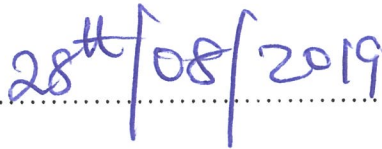

Signature.. Date ...25/09/19..

SSEKISAMBU PAUL

APPROVAL

This is to certify that this research report was done by SSEKISAMBU PAUL under my supervision and is now ready for submission to the College of Economics and Management of Kampala international university.

Signature... Date ....28th/08/2019........

MS. IRAU FLORENCE

DEDICATION

dedicate this report to my parents, my relative including my sisters, brothers, uncles and aunties, cousins and others. The same dedication will also go to my friends whose support and encouragement helped me to be who I am and who I will be. Without mercy of God I wouldn't have seen the light of education. Thank you very much for your support.

ACKNOWLEDGEMENTS

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ABSTRACT

Tax policies that are set by government and tax authorities have influenced small business not only in Kampala district but also world over. This research looks at how tax policies have affected performance of small businesses in Kampala District, taking Luwafu Parish, Makindye division as focus of study. The study has been presented chapter by chapter basing on the objectives stated in chapter one subsection 1.4, which include; determining the effect of tax compliance on performance of small business enterprises, determining the effect of tax administration on performance of small business enterprises and examining the effect of tax assessment on performance of small business enterprises in Luwafu Parish, Makindye division.

The study used both stratified and simple random sampling techniques to draw representative samples and a sample size of 60 respondents was determined using Slovenes formula. Self-administered questionnaires were used to obtain response. During this research data was carefully collected, classified and analyzed using frequency tables and percentages were used to determine reliability of findings.

The findings of the study revealed that there is a relationship between tax policies and performance of small business enterprises in Luwafu Parish, Makindye division. In support of these findings over 80% of respondents were in strong agreement that; some of the factors that lead to non-compliance of tax payers include unfavorable policies employed by the government on these enterprise which include poor administration procedures, over valuation of businesses during tax assessments and limited stakeholder involvement. It was on this not that the researcher concluded that effective tax policies drafted by the government for small businesses would see improvement in their performance and vice-versa. The researcher finally recommended that the government and tax authorities in Kampala including Kampala Capital City Authority (KCCA) should set up policies which are small-tax-payer friendly such as they can equally benefit from their businesses. Inclusion of all stake holders and assessing businesses in the reach of tax payers was some of the recommendations drafted for the government. For mutual benefit purposes also, small business tax payers have been recommended to remit their tax dues in time so as the government can be able to extend effective services to them.

CHAPTER ONE

INTRODUCTION

.0 Introduction

This chapter presents the background upon which this study is based, purpose of the study, statement of the problem; objectives of the study research questions; hypothesis; scope of the study; significance of the study; and the conceptual framework.

.1 Background

.1.1 Historical perspective

Tax policies have influenced SMEs world over in different ways as far as since ancient times is concerned. A salt tax was levied on salt proportional to the amount of salt. This was done due to the volubility of salt as a preservant, and in some cultures nearly worthy is weight to gold. Notable examples of salt taxation include the French Gabelle, China under the Tang and Mongol Yuan, salt tax in India among others. In 1665 a tax called minister's money was payable in Ireland by households to fund the local church of Ireland minister. Hearth tax was a property tax in England and Ireland in 14th and 17th centuries respectively collected during the Mandvel levied on each family unit. In addition a Poll tax acted as a pre-requisite to the registration of voting in many States of America. It emerged in 19th century (Dawson, 1989).

In Africa the Hut tax was among the first tax policies introduced by the British colonialists on per hut or household basis. It was variously payable in monetary terms, labor, gains or stock. It benefited the colonial authorities in four major ways of broadening the cash economy, supporting the currency (Charntalism), raising money and forcing Africans to labor in the colonial economy. Hut tax was introduced in countries like South Africa (1857-1908), Zimbabwe (1894), Sierra Leone (1898) and North Rhodesia (now Zambia). (Dawson, 1989).

In east Africa the first tax to be introduced was hut tax in 1900 by the British colonial administrators through institutions of systems of compulsory public works like road construction, building administration headquarters and schools, clearance of forests and other similar work (Munda, 2011).

axation in Uganda stretched its history way back in 1900 with hut tax, whose main objective
/as to attract citizens into monetary production. Following the introduction of cotton growing in
Jganda, the hut tax was transformed into poll tax in 1905. This was followed by tax legislation
f 1919, income tax of 1939, PAYE of 1962, VAT of 1996 among others. All tax reforms that
ave existed in Uganda and elsewhere have always aimed at enhancing on foreign resources that
.e most countries into perpetual debt servicing (Uganda Revenue Authority Act, 1996)

'erformance of small and medium enterprises worldwide have been recognized as engines of
,rowth and development and in many countries there has been some considerable effort to
upport them so as to create necessary employment opportunities, incomes and productive
apacity (Harper 1984 and felsenstin 1990). According to Tulip and Bikerezo (1993) business
nterprises in Uganda contribute about 20% of Uganda's GDP. They further said that this figure
nay be much higher that Uganda's GDP is constituted of mostly agricultural production. This is
nainly by small holders who may not even fit in the definition of small and medium enterprise.
3esides since a great component of GDP is a non monitory used and largely subsistence, it is
)ossible that the contribution of business enterprises is much larger than 20%Ministry of
)lanning and economic development (1992) reported that over 80% of Uganda's manufacturing
)utput is by small and medium enterprises. The sector also employs up to 2.6 million people in
Jganda (Uganda investment authority 1996).Mutazindwa (1997) reported that despite the
mportance of small and medium enterprises, they appear not to have been successful in the
3aharan Africa. Many studies have been done and indicate that these businesses have a variety of
)roblems some of which are managerial and lack markets (sewanyana 1992) and (wanyana
l991). Since the small units have been identified as important, they are supported in their
levelopment.

1.1.2 Theoretical perspective

Ability-To-Pay theory

The ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques
Rousseau (1712-1778), the French political economist Jean Baptist Say (1767-1832) and the
English economist John Stuart Mill (1806-1873). As the name suggests, it says that the taxation
should be levied according to an individual's ability to pay. It says that public expenditure

ould come from "him that hath" instead of "him that hath not". The principle originated from the sixteenth century, this is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as (i) each taxpayer surrenders the same absolute degree of utility that s/he obtains from her/his income, or (ii) each sacrifices the same proportion of utility s/he obtains from her/his income, or (iii) each gives up the same utility for the last unit of income; respectively. (Mill, 1873)

In order to satisfy the idea of justice in taxation, J.S. Mill and other classical economists have suggested the principle of proportionate in taxation. These economists were of opinion that if these taxes are levied in the same proportions to the income of individuals, it will automatically equal sacrifice. The modern economists however differ with this view by asserting that when incomes increase, the marginal utility of income decreases. The equity of sacrifice can be achieved when persons with high incomes are taxed at a higher rate than those with lower incomes. They favor progressive system of taxation in all modern systems. (Mill, 1873)

.1.3 Conceptual perspective
According to Manasseh (2000), a tax is generally referred to as a compulsory levy imposed by government upon assessment of various categories. And that taxation is a compulsory and non-refundable contribution imposed by the government for public purposes.

A **Tax** is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity) by a governmental organization in order to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is punishable by law.

Performance.

Performance is asset of management and analytic processes that enables the management of an organization performance to achieve one or more pre-selected goals. By performance the

esearcher will concentrate on the following dimensions, effectiveness, Profitability which measures the overall effectiveness of the management organization in generating profits e.g. profit contribution but segments, margin spreads. Productivity which measures employee output. erformance of small and medium enterprises involves taking a closer look and forecasting udgets and planning as well.

ax policy is the choice by a government as to what taxes to levy, in what amounts, and on vhom. It has both microeconomic and macroeconomic aspects. The macroeconomic aspects oncern the overall quantity of taxes to collect, which can inversely affect the level of economic ctivity; this is one component of fiscal policy. The microeconomic aspects concern issues of airness (who to tax) and allocative efficiency (i.e., which taxes will have how much of a istorting effect on the amounts of various types of economic activity).

ax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax ules of his country, for example by declaring income, filing a return, and paying the tax due in a imely manner.

ax compliance is likely to become even more important with developments such as self-ssessment and electronic commerce. This paper re-examines the meaning of tax compliance. It inds that existing definitions are usually too narrow to encompass the topic in full and a wider lefinition is offered. The paper describes the purpose of tax compliance and the factors that ffect the willingness of taxpayers to comply with a tax system. It discusses two different pproaches to tax compliance and suggests that caution should be shown in the use of penalties nd the emphasis should be on assisting citizens to meet their tax obligations. Fortunately recent levelopments have seen closer cooperation between tax agencies and academic researchers. A oressing task is the development of an approach that incorporates both the economic and oehavioural approaches to tax compliance and a successful strategy for tax compliance must give lue weight to all relevant factors and their interaction. (Manasseh, 2000).

Tax administration. Tax administration law covers an enormous number of issues. An essay vhich attempted to cover each issue in detail would run on for volumes, rather than pages. To keep the discussion at a reasonable length, this chapter offers only an introduction to some of the ssues involved.

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ax administration is the administration, management, conduct, direction, and supervision of the execution and application of a government, country or state's taxation laws and related statutes

'ax assessment

'he making out a list of property, and fixing its valuation or; it is also applied to making out alist of persons, andtheir several occupations, chiefly with a view of taxing the said ersons and their property.

mall scale business enterprises

n Uganda a small business enterprise is an enterprise employing up to four people, with an nnual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. In Jganda a considerable fraction of businesses are sole traders operating small scale businesses, ocally owned and managed by individuals or families and often with few employees working at single location, (Uganda Development Bank Report, 2008).

.1.4 Contextual perspective

'he study will be carried out in Luwafu Parish located in Makindye division in Kampala District. This area will be chosen as a case study because it is near the researcher's access and also due to he availability of small scale businesses. These small and medium businesses also bear a wide ax burden which has led to their poor performance therefore, it was against this back ground that he researcher under took the study to investigate more about the problem using Luwafu Parish n Makindye division as a case study to evaluate the impact of taxes on performance of usinesses .it is owned by foreign investors and managed by private individuals who some time mployee nationals.

.2 Statement of the problem

Taxes are raised by the government to generate revenue used to provide services such as health :enters, telecommunication, road construction, schools and electricity among others to the ublic. This has help to improve the performance of small scale business enterprises. Despite the rovided services by the government, small scale enterprises' performance is still very poor. This ould 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 (Nsubuga D, 1994) which has led to slow levelopment and sometimes winding up of some small scale business enterprises. In addition to

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lis, taxes are usually imposed to these small enterprises without a clear assessment of their business which lead to non-compliance by the same businesses. It is therefore upon this background that the researcher is undertaking to examine the effect of taxes on performance of small business enterprises in Luwafu Parish, Makindye Division.

.3 Purpose of the study

The purpose of this study was to determine the effect of tax policies on performance of small business enterprises in Luwafu Parish.

.4 Objectives of the study

i. To determine the effect of tax compliance on performance of small business enterprises in Luwafu Parish.
ii. To determine the effect of tax administration on performance of small business enterprises in Luwafu Parish.
iii. To examine the effect of tax assessment on performance of small business enterprises in Luwafu Parish.

.5 Research questions

i. What is the effect of tax compliance on performance of small business enterprises in Luwafu Parish?
ii. What is the effect of tax administration on performance of small business enterprises in Luwafu Parish?
iii. What is the effect of tax assessment on performance of small business enterprises in Luwafu Parish?

.6 Study hypothesis
This study assumed a null hypothesis that states that;

I_o: there is no significant relationship between taxes and performance of small business enterprises.

.7 Scope of the study

.7.1 Subject scope

'his study covered small scale business enterprises in Luwafu Parish basing on the objectives lready stated in 1.4 above. The insight study ensured that issues related to taxes in regards to tax olicies, tax administration, tax compliance and tax assessments are critically handled.

.7.2 Geographical scope

'he study was carried out in Luwafu Parish located at in the capital city- Kampala. This area was hosen as a case study because it is near the researcher's access and also due to the availability of mall scale businesses. This helped the researcher to intensively collect the required data for the tudy.

.7.3 Time scope

'his research was conducted for a period of four months (that is, February to May). This period rill be used because the researcher believes that she would be able to coherently gather nformation from respondents as it would enable them (respondents) to give responses that are ypical of their opinion from observations to be made over the period.

'he researcher also used the data from business owners and tax collection authorities (URA and 'CCA) in Luwafu Parish cited from 2010-2017.

.8. Significance of the study

'he findings of this study were significant/ helpful in the following ways;

'o scholars and researchers; the findings of the study are expected to contribute to the existing iterature regarding tax policies and performance of Small business enterprises.

'o the company management; the study will help the management of small business enterprises nd tax authorities in Luwafu Parish and Uganda at large to adjust to the better tax policies that re convenient for both parties.

'o the researcher; the accomplishment of this study will enable the researcher to acquire hands n skills about processing of research work and data analysis. This research will enable the esearcher to handle such related work with a lot of proficiency and precision.

.9 Conceptual Framework

Independent Variable   Dependent Variable

Tax policies
• Tax compliance
• Tax administration
• Tax assessment

Performance of SMEs
• Effectiveness
• Profitability
• Efficiency

Intervening variables

• Country's fiscal policies
• Country's economic stability
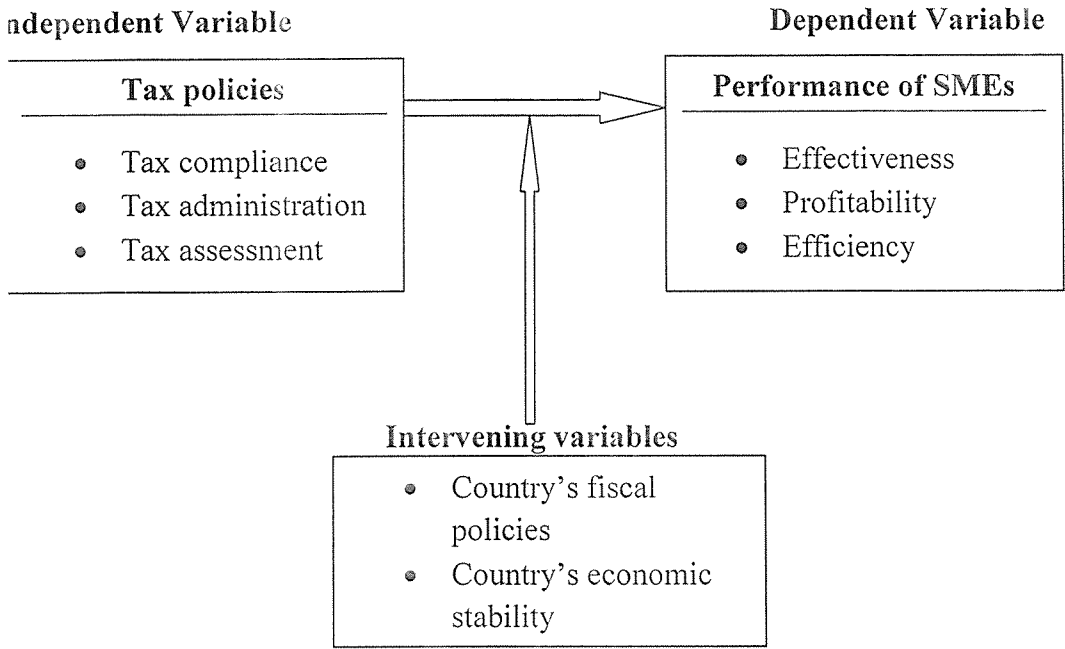
** source:** Adopted and modified basing on the information from Rametse, 2001

CHAPTER TWO

LITERATURE REVIEW

.0 Introduction

his chapter contains the existing literature by different scholars or research studies cited from :condary data sources like magazines, journals, newspapers, textbooks, internet among others. includes the objective review, conceptual review, and the theoretical review.

.1 Theoretical Review

.bility-To-Pay theory

s the name suggests, it says that the taxation should be levied according to an individual's ɔility to pay. It says that public expenditure should come from "him that hath" instead of "him ɪat hath not". The principle originated from the sixteenth century, the ability-to-pay principle ·as scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the rench political economist Jean Baptiste Say (1767-1832) and the English economist John tuart

Iill (1806-1873). This is indeed the basis of 'progressive tax,' as the tax rate increases by the ɪcrease of the taxable amount. This principle is indeed the most equitable tax system, and has ɜen widely used in industrialized economics. The usual and most supported justification of ɔility to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the ɪxpayer because he surrendered money to the government which he would have used for his ʌn personal use. However, there is no solid approach for the measurement of the equity of ɪcrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, ʃual sacrifice can be measured as (i) each taxpayer surrenders the same absolute degree of tility that s/he obtains from her/his income, or (ii) each sacrifices the same proportion of utility 'he obtains from her/his income, or (iii) each gives up the same utility for the last unit of ɪcome; respectively, (Mill, 1873).

2 Conceptual Review

2.1 Tax policies.

linistry of finance, planning and economic development identified the following tax policies 2014),initiate ,evolve and formulate tax policies to achieve economic policy and objectives and iise domestic revenues to finance the government budget. Evaluate and advise on impact of tax olicy on tax payer and economy. Make annual and medium term recurrent revenue forecasts, id revenue performance reports. Coordinate and supervise URA operations to ensure effective nplementation and realization of revenue targets. Coordinate organizations like Bank of Iganda, UIA, private sector foundation and others on taxation matters. Identify new avenues of /idening the tax base. Draw up appropriate legal requirements for revenue collection and related egislation. Participate in EAC negotiation, COMESA and WTO activities. Handle negotiations f double taxation agreements, investment, and promotion and protection agreements. The World ;ank has influenced many countries in under taking tax reform policies for the case of Uganda; ie tax base has remained significantly narrow since independence leading to inadequate tax itio. The composition of tax revenues has been predominantly important. Small scale business ; taxed differently compared to corporation or business with an annual turnover of about 50 iillion shillings. Medical practices, engineering services, accounting and audit practices are tax ayers when their turnover is less than 50 million. According to Balunywa (2010) taxation policy vas in acted but the government to promote performance of businesses. Despite the fact that the iolicy was in acted to promote business performance, they have continued to perform poorly Kiiza 2009).Uganda has no clear reforms to support businesses for example harmonization of ax rates and new tax incentives. Such tax reforms seek to avoid double taxation, tax evasion and trengthen the rights of the tax payers in tax laws. However Ddumba (2004:415) argues that tax eforms policy in Uganda focuses on the legal structures that govern the administration of the tax egime rather than supporting the improvement of entrepreneurial enterprises. Therefore this iaper critically analyses the taxation policy on business enterprises in Uganda

1.2.2 Performance of small and medium enterprises

Kitinisa (2004) describes performance of small scale business as the ability to attain its goals by ising resources in an efficient manner; the goals of the organization include survival profit

aking and expansion. Pandey (1979) looks at financial analysis as a measure of the organization or business performance. The assessment of business entities has a well established methodology that includes computations and interpretation of univeriate predictions of performance are single ratios calculated for efficiency (Makerere business journal 1996).The research is to consider performance of small scale business as the ability of the business:(i)to meet its tax obligations (ii)covers its operating expenses and still retain some profits which can ther be used for reinvestment or otherwise (iii) the ability of the business to make sales that sustain its expenses. Since the 1990s, studies utilizing descriptive statistics have documented factors in the business environment which hinder the performance of Ugandan micro and small enterprises (MSES).

usiness enterprises include both small scale and medium business enterprises. according to income tax act (1997) business enterprises include both small and medium enterprises .The Ugandan economy is supported mainly by medium and small scale enterprises contributing about 90% of the private sector production.(Uganda investment authority 2008) .United Nations conference on trade and development(UNCTAD) defined SMEs firms as those that employ 5 to 500 persons (Neelamegham 1992) while the government of Uganda classifies SMEs as business firms employing 5 to 50 people and with a growth turnover of less than 50 million shillings per annum.(small scale) and 51 to 500(medium scale).Kasekenda and Opondo (2003) takes SME are important to social economic transformation and it is established that such business enterprises employ 22% of the audit population in developing countries (Daniels and Ngwira 1993).MSEs are enterprises employing a minimum of 50 people (Uganda government or ministry of finance and planning 2008).Most of the enterprises in Uganda 92% employ up to 19 people and offer jobs to 90%of the non-farming active population (Uganda Bureau of statistics UBOS 2003,2007).

..3 Related literature.

..3.1 Tax administration and performance of small businesses

Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. Good tax administration requires strong technical capacity by the administrative agency but also a

ell-designed tax. The administrative agency should be able to identify and evaluate the effects ?both current tax policies and tax policies under consideration, be able to simplify the current x system if needed, within the economic and political spectrum, be aware of any law changes id emerging avoidance practices, and maintain a connection between the rule of law and tax lministration.

is commonly argued that small taxpayers pose a problem for tax administration. In fact, tax lministrations, by and large, have formed the opinion that, given the disproportionate revenue itake from large taxpayers, it is beneficial to set up large taxpayer units (LTU) that should be llotted a larger share of administration resources than their numbers would suggest. Indeed, TUs are so popular among advisors on tax administration policy that, without an LTU, a tax lministration is unlikely to be called modern. (Rametse, 2001).

he flip side of this argument is that small taxpayers cannot be expected to pay tax on the basis f a complex tax structure and that a simplified tax regime needs to be set up for them. This is ie genesis of the idea of a "single tax", or *impuestounico*, or *monotributo*, that emerged mainly ı Latin America, though the idea has certainly not been confined to this part of the world alone. Vithin such a framework, small taxpayers would have to pay only one tax, combined from arious taxes that larger taxpayers would have to pay separately. On the basis of the introduction f such a composite tax, many tax administrators have argued that tax evasion among small ıxpayers has gone down. (Rametse, 2001).

mproving revenue performance is an important objective of public sector reform in many ieveloping countries. However, while the options and reform priorities for tax policy reform iften are clear and the necessary process to prepare changes in tax legislation is pre-determined, he development of a tax administration reform strategy often involves overcoming various erious bottlenecks simultaneously without a clear indication of priorities and limits (Rametse, !001).

Vito Tanzi and Anthony Pellechio in the IMF Working Paper on the Reform of Tax Administration (WP/95/22) listed essential elements required for successful tax administration eform: An explicit and sustained political commitment, A team of capable, hardworking ıfficials dedicated full-time to tax administration reform, A well-defined and appropriate

rategy, Relevant training for staff, Additional resources for the tax administration or, at least,)me reallocation of resources and Changes in incentives for both taxpayers and tax lministrators.

echnical assistance projects can help improve the reform strategy, the quality of training, and ie development of incentive systems. However, the commitment on the political and the lanagerial level to reform tax administration and equip it with sufficient budgetary resources to erform its activities, are pre-conditions for technical assistance for tax administration reform id no TA operation should be launched without carefully checking this commitment.

eforming tax administration requires an understanding of its problems (Tanzi/Pellechio, iii). In s main part it addresses key issues of tax administration environment and performance. The uestions listed should unveil the most critical deficiencies in the functioning of a tax dministration and the most important reform priorities in the transformation process to a 1odern and effective revenue authority. For such a major exercise a special 'Diagnostic ramework for Revenue Administration' has been prepared and is available on the web page of ie World Bank Tax Policy and Administration Thematic Group (Rametse, 2001).

'ax administration processes are interdependent. Selective reform efforts in one area will show mited results in a tax administration with generally weak performance. An improvement in the udit selection process, e.g., will have limited impact on tax revenues, if the collection function f the tax administration is not performing; and the establishment of a Large Taxpayer Unit will ot be effective, if due to a lack of training qualified tax inspectors are not available to staff the nit. A comprehensive reform approach therefore is compelling to improve the efficiency and ffectiveness of highly ineffective tax administrations. (PREM note Number 33, October 1999: \n anti-corruption strategy for tax administration).

.3.2 Tax compliance and performance of small businesses
)uring the 1980s structured research into tax evasion and non-compliance became widespread ollowing the political concerns in the United States of an increasing "tax gap." Initially, the iterature which emerged from the United States had a strong focus on economic theory. Utility heory, developed by Allingham and Sandmo, assumed taxpayers to be 'utility maximisers' in

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cisions of tax reporting and compliance, where tax evasion was viewed as worthwhile if the nancial gains purely outweighed the financial costs. (Kaplan et al., 1986).

lore recently, however, tax compliance studies have been based on social and psychological leories. Research studies in this field have argued that the human element plays a vital role in dividual taxpayer compliance decisions. However, while the tax compliance literature has nerged from a wide variety of disciplines, there has been a lack of consensus and agreement as) why people do or do not pay their taxes. Indeed, the tax compliance literature indicates that lere are still many research gaps that need to be filled with respect to issues concerning tax lorals, tax fairness and deterrence measures, for the likely improvement in overall taxpayer ompliance. (Milliron,1986).

his chapter which undertakes a synthesis, generally chronological in order and by category, ritically reviews and evaluates the state of knowledge of taxpayer compliance to 2012. In articular, studies based on the theory of economics that explain the change in taxpayer ompliance behavior, and others based on the theories of psychology and sociology that explain le varying levels of taxpayer compliance, reveal that some combination thereof is optimal in nproving overall compliance. (Milliron,1986).

he focus in this chapter is upon three compliance variables which have been predominant hroughout the review of the literature. They include the economic variable of deterrence, which omprises the likelihood of being caught and the range of penalties applied to those who are aught, and the psychological variables, including moral values and the perceptions of equity and airness held by taxpayers. The first of these variables has been identified by scholars of the conomic school of compliance, whereas the latter two variables come from the social and fiscal sychology school of compliance. (Kaplan et al., 1986).

Tax compliance is fulfilling all tax obligations as specified by the law freely and completely. Tax compliance means submitting a tax return within the stipulated period, correctly stating income and deductions, paying assessed taxes by due date and paying levied taxes. Through the correct declaration and paying on time of an SME's taxes, the company ensures budget transparency and prevents itself from being legally prosecuted1. The complexity of tax laws, the high discretionary powers of tax officials, the low cost of punishment are only some factors creating

pportunities for corruption in revenue administration2. An SME can resist bribery demands om tax officials only if it is in fact declaring correct revenues and paying taxes on those venues (Kaplan et al., 1986).

ood tax management starts with good record keeping, especially financial records.4 Make sure our financial staff is trained in accounting such as classification and recording of monetary ansactions and compilation of statements. One possibility to ensure tax compliance is to use tax ompliance software. This is software that ensures tax compliance for income tax, corporate tax, AT, service tax, customs, sales tax, use tax, or other taxes its users may be required to pay. The oftware automatically calculates a user's tax liabilities to the government, keeps track of all ansactions (in case of indirect taxes), keeps track of eligible tax credits, etc. The software can so generate forms or filings needed for tax compliance. The software will have pre-defined tax ites and slabs and can allocate income or revenue in the right slab itself. The aim of the oftware is to provide the user with easy way to calculate tax payment and minimize any human ror. Tax compliance software has been present in developed countries for long in the form of ix calculators mainly for direct taxes, such as income tax and corporate tax. Gradually some ore complex and customized tax compliance software were designed and developed by rganizations around the globe, (Milliron,1986).

' the nature of your business is fairly consistent from year to year, you may be able to manage our business taxes by yourself. However, you may be better off the first year to hire a tax dvisor, e.g. in order to manage the accounts during big projects or to review tax declarations. Of ourse the impartiality, professionalism and integrity of the external accountant needs to be nsured.

.3.3 Tax assessment and performance of small scale enterprises.

.ssessment occurs when an asset's value must be determined for the purpose of taxation. .ssessments are made annually on certain types of property, such as homes and cars; other ssessments may be made only once. For example, homes are often valued every three or four ears according to their physical condition and comparable values of surrounding residences, oice(2004).

he process by which the financial worth of property is determined.The amount at which an item s valued. A demand by theboard of directors of a corporation for the payment of any money lat is still owed on the purchase of capital stock. Thedetermination of the amount of damages to ɔ awarded to a plaintiff who has been successful in a lawsuit. Theascertainment of the pro rata lare of taxes to be paid by members of a group of taxpayers who have directly benefited from particular common goal or project according to the benefit conferred upon the individual or his r her property. This isknown as a special assessment,Boice(2004).

he listing and valuation of property for purposes of fixing a tax upon it for which its ownerwill e liable. The procedure by which the InternalRevenueService, or other government epartment of taxation, declaresthat a taxpayer owes additional tax because, for example, the ıdividual has understated personal gross income or has takendeductions to which he or she is ot entitled. This process is also known as a deficiency assessment, Welsch(1987).

he most popular form of assessment is done on properties in order to calculate the amount f property tax owed to a municipality, township or county. These assessments are done by n assessor, who evaluates the physical structure of a property, its overall condition, land size, tc. and compares these to other comparable properties in the same area. This assessment is then sed to determine just how much tax is owed by the property owner. The assessments are done y a tax assessor, who is typically appointed or is an elected official. That person will determine ιe values of properties in a specific area. The information gathered by the assessor is then used y local governments to set tax rates in order to support the community's annual budget. ;ometimes the assessor will visit the property, but that's not always the case, Welsch(1987).

;ome states have requirements of how often they need to visit properties in order to determine heir values. Most assessed values are determined by real estate data, which means an on-site ·isit may not always be necessary. In some areas, the assessed value is the market value, but in ithers, the market value is multiplied by an assessment rate to determine the assessed ·alue.Property owners do have the right to contest their assessment if they do not agree with the iriginal value assigned by the assessor. Perhaps it's too high, or there were certain factors that vere not considered in the original assessment. That's when a reassessment, or a second :valuation, can then be done. If you want to know whether your home was properly assessed,

ou should take a look at the assessments of comparables, or any other homes sold in the area. his information can be found on several popular real estate websites or through your unicipality. The other option is to hire your own appraiser to do the job. While it may be an dded expense, you may get a more accurate value placed on your property. One important ctor to note that while you can disagree with the property assessment, you can't necessarily ontest your property tax bill, Boice(2004).

nce the assessment is complete, it goes to the municipality, township or county to determine ow much you will owe in property taxes. These taxes pay for amenities used by the community ncluding public schools, libraries, parks, swimming pools and other recreational activities, initation, fire, police and sewage services, and roads. Some people believe that a low property issessment will automatically decrease their tax bill. But that isn't always the case. Your tax bill an increase even if the assessment on your property can drops, and the same can be true in the everse, Boice(2004).

.4 Concept of Small Scale Enterprises

mall scale enterprises has been defined variously by many individuals and institution using arious yardsticks such as numbers of employees, volume of sales, value of assets, or the olume of deposit in banks (Ademola,2014). The National Economic Reconstruction Fund NERF) defined small and medium enterprises with a criterion that projects to be financed by ne firm should have a total fixed asset cost (including land) of not more than N10million. The ederal Ministry of Industry (in respect of the small scale industries credit scheme) sees small cale industry as any manufacturing, processing or service industry with capital investment not xceeding N150,000 in machinery and equipment alone. A small business is any manufacturing, rocessing or servicing industry that satisfies any or all of the following conditions: Capital, but xcluding cost of land and not excluding N750,000 ii. Staff strength not exceeding 5 persons nd wholly Ugandan owned. iii. A manufacturing, processing or servicing industry, exceeding ne units of investment stated is relatively small compared to prevalent size of plant and the echnology is fairly labour intensive, Atijosan (2014).

According to Ademola et al (2012), Small scale enterprises are catalysts for catalysts for world's conomic growth and development which have dominated the industrial sector of both eveloped and underdeveloped countries. Aruwa (2013) believed that Uganda's industrial sector

dominated by small and medium scale enterprises (SMEs) which accounts for 90% in terms of number of enterprises, as compared with other developed countries where more than 98% of all their enterprises belong to SME sector, about 80% of the total industrial labour force in Japan is SME, 50% in Germany, 46% in USA are employed in smaller firms. Central Bank of Uganda defined small scale enterprises as all businesses with a total assets investment of less than one million, an annual turnover of less than one million and with a total number of employees of less than fifty (World Bank Mapping 2001). In addition, the International Finance Corporation (IFC) and Corporate Affairs Commission in 2001 further justified that Uganda's industrial sector is dominated by SMEs, estimated to be about 90% of the sector employing less than 50% of the people (HPACI 2002). Given the place occupied by the SMEs in Uganda's industrial sector, it is expected that the success of the Ugandan economy would be partly dependent on the success of the SMEs, Atijosan (2014).

Awoye (2014) pointed out clearly that SMEs are catalysts for Uganda's economic growth and development. He believe that through so many SMEs, Uganda has great potentials for success and growth, sales of large volume of goods etc. Even though, some of them have adequate capital, many of them fail due to poor financial management operations, Atijosan (2014).

.4.1 Small Business Enterprises' Threats

There are a lot of threats that bedevil small businesses and stunt their growth. Although there are some problems peculiar to a particular country, the challenges faced by SMEs in different countries and geopolitical divisions are basically the same. For instance, a survey of Turkish SMEs by Organization for Economic Co-operation and Development (OECD) in 2004 showed that they were suffering the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology, and so many others, Atijosan (2014).

The same problems were also registered by other authors concerning other regions like the Philippines, Malaysia and other European states and of course in Sub-Saharan Africa-Uganda inclusive as shown by different authors on the issue. Uzor (2014) believes that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack information technology and knowledge of automation is gradually being reduced given that they serve as contractors for larger firms particularly the foreign manufacturing firms, Aderemi (2003).

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major difficulty faced by SMEs is that of lack of access to short and long term capital. A publication of the Weekly Trust of Saturday, January 22, 2011 recognizes the fact that collateral based financing has become increasingly difficult for SMEs, whether as existing businesses, in their expansion states or as startups hence more SMEs are resorting to viability lending in which case they obtain loans based on the viability of the business and health of cash flow. Banks are usually reluctant to lend to SMEs and this is because of problems such as the SMEs' inability to meet the bank's lending requirements, promoters' low education, management and entrepreneurial skills and poor and unreliable financial records which makes financial review difficult. (Aderemi, 2003). There is also the problem of unsound accounting system and lack of full financial disclosure (Jan, Areetey & Ahene, (2004) buttressed this assertion by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth Summarily, these problems make SMEs a "high-risk" venture. The above named reasons are in and of themselves problems that impede SME growth because not only do they become obstacles in accessing financing, they are capable of hindering growth on their own, Atijosan (2014).

In Uganda, the problems faced by SMEs as posited by Oboh (2002); Okpara (2000); Wale-Awe (2000) and Chu, Kara & Benzing, (2008) include astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, dilapidated state of Infrastructural facilities, unreliable employees and weak economy, unsafe location, undependable electricity supply are common phenomenon, Moreso (2012).

.5. The relationship between tax policies and performance of small scale enterprises
According to Tomlin 2008), (economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. (Tomlin, 2008)

Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise

storically reduce the size of the shadow economy and the number of non-complying registered xpayers (Vasak, 2008).

irthermore, SMEs usually have to operate in an overbearing regulatory environment with the ethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high ort charges that constantly exert serious burden on their operations. Many SMEs have to deal ith myriad of agencies at great cost. As stated earlier they are heterogeneous and these fferences in size and structure may in turn carry differing obligations for record-keeping that fect the costs to the enterprises of complying with (and to the revenue authorities of lministering) alternative possible tax obligations. Public corporations, for example, commonly ive stronger accounting requirements than do sole proprietorships, and enterprises with nployees may be subject to the full panoply of requirements associated with withholding labor come taxes and social contributions (International Tax Dialogue 2007).

n overly complex regulatory system and tax regime or one opaque in its administration and rforcement makes tax compliance unduly burdensome and often have a distortionary effect on e development of SMEs as they are tempted to morph into forms that offer a lower tax burden · no tax burden at all (Masato, 2009) and this results in a tax system that imposes high cpenses on the society. A poorly executed tax system also leads to low efficiency, high ollection charges, waste of time for taxpayers and the staff, and the low amounts of received xes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical idence clearly indicates that small and medium sized businesses are affected sproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs e higher than for large businesses (Weichenrieder, 2007). Among the factors militating against ME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of me for taxpayers and the staff, and the low amounts of received taxes and the deviation of ptimum allocation of resources (Farzbod, 2000). Others according to Yaobin, (2007) are ouble taxation, no professional tax consultancy, weak tax planning, high taxation cost, ·arzbod et. al, 2000).

Ithough there are Factors that Favour the Growth of SMEs in Uganda, the support needs to be icreased, standardized and systematic. Iwuji (n.d) believes that it is the role of the government) provide and enabling environment and social services that support businesses and persons.

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his means enhancing the investment climate in Uganda for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavourable. These SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2006). Shahroodi, (2010) believes that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 0% of the investment value. (Smatrakalev, 2006).

Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection.

It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-

f neighbors, are getting away with poorer compliance. Hence government intervention will :lp maintain balance while helping countries exploit the social benefits from greater)mpetition and entrepreneurship. Furthermore, policy incentives such as tax rebate for SMEs .at put effort on local sourcing of raw materials, serious in adding value to commodities for <ports and other business ethics, should be employed by government. Similarly, government)uld increase funding for the development of the sub-sector through direct budgetary locations and enhance private sector investment opportunities that will focus on specific areas ? capacity enhancement. (Yaobin, 2007).

ax law should be simplified continuously, mainly for three reasons, namely to lower both)mpliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to nprove the levels of voluntary compliance (Kasipillai, 2005). And also tax law should be mplified continuously, mainly for three reasons, namely to lower both compliance costs and lministrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of)luntary compliance (Kasipillai, 2005). Pro-business (and Pro-SME) Tax regimes and 1forcement should be simple, consistent and predictable, (International Tax Dialogue, 2007).

CHAPTER THREE

RESEARCH METHODOLOGY

.0 Introduction

his chapter describes the research methodology of the study that was used to achieve the bjective of the study. This chapter therefore describes the research approach, research design, opulation, sample size, sampling technique, nature of date, data collection instruments, data uality management, data analysis and presentation, ethical considerations, and limitations of the udy.

.1 Research approach

1 this chapter the methods used to get to the findings and the conclusions of the research are iscussed. The methods were employed in order to get representative data that could be applied the communities of Luwafu Parish, Makindye Division, which was the focus of the study. The udy aimed at establishing the effect of taxes on performance of small scale business iterprises. The research process that was used is presented in this chapter. It explains the iethods that were used to collect data; how respondents were selected and how findings were rived at. In addition a discussion of how the data was processed and analyzed is presented.

.2 Research design

he researcher used a cross sectional survey design basing on the use of qualitative and uantitative approaches that were adopted to establish the effect of taxes on performance of nall scale business enterprise. In this study, data was collected using both primary sources like uestionnaires and interviews and secondary data sources. This design was used for profiling, efining, segmenting, estimating, predicting, and examining associative relationship between the √ and DV.

.3 Study population

he study population refers to the large groups of people or things from which a desired sample selected (Ruane 2005:105). The study population for this research comprised of 71 members ipresenting retail shops, salon operators, carpenters and mobile money operators Luwafu Parish 1 Makindye division.

4 Sample size

This research involved 60 respondents. The sample was selected by the researcher to be presentative enough of the entire population. This particular sample size was selected because was easier to manage and it was enough to generate findings as well as to generalize the ndings to a bigger population.

The sample size was determined using *Slovene's Formula* as expressed below;

$$n = \frac{N}{1+Ne^2}$$

Where n= sample size, N= population size and e= sample probability= 0.05

= Study Population = 71 respondents

$$= \frac{71}{1+71 \times (0.05)^2}$$

$$= \frac{71}{1.1775}$$

= 60 respondents

Table 1: sample size and population in percentage

Category	Population (N)	Sample size (n)	Sampling technique
Retail Shops	30	25	Simple random sampling
Salon Operators	12	10	Purposive sampling
Carpenters.	15	13	Purposive sampling
Mobile money operators	14	12	Purposive sampling.
Grand total	71	60	

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5 Sampling techniques

ampling is a process of selecting a few representatives from a big group (the sampling opulation) to become the basis for estimating or predicting facts, situations, or outcomes garding the bigger group (Kurmar, 1999).

ratified random sampling used in this study was divided into three strata of business owners, x officials and other community members. Each stratum represented a number of members om which the 60 representatives were selected using simple random sampling.

6 Methods of data collection and instruments
uestionnaires

questionnaire is a reformulated written set of questions to which respondents record their nswers, usually within rather closely defined alternatives. The questionnaires were used on the asis that the variables under study could not be observe for instance the views, opinions, erceptions and feelings of the respondents. The questionnaires were equally used because the formation was collected from a large sample within a short period of time yet the respondents uld read and write (Sekaran, 2003). The questionnaires consisted of both open and close ended uestions administered to respondents of Luwafu Parish, Makindye division.

.7 Data quality control

.7.1 Validity

min (2005) defines validity as the appropriateness of the instrument. Experts in the field will be onsulted about the content of instruments, ambiguity of question items and their relevancy. alidity is important in determining whether the statements in the questionnaire instrument and terview manuals are relevant to the study. Content and construct validity was obtained by the elp of the supervisors input who acted as reviewer during the proposal stage of the study. ccording to Amin (2004), validity can be and in this case was assured by use of the Content alidity Index (C.V.I)

$$C.V.I = \frac{\text{Agreed items by all judges as suitable}}{\text{Total number of items being judged}}$$

7.2 Reliability

Reliability of data refers to whether repeating the same measurement under similar conditions yields the same results (Kumar, 1990). Amin (2005) defines reliability as the consistency of the instrument in measuring whatever it is intended to measure. The reliability of the questionnaires was improved through pretesting of pilot samples from the field which enabled the rephrasing of some questions.

8 Study variables and measurements

The independent variable for this study is "taxes" while performance of small business enterprises serves as a dependent variable. However there are other intervening variables which are assumed to affect performance of small businesses other than taxes. All these variables are clearly shown under the conceptual framework in the chapter one of this study. The scale of both taxes and performance of small businesses will be measured on a 5 point scale such as strongly disagree = 1, disagree = 2, not sure =3, agree = 4, and strongly agree = 5.

9 Data processing, analysis and presentation

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

Quantitative data was presented in the form of descriptive statistics using frequency tables. Qualitative data was sorted and graphed into themes. There after the researcher evaluated and analyze the adequacy of information in answering the research questions through coding the data, identifying categories and parameters that emerge in the response to the variables of the study. Qualitative data was presented using narrative text.

.10 Ethical consideration

It was important during the process of research for the researcher to make respondents aware that participation was voluntary and that participants were free to refuse to answer any question and to withdraw from participation at any time they were chosen.

Another important consideration involved getting the informed consent of those who were going to be met during the research process which involved interviews and observations on issues that would dedicated to some respondents; the researcher undertakes to bear this seriously in mind.

ersonal privacy and confidentiality were very important since the report is public. If private formation had been accessed, the confidentiality had to be maintained (Stephan P. 2002). All spondents were therefore be re-assured of this before being involved.

ccuracy and honesty during research was very important for academic research to be protected. he researcher treated the research with utmost care, in that there was no temptation to cheat and enerate research results, since it jeopardizes the concept of research.

1.11 Study limitations
he researcher encountered a few limitations during the research especially when it came to tervening. They include the following;

inancial challenges: the researcher faced financial challenges while carrying out the study. This owever was solved through adjusting the estimated budget by minimizing expenses as much as ossible. Fore stance, by doing the entire research for themselves without including any research sistance like typing among others.

anguage barrier: the researcher found it difficult to communicate with the multi-ethnics. This as due to a variety of languages spoken especially by the customers of the company.

igidity of information due to competition: the researcher faced with low responses from the spondents since they were afraid that the researcher was seeking information to outcompete eir organization.

eluctance to respond: some of the respondents were reluctant to give the required information, ; they were uneasy and suspicious of the information to be gathered and thinking that the data ight be used for other motives against them. However this was solved by letting the spondents clearly now that the research was purely for academic purpose.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION FINDINGS

0 Introduction

his research discusses research questions in view of the research objectives stated earlier in apter one so as to improve our salient issues of the subject matter in line with survey findings d literature reviewed. In the presentation of findings, tables, graphs and figures have been sed; frequencies and percentages have also been used to describe findings

1 Respondents by sex, age group, marital status, education levels and years spent at the in le organization

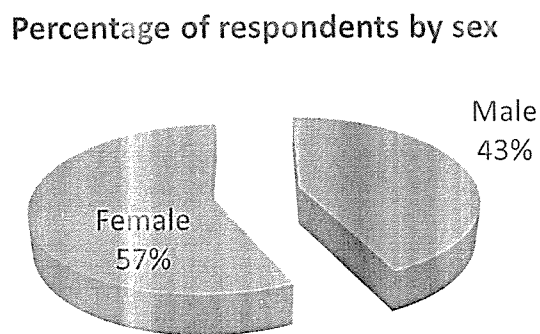he research sought to analyse respondents basing on gender age group, marital status, education vels and years spent at the in the organization and the following tables, graphs and figures agrammatically presents the same.

able 2: Respondents by sex category

ender	Frequency	Percentage (%)
lale	26	43
emale	34	57
otal	60	100

ource: *Researcher's primary data*

ig 2: Respondents by sex

Percentage of respondents by sex

Male 43%

Female 57%

he researcher was interested in knowing gender of the respondents and it was found out that uch there is relatively gender equality, more women are involved in small business activities
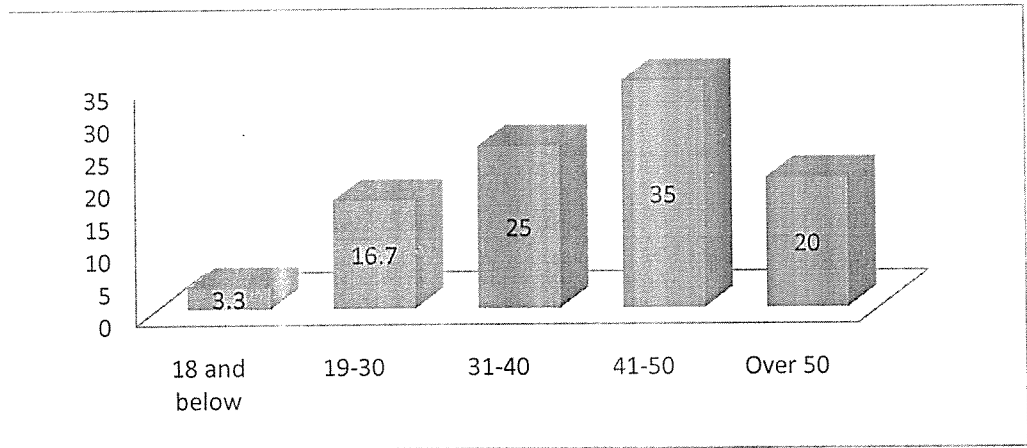
an their male counter-parts. This was proven by 57% of the total respondents being female and e other share (43%) taken by male.

able 3: Respondents by age-group (in years)

ears	No. of respondents	Percentage (%)
3 and below	2	3.3
9-30	10	16.7
1-40	15	25
1-50	21	35
·ver 50	12	20
otal	60	100

ource: *Researcher's primary data*

ig 3: Respondents by age-group (in years)

he researcher was also interested in finding out the age bracket of respondents, and it was found .at those aged 41-50 years and 31-40 years took the lion's share. This was represented by 35% nd 25% representing 21 and 15 respondents respectively. Those over 50 years group which epresented 20% included 12 respondents. Respondents between 19 and 30 years, and those less han 18 years had the rest respondents taking 16.3% and 3.7% respectively.

he findings of the research meant that since most of these respondents were mature, they were ·xpected to give relatively mature data for this research, hence making it reliable.

able 4: Respondents by Marital status

arital status	No. of respondents	Percentage (%)
ngle	18	30
arried	35	58
thers	7	12
otal	60	100

ource: *Researcher's primary data*

ig 4: Respondents by marital status
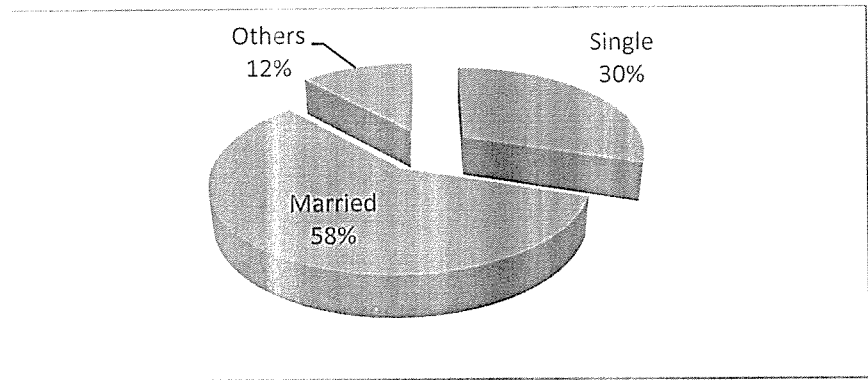
esearch conduct showed that 35 respondents were married, 18 were single and only 7 belonged the others group (which included widows, widowers, divorced among others). This is presented by 58%, 30% and 12% respectively as shown in the figure above.
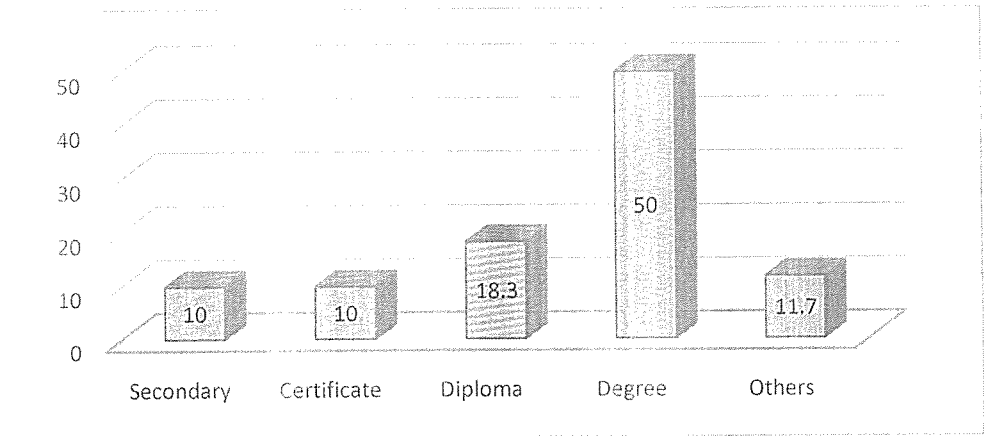
he largest number of respondents being the marrieds meant that such a group has got more sponsibilities and hence they startup these small businesses to sustain their families.

ıble 5: respondents by education levels

lucation level	No. of respondents	Percentage (%)
;condary	6	10
ırtificate	6	10
iploma	11	18.3
ɔgree	30	50
thers	7	11.7
ɔtal	60	100

ıurce: *Researcher's primary data*

ig 5: respondents by education levels

rom the research conducted, degree holders represented the largest number of respondents, that 30, representing 50%. This was followed by diploma holders with 18.3%. The others group hich included postgraduates and primary leavers had 7 respondents making 11.7%. espondents with certificates and secondary leavers had 6 representatives each scoring 10%. The ıdication for these findings is that most of the owners of small business are university graduates ho opt for such activities not only for unemployment reasons but also practicing their ıtrepreneurial skills attained at school.

ıble 6: Respondents by duration worked or spent in business

)uration worked in ıe organization	No. of respondents	Percentage (%)
,ess than 2 years	5	8.3
– 5 years	17	28.3
– 8 years	28	46.7
)ver 8 year	10	16.7
`otal	60	100

)urce: *Researcher's primary data*

g 6: respondents by duration worked or spent in business
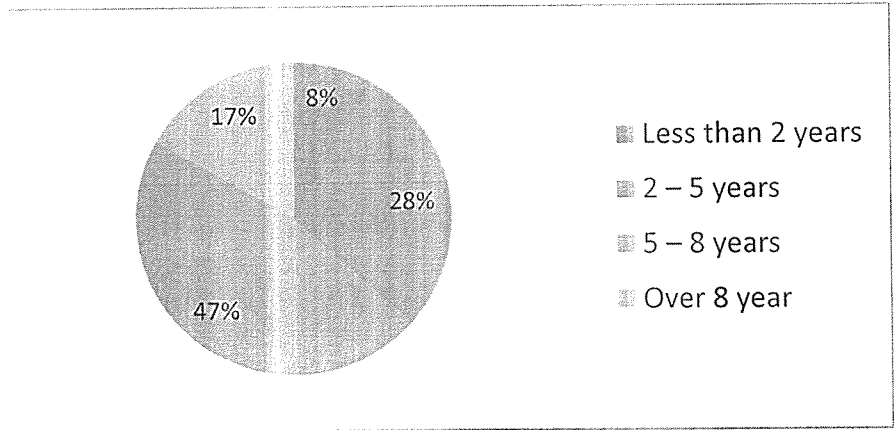
esearch carried out in Makindye division, Luwafu Parish shows that most of the respondents ere experienced since they had either worked with tax collection authorities or managed small ısinesses for quite a long period, and this therefore would mean that data presented by them is ıore reliable. Such an experienced category included those who had worked for 5-8 years with a ·equency of 28 respondents followed by 2-5 years with a frequency of 17 respondents ²presenting 47% and 28% respectively. The most experienced category which had eight plus ²ars were 10 presenting 17%, and finally the least represented group was that with less than 2 ²ars represented by only 8% of the total number of respondents.

2 Tax compliance and performance of SMEs

he research question drafted was presented to the respondents from Luwafu Parish Makindye vision to give their independent views by ticking on the box corresponding to the questions esented to them in the table. The following is what they thought about tax policies and rformance of small scale business enterprise.

able 7: Response on Tax compliance and performance of SMEs

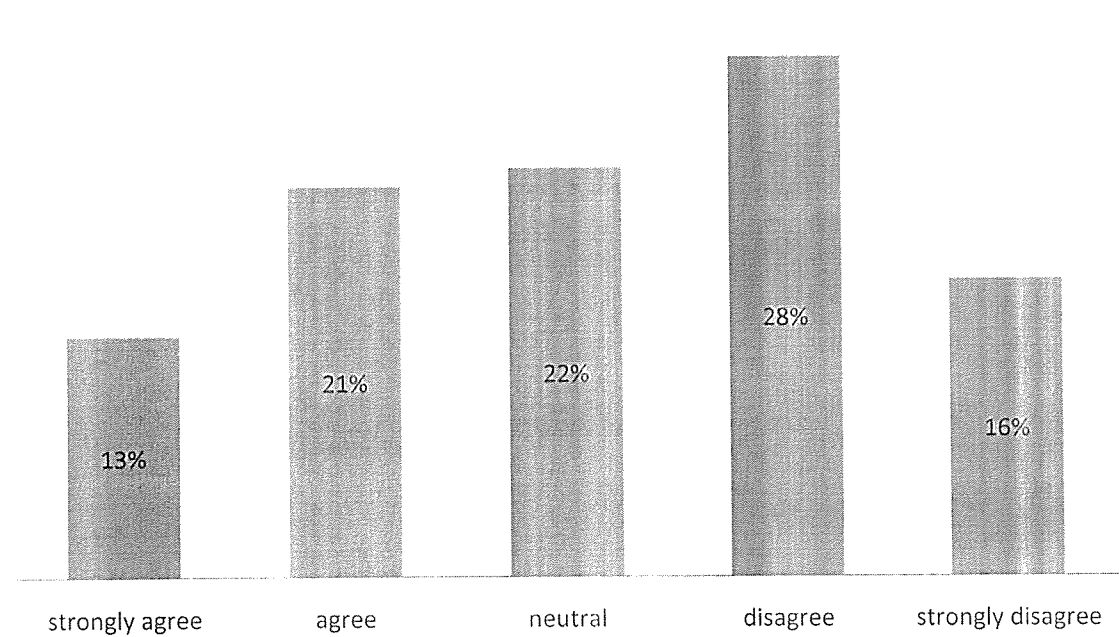| Tax compliance and performance of SMEs	Measurement scale									
	SA		A		N		D		SD	
	F	%	F	%	F	%	F	%	F	%
Ugandan tax laws favour tax payers to comply and pay tax in time.	0	0	10	17	14	23	20	33	16	27
Tax policies allow tax gap between small and large tax payers.	3	5	11	18	9	15	27	45	10	17
Most small business owners are adjusting to comply to tax.	10	17	13	21	16	27	19	32	2	3
Financial gains of small businesses are equivalent to financial costs.	0	0	8	13	10	17	21	35	21	35
The fines for non-compliance are fair to the small business tax payer.	12	20	10	16	9	15	16	26	13	22
Policies have been put in place to ensure that tax payers comply by paying in time.	5	8	15	25	12	20	16	27	12	20
The government has endeavored to sensitize tax morals to the public.	11	19	14	23	21	35	10	17	5	8
The public tries to comply in time.	19	32	20	33	17	28	4	7	0	0
TOTAL	60	101	101	166	108	179	133	221	78	131
AVERAGE	8	13	13	21	14	22	17	28	10	16

ource: researcher's primary data

B:*the figures in the table have been rounded off to the nearest whole numbers*

ible 8: Response by average percentage on Tax compliance and performance of SMEs

evel of response	Percentage
rongly agree	13
gree	21
eutral	22
isagree	28
rongly disagree	16

g 7: Response by average percentage on Tax compliance and performance of SMEs

rom the tables and graph above, data collected shows that most of the respondents disagreed ith the fact that tax compliance indicators have been followed for better performance of SMEs i Luwafu Parish Makindye division. This high percentage represented by 28% and 16% of the ital respondents argue that, the tax laws and policies set by government through tax collection .ithorities do don't favor a tax payer which lead them to default. The respondents also argue lat the government has not realized why small tax payers fail to comply with tax authorities ecause they are usually charged heavily for fines of non-compliance. In addition to this,

spondents also say that little has been done to sensitize the public about the benefits of paying

ʒir taxes in time.

ı contrary however, some respondents were in support with the questionnaire presented to

ɛm by saying that sure issues raised in the research instruments were the positive and that the

ıvernment is addressing them constantly. This was represented by 13% and 21 %. Similarly,

!% of the respondents thought that the issue of tax compliance was averagely handled by the

ıvernment.
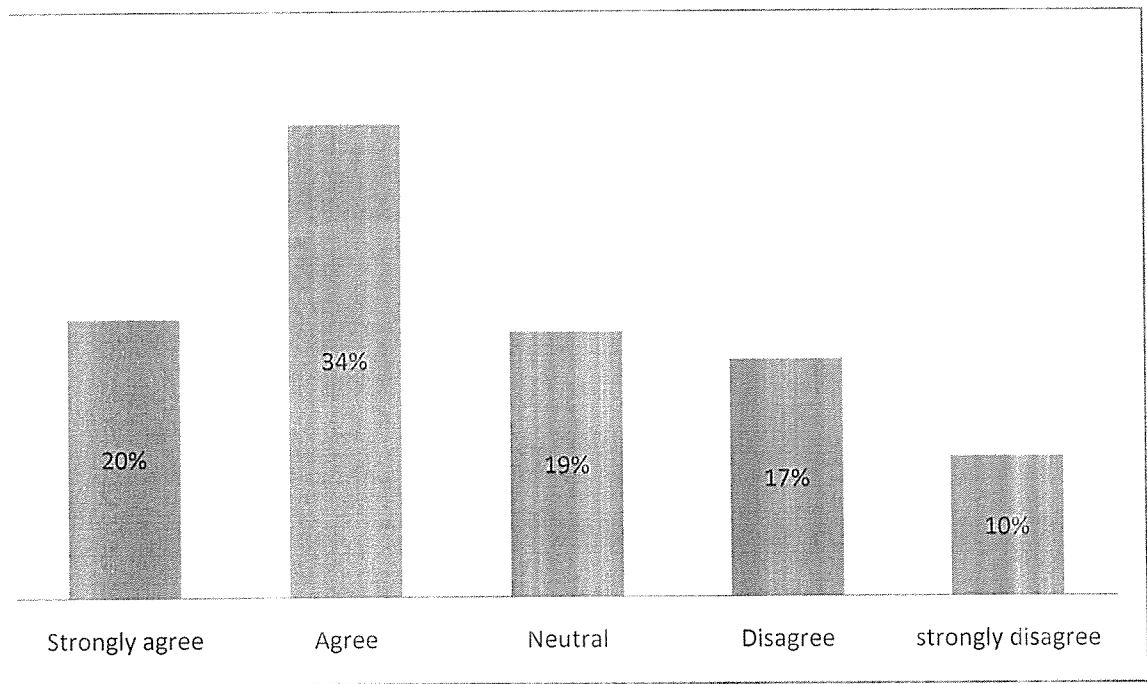
able 9: Tax administration and performance of SMEs

Tax administration and performance of SMEs n	Measurement scale									
	SA		A		N		D		SD	
	F	%	F	%	F	%	F	%	F	%
Tax administration procedures are used to identify taxpayers fare.	11	19	18	30	14	23	9	15	8	13
Tax authorities sensitize taxpayers on how to submit their tax liabilities.	10	17	20	33	7	12	12	20	11	18
Tax payers pay their liabilities in time.	9	15	19	32	13	22	10	16	9	15
JRA employs competent tax enforcement team.	30	50	20	34	5	8	5	8	0	0
Tax enforcement team are guided on how to treat taxpayers, especially in fields.	9	15	21	35	10	17	10	23	6	10
Tax administration ensures tax compliance by small business taxpayers.	10	17	22	36	16	27	6	10	6	10
The administrative costs used to collect taxes from small taxpayers are efficient.	8	13	24	40	10	17	10	17	8	13
Taxpayers are aware of tax liabilities.	9	15	17	28	16	27	11	18	7	12
TOTAL	96	161	161	268	91	152	77	121	55	9267
AVERAGE	12	20	20	34	12	19	10	17	7	10

Source: researcher's primary data

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ble 10: Response by average percentage on Tax administration and performance of SMEs

vel of response	Percentage
rongly agree	20
gree	34
utral	19
sagree	17
rongly disagree	10

g 8: Response by average percentage on Tax administration and performance of SMEs

esearch conducted on tax administration and small business performance shows that tax ministration procedure have been relatively managed well by the tax collection authorities in wafu Parish, Makindye division. This is because, 54% (i.e. 20%+ 34%) of the respondents reed with the question presented to them on the same topic. They (respondents) argue that the ministrative procedures employed to identify tax payers are fairly well, and that government ually sensitize the public of tax payment procedures. Some however argue that such ministrative procedures are not well implemented in a way that some of the Tax administrators rass tax payers and that they sometimes take bribes from them. These statistics were

resented by 27% (i.e. 17% and 10%) of the total respondents. 19% neutrally responded to this
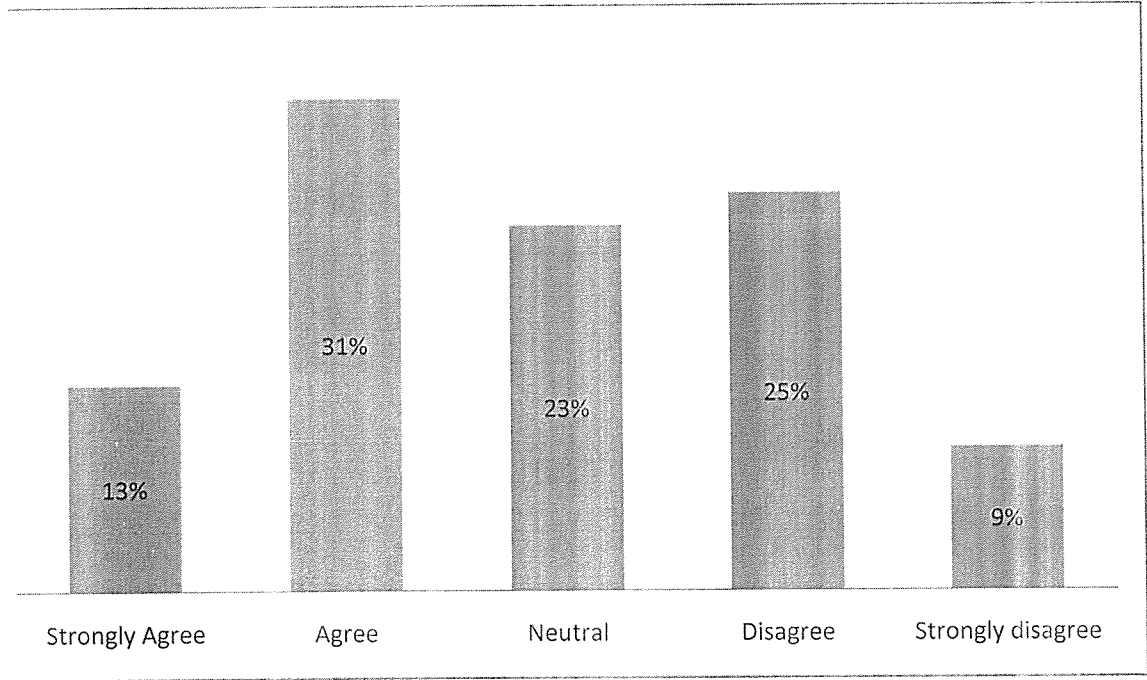rt of the questionnaire.

ble 11: Tax assessment and performance of SMEs

Tax assessment and performance of SMEs	Measurement scale									
	SA		A		N		D			
	F	%	F	%	F	%	F	%	F	%
axes of small tax payers re assessed basing on the bility to pay theory.	10	17	20	33	11	18	11	18	8	14
mall business owners eclare all their taxable roperty.	7	12	19	32	17	28	14	23	3	5
Businesses are periodically ssessed to evaluate the value of the businesses.	4	7	14	23	18	30	20	33	4	7
ax administrators assess mall businesses basing on heir location	10	17	20	33	14	23	10	17	6	10
nternational business wners are assessed higher han local owners.	21	35	31	52	8	13	0	0	0	0
Business owners are aware of the procedures used.	0	0	12	20	12	20	28	47	8	13
There has been fairness in he process of assessment.	0	0	19	32	17	28	17	28	7	12
Business owners are also nvolved in the procedure.	7	12	12	20	12	20	21	35	8	13
TOTAL	59	99	147	245	98	180	121	201	44	74
AVERAGE	7	12	18	31	12	23	15	25	5	9

able12: Response by average percentage on Tax assessment and performance of SMEs

vel of response	Percentage
ongly agree	13
ree	31
utral	23
sagree	25
rongly disagree	9

g 9: Response by average percentage on Tax assessment and performance of SMEs

milarly, the researcher wanted to find out the effect of tax assessment on performance of small isiness enterprises and it was found that the questionnaire on this section was positively sponded too. This was represented by 13% and 31% in support of the statement in the lestionnaire on the same. The respondents agreed that while assessing taxes, the government nploys procedures that allow affordability of tax payers and they also agreed with the fact that gh value businesses and international business owners are charged higher than businesses of lwer values. They also say that the assessment authorities base on location to value for tax that a

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siness owner is supposed to pay, in that those located in urban are charge higher than those in note areas. On contrary however, some respondents argue that some of these assessment)cedures have not yielded enough simply because most business owners do not declare all they ve so as taxes could be in their favor.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

) Introduction

ιis chapter presents the summary of findings from respondents, conclusion of facts and :ommendations in the line with the study objectives and research questions.

[Findings

l.1 Findings on tax compliance and small business performance.

:search conducted on tax policies shows that that there is a positive relationship between tax mpliance and performance of small business enterprises in Luwafu Parish, Makindye division. ιe proof of this is the response from the respondents consulted while carrying out this research, ιo urged that it is the poor tax policies employed by government which lead to poor rformance of small business not only in Luwafu Parish, Makindye division but also the untry at large, some of these poor policies which lead to non-compliance include unfavorable < laws, failure to involve all stakeholders while formulating tax policies, little sensitization to ә public about dangers of evading or avoiding taxes, unequitable tax policies among others.

1.2 Findings on tax administration and small business performance.

ιe researcher also wanted to find out whether tax administration would have an effect on ·rformance of small scale business enterprises, and it was found out that the effect was strong. this sense the researcher found that tax collectors usually storm and close off peoples' ιsinesses without giving any notice.

ιey (respondents) also say that little is done to let them know of when, where and how to pay ese taxes. The other issues raised upon this section of research include unprofessional manner which tax administrators handle business owners, high costs used to collect these small taxes, ιd little knowledge availed to tax payers of how much liabilities they have to submit with tax ιthorities among others.

1.3 Findings on tax assessment and small business performance.

rthermore, the researcher conducted research seeking to find out the effect of tax assessment one of tax policies on performance of small business enterprises and it was found out that the rmer had a great impact on the latter. This view of this, respondents urged that much as the vernment has labored to ensure equality in taxation through progressive tax rates, this has just en in theory rather than practical. This is because, respondents think that high rates of taxes ve been imposed on small businesses which leave them with less or no profits.

milarly, the respondents also argued that the government does not involve then during sessment of which tax they should charge small businesses, a factor that limits involvement. le effect of this is that some businesses are forced to pay higher than they can hence leading to m-compliance through tax avoidance and evasions. This may sometimes lead to business ıllapsing.

nother important issue that was raised by tax authority respondents is that during tax sessment the owners of small business enterprises do not declare their true value of their ısinesses a factor that leads to under-assessment.

2 Conclusion

2.1 Conclusion on tax compliance and small business performance.

s one of the objectives for this research, the researcher was seeking to determine the effect of x compliance on performance of small business enterprises in Luwafu Parish, Makindye vision and basing on the findings above, we can conclude that there is a significant effect nong the two variables. This is because when tax policies are favorable to a tax payer, they ɔnsider it to be fair which will lead them to pay their liabilities in time. A fair tax policy is the ne that allows a tax payer to pay that tax liability that is not too high or too low compared to the alue of their businesses. In this case, a fair tax would allow tax payers to submit their tax abilities and remain with income for operational expenses as well as profit.

is also enough to conclude that a tax payer will always comply easily to submit their liabilities /hen the policies set allow high value business to pay a higher tax than low value business. This

beaus a tax payer views this as fair hence complying with such policies. Similarly, rformance of small businesses has been affected by low sensitization selves from the vernment, in that little has been done to inform people about the implications of non-mpliance to the economic development of the country.

!.2 Conclusion on tax administration and small business performance.

a similar manner, the researcher conducted research in view of determining the effect of tax ministration on small business performance and it is at this point we conclude that the effect is :at. This conclusion is evidenced by the fact that there should be a relatively fair administrative)cedures that allow small tax payers to submit their tax liabilities with ease. Such ministrative procedures would include sensitizing the about how much tax, where to pay, and 1y such tax should be paid. This would allow tax payers to get early information about their bilities so as they can know when to pay without affecting the business.

e can also conclude that it is a trained and competent tax force team that will handle tax payers th great care to avoid complaints of corruption and bribery. This follows a complaint by small siness owners that some of the collection officials ask money from them so as they can leave 3ir businesses open even if they haven't paid their tax dues.

is also worth noting that if administrative costs employed by tax authorities outweigh revenues llected, the incense of benefit will be lost. It is therefore upon this fact that the government nsiders employing administrative policies that are cost reduction so as the tax collected from ese small businesses can be important for the public.

2.3 Conclusion on tax assessment and small business performance.

·om the research conducted on tax assessment and performance of small businesses, we can 1ally conclude that if an assessment of business is properly done, a tax payer will equally pay eir liabilities easily and in time when ensuring great performance for their businesses. This is :cause if small businesses' value is assessed basing on ability to pay, a tax payer will not get)mplications in paying tax because it would be within their reach. This would allow great 3rformance of a small business.

also conclusive enough to say that if owners of small businesses declare all they own in termining business value during assessment, issues pertaining undervaluation would not affect m. Similarly, an involvement of all stakeholders including tax payers during assessment of all businesses would allow taxpayers to raise their grievances so as they to be resolved at an :ly stage. This would also allow small tax payers to raise policies that would allow them to mply by submitting their liabilities in time.

} Recommendation.

}.1 Recommendations on tax compliance and small business performance.

stly, the research wishes to suggest recommendation basing on the findings stated above.

) begin with, the researcher suggests that the government or tax collection authorities set vorable policies that are fair to the tax payer so as they could be relatively perceived as fair, an :ue that would limit tax avoidance and evasions.

milarly, the government needs to set up a sensitization system that is meant to inform small :siness owners of the importance of submitting their tax liabilities in time. This will enable :m (small tax payers) to plan for their funds. In addition to this the government needs to know :y some tax payers may defer to comply with their tax policies and action put in place to solve ch raised issues. This would help small businesses in a way that they and the government will me into mutual agreement.

dditionally, it is recommended that the government revises their policies for non-compliance hich involve high charges and sometimes dragging the small business owners to courts of laws. iis factor leaves the business in a great dander as the would-be money to develop the business paid as fines. On the same point also, the tax payers are recommended to submit their tax ibilities in time so as to avoid similar challenges.

3.2 Recommendations on tax administration and small business performance.

n the case of tax administration, the researcher wishes to recommend that the government nploys policies that allow only qualified staff to be able to effectively carryout proper

ninistration procedures. This would reduce the allegations which have been linked with small siness tax payers conniving with tax collectors in the name of bribes.

dditionally, from the findings generated on the same topic, the researcher recommends that all taxpayers themselves should adapt a habit of remitting their liabilities in time to avoid this uld be scuffles with tax representative teams. This would also strengthen the relationship tween the tax payer and tax collection authorities.

order to improve the performance of small businesses in Luwafu Parish, Makindye division, researcher also suggests that a general sensitization by government to small business tax yers of which taxes and where they are supposed to remit it in a timely manner so as to avoid sures of these businesses as this might lead to losses as a result of failure to open up when ir businesses are closed.

5.3 Recommendations on tax assessment and small business performance.

sing on the findings on tax assessment and performance of small businesses in Luwafu Parish, akindye division, the researcher would wish to recommend that;

ere should be a stakeholder involvement during assessment of small businesses for tax rposes. The researcher believes that this would allow setting policies which favors both tax llectors/government and the taxpayer. It is believed that if a taxpayer is involved during an sessment, they will raise issues which they think will hinder their businesses, hence giving a ance to generate solutions there and then.

other recommended suggestion would be assessing small businesses basing on their ability to y. It has already been found out that in most cases tax authorities dictate the rates of taxes hich small businesses have to remit to the government, which sometimes are in access of their ach. If therefore these businesses' value was assessed basing on their capabilities, it is believed at they would perform fairly well since some of the funds are withheld in the business for re-vestment.

astly, the government should always carry out periodical business review which are meant to sess which businesses have deteriorated and which ones have improved in terms of value so as

y charge taxes basing on performance of that given period. This would reduce the challenges businesses dropping in value and still remit the same amount of taxes.

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. QUESTIONNAIRE TO THE RESPONDENTS OF SMALL BUSINESS OWNERS IN LUWAFU PARISH

ar respondent,

m Ssekisambu Paula student of Kampala international university undertaking a Bachelor's gree in Business Administration .Currently am carrying out a research study on tax policies 1 performance of small and medium enterprises in Uganda as part of the requirement for vard of bachelors Degree of business Administration of Kampala international university. This estionnaire is therefore intended to seek information on the above subject matter. The ormation is purely for academic purpose and all the answers will be handled with utmost afidentiality. I therefore humbly request that you complete this questionnaire correctly in the aces provided or options given. (Please tick the appropriate answers where options are given).

:CTION A

:neral information.

Sex

Male ☐   ii) Female ☐   iii) others, specify............

Age group

18 and below ☐   ii)19-30 ☐   iii)31-40 ☐   iv)41-50 ☐   v)50 and above ☐

Marital status

Single ☐   ii) married ☐   iii)others, specify................

Education background

Secondary ☐   ii) Certificate ☐   iii) Diploma ☐   iv) Degree ☐ Others ☐

Occupation

uration (in years) of work at the company

Less than 2 years ☐   ii) 2-5 years ☐   iii)5-8 years ☐   iv)over 8years ☐

the sections below, you answer by choosing the following options.

- Strongly Agree   A- Agree

Neutral/ Not Sure   D- Disagree

CTION B: TAX COMPLIANCE AND PERFORMANCE OF SMALL BUSINESS
ITERPRISES

x compliance and performance of SMEs	Measurement scale				
	SA	A	N	D	SD
andan tax laws favour tax payers to comply and y tax in time.					
x policies allow tax gap between small and ge tax payers.					
ost small business owners are adjusting to mply to tax.					
nancial gains of small businesses are equivalent financial costs.					
ie fines for non-compliance are fair to the small isiness tax payer.					
ilicies have been put in place to ensure that tax yers comply by paying in time.					
ie government has endeavored to sensitize tax orals to the public.					
ie public tries to comply in time.					