CORPORATE INCOME TAX AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY RURAL DEVELOPMENTBANK, ISHAKA BRANCH BUSHENYI DISTRICT

TWESIIME MONICA
MBA/0001/123/DU
BAGM (MUK)

A DISRETATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE & ACCOUNTING) OF KAMPALA INTERNATIONAL UNIVERSITY

DECEMBER, 2015

DECLARATION

I TWESIIME MONICA, declare that this is my original work and has never been submitted for any other award of any qualification to any institution of higher learning.

Signed ....Atwesiime........................Date........13/11/2015.............

APPROVAL

This dissertation has been done under our supervision.

MR. BASAJABALABA JAFARI

Signed...

Date ....13/11/2015........................

MR. TURYAMUSHANGA LABSON

Signed...

Date ....13/11/2015........................

DEDICATION

This dissertation work is dedicated to my husband Mr. Taratwebirwe Arthur, our children Tushemerirwe Grace, Murungi Elizabeth and my sister Ayebare Saviour.

ACKNOWLEDGEMENT

First and foremost, the researcher is grateful to God who has given her life, vision and the ability to complete a Degree of Masters of Business Administration and the research in particular.

I wish to acknowledge the efforts of the entire staff of Kampala International University especially, the Faculty of Business and Management.

In a special way, I wish to extend my sincere appreciation to my research supervisors Mr. Basajabalaba Jafari and Mr. Turyamushaga Labson for the effort, guidance and mentorship given to me towards the accomplishment of this research.

Special thanks goes to my classmates; Atuhaire Madinah, Atuhairwe Adeline, Ahibisibwe Bruno, Okello Simon Peter, Masembe Muhamad and Kukundakwe Bildard for the knowledge shared, support and encouragement throughout the study.

I wish to extend my great appreciation to my dear husband Taratwebirwe Arthur for the support both financially, academically and emotionally.

Finally, I wish to thank my Father Mr. David Kasiibayo and Mother Late Jane Kabagye who built the strong education background that enabled me study a Degree of Masters.

In a special way, I thank my father in law Mr. Tibamanya Aaron, Tumuhairwe Judith and Kobusigye Enid for the encouragement, knowledge and all the endeavors put forward that enabled me do the study.

Sincere appreciate go to my brothers; Kenneth, Mbasa, Moses and Junior and sisters; Hope, Winnie, Evelyn, Faith, Phiona and Savior for the love, friendliness and prayers given to me during the study.

Lastly, I thank Centenary Rural Development Bank for accepting me to carry out the study and the respondents who provided the necessary data that enabled the dissertation complete.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

BoU	Bank of Uganda
CIT	Corporate Income Tax
CVI	Content Validity Index
MFIs	Microfinance Institutions
NSSF	National Social Security Fund
OECD	Organization for Economic Cooperation and Development
ROSCAs	Rotating Savings and Credit Association
SACCOs	Savings and Credit Cooperative Societies
SIDI	International Solidarity for Development and Investment
UCB	Uganda Commercial Bank
USA	United States of America

ABSTRACT

The study was carried out on corporate income tax and financial performance of commercial Banks in Uganda, a case study of Centenary Rural Development Bank Ishaka. The research was conducted basing on two study variables: corporate income tax as an independent variable and financial performance was the dependent variable. The study was guided by the following objectives; to evaluate the effects of corporate income tax, level of financial performance and find out the relationship between corporate income tax and financial performance in Centenary Rural Development Bank.

Descriptive research design was used during the study because the researcher relied on the respondents' views and a case of Centenary bank Ishaka branch was used to represent commercial banks and the findings, conclusions and recommendations were generalized to all commercial banks in Uganda.

The researcher had a target population of 30228 respondents out of which a sample of 395 respondents was selected using Sloven's formula. The data was collected using questionnaire and interview guide. Both purposive and stratified sampling techniques were used. Cross sectional research design was used in the study.

Data was analyzed using SPSS and data presented in the in tables using frequencies and percentages. Pearson correlation coefficient was used to determine the relationship between corporate income tax and financial performance.

The findings of the study revealed that corporate income tax reduces retained earnings, share price and loan interest income. The major determinants of bank performance were capital, liquidity and management. Corporate income tax showed an inverse relationship with financial performance. The study was based on Equity Theory. It was found that commercial banks only pay corporate income tax on their profits, not on their revenues. If a bank is just breaking even and doesn't have any profit left, then corporate income tax is not paid.

The researcher based on the study findings and recommended that Centenary Rural Development Bank should employ the services of corporate income tax experts to aid in corporate income tax management and also should plan additional ways to increase its profitability.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covered the background of the study, problem statement, purpose of the study, objectives of the study, research questions, significance of the study, conceptual frame work and scope of the study.

1.1 Background of the Study

1.1.1 Historical background

Globally, the year 2010 was a year of divergent economic fundamentals, policies and outcomes, with various governments embarking on different policies to try and stabilize their respective economies. With respect to the domestic banking industry, the year 2010 was characterized by frequent policy adjustment from the regulatory authorities to drive stability within the sector which was recovering from a period of elevated provisioning and slow credit growth. Not surprisingly, these possessed enormous challenges for businesses as a whole with attendant performance implications for the banking industry. Corporate income tax cuts have become a defining issue separating the Conservatives from the opposition parties (Farazi et.al, 2011).

In Canada, the 2000 Federal Budget decreased corporate income rates from 28% to 21% between 2001 and 2004. The 2006 Federal Budget further decreased them from 21% to 18% by 2010. They dropped again to 16.5% on 1st January 2011 and were scheduled to drop one last time to 15% at the start of 2012. Between 2000 and 2012, the rates that profitable corporations paid in corporate income taxes were almost halved. This was a dramatic change in corporate tax policy in Canada (David, 2011).

In West Africa it was observed that taxes have serious effect on the ability of on commercial bank performance to retain earnings. In Ghana, it was from this backdrop that the corporate income tax rates evolved from about 45% in the 1980's to 35% in the 1990's and to 25%

currently. Aside the reduction in income tax rates, tax policies have provided several reliefs that commercial banks can take advantage (Ismi, 2004).

In Uganda, all corporate institutions' profit is subject to 30% corporate income tax according to the Income Tax Act, (cap 340) of the laws of Uganda. Centenary Rural Development Bank started as an initiative of the Uganda National Lay Apostolate in 1993 as credit Trust. Its operations started fully in 1985 with the aim of serving the rural poor and contributing to the economic development of Uganda. In 1993, Centenary bank was fully registered as a commercial bank (Kasule, 2010).

In 2002, the bank's certificate of incentives from the Uganda Investment Authority, which exempted it from 100% corporation taxation, expired on 31 December 2002. Effective 1st January 2003, the bank was liable to paying corporation tax and Ug sh 1.8 billion was paid in respect of corporation tax for the year ended 31 December 2003 (Directors report, 31 December 2003)

Since then, Centenary bank is liable to offenses and penalties specified by the Income Tax Act, (cap 137) of the Ugandan Laws. It must try and cover many aspects of tax administration. Offenses include declaring false information to tax official, not keeping proper records as required, failing to furnish returns and not paying in time and giving bribes to tax officials according to Tax policy advisers (Diamond et al, 2004).

The challenges of the financial institutions come in a midst of high corporate tax rates in excess of 30%. The puzzle on hand is whether it is the high income tax rates that deter the financial performance of the commercial banks. To the financial sector, high tax rates lead to high charges on the services offered by banks to their customers. Whichever way, taxation, observably, plays a role in the misfortunes of the sector because tax policies, apart from generating revenue for the state, serve several other purposes. It can be used as an avenue to protect infant financial institutions, create incentive for investors to invest in certain areas of the economy or to create disincentive for other activities (Ali-Nakyea, 2008).

1.1.2 Theoretical background

The theory study was based on Adam Smith's theory called "***Ability-to-pay theory***" which was cited in 1776. It states that citizens of the country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. Basing on our case study, the theory was applicable as the organizations' corporate income tax was based on the financial performance and it is the financial performance that is used to judge the capacity of Centenary bank. Centenary Bank Ishaka Branch pays 30% corporate income tax on the bank net profit. An increase in financial performance would lead to an increase corporate income tax that would be paid. The corporate income tax paid by Centenary bank is based on capacity of its financial performance.

However, the ability-to-pay theory according to Akakpo (2009) asserts that, taxes are based on taxpayers' ability to pay thus no *quid pro quo*. In Centenary bank the corporate income tax paid is not equivalent to the benefits derived from the government. The underlying principle of this theory was that, taxes paid were seen as a sacrifice by taxpayers, which raised the issues of what the sacrifice of Centenary bank should be and how it should be measured.

Equal sacrifice: The principle implied that the total loss of utility as a result of taxation should be equal for all Tax payers so that those who could afford to pay higher taxes were made to pay higher than those who cannot afford. However much commercial banks which make large profits payer higher corporate income tax, the total loss of utility is not equal

Equal proportional sacrifice: The proportional loss of utility as a result of taxation should be equal for all taxpayers such that the payment of taxation should not deprive anybody of what he/she would have previously sacrificed. All commercial banks pay 30% corporate income tax of the net profits. The predetermined corporate income tax rate enables all the commercial banks to pay a proportion equivalent to its financial performance.

Equal marginal sacrifice: The instantaneous loss of utility that is measured by the derivative of the utility function as a result of taxation should be equivalent for all taxpayers. This will require the least collective sacrifice.

This was in accordance with Adam Smith as cited in Ali-Nakyea (2008) who mentioned equity as one of the characteristics of a good tax system. According to Ali-Nakyea (2008), a good tax system should exhibit both horizontal and vertical equity. According to the author, vertical equity is achieved if financial institution with higher income pays higher tax (higher effective tax rate) than institution with lower income.

1.1.3 Conceptual background

An income tax is a government levy / charge imposed on individuals or entities (taxpayers) that vary with the income or profits (taxable income) of the taxpayer. Taxes include "corporate income tax, employment taxes, mandatory contributions, indirect taxes, property taxes and a whole variety of smaller taxes including environmental taxes". Details vary widely by jurisdiction. Many jurisdictions refer to income tax on business entities as company's tax or corporation tax. Most controversy and interest on measuring effective tax rates on profits focuses on corporate income taxes, that is taxes that are levied on corporate profits solely.

Corporate income tax is influenced by variables such as tax policy, the tax assessment needs; the perception financial institutions may have on corporate income tax and the tax rate.

Corporate income tax generally is computed as the product of a tax rate and taxable income. The income tax increases as tax rate increases. Tax rates may vary by type or characteristics of the taxpayer. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Taxable income of taxpayers resident in the jurisdiction is generally total income less income producing expenses and other deductions.

According to Willi , John and Alexandra (1997) there is voluminous literature on the effects of income taxes on the economy and the rate of growth. In Neo-classical economic growth models, taxation affects only the level of income but not the rate of growth (with the exception of the transition to the new level), whereas endogenous growth models suggest that taxes may affect the long-run rate of growth.

1.1.4 Contextual background

Corporate income tax

According to Ugo Albertazzi and Leonardo (2007) concerning net interest income, there was presence of tax shifting from the bank to its clients. Such tax shifting occurred in two ways: through an increase of the interest rate on lending or through a decrease in the interest rate on deposits. Banks display the ability to shift at least 90 per cent of their corporate income tax burden, although this was also influenced by the competitive pressure they face. This happened mainly through an increase of net interest income, although this was not true at high rates of corporate income tax, and through a reduction in operating costs and provisions. Finally, coherent with predictions of the theoretical model tax shifting on net interest income takes place through a rise in the interest rate on loans. No significant effect on the interest rate on deposits was detected.

Profit before tax is defined as gross income (the sum of net interest income and non-interest income) net of operating expenses and provisions. The overall effect of an increase in the corporate income tax rate is an increase in profit before taxes which shows that banks can shift at least part of the corporate income tax. This is coherent with findings of Demirgüç-Kunt and Huizinga (2001).

Jens and Schwellnus (2008) examined the effects of corporate income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of 1996-2004; through stratified sampling this was found to be true across firms of different size and age classes, except for young and small firms. The results suggest that corporate income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative profitability effects of corporate income taxes if there is an increase in the corporate tax rate.

Financial performance

Financial performance refers to the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Financial indicators of financial institutions include management efficiency, operational income, asset quality such as the quality of the loan portfolio and the capital structure adequacy.

A more organized study of bank performance started in the late 1980's (Olweny and Shipho, 2011). According to Nzongang and Atemnkeng in Olweny and Shipho (2011) balanced portfolio theory also added additional dimension into the study of bank performance. It states that the portfolio composition of the bank, its profit and the return to the shareholders is the result of the decisions made by the management and the overall policy decisions. From the above theories, it was possible to conclude that bank performance is influenced by both internal and external factors.

According to Athanasoglou et al., (2005) the internal factors include bank size, capital, management efficiency and risk management capacity. The same scholars contend that the major external factors that influence bank performance are macroeconomic variables such as interest rate, inflation, economic growth and other factors like ownership.

There has been noticed a significant change in the financial configuration of countries in general and its effect on the profitability of commercial banks in particular. It is obvious that a sound and profitable banking sector is able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou et al, 2005). The number of domestic banks declined (Claessens and Hore, 2012).

Banking crisis could entail financial crisis which in turn brings the economic meltdown as happened in USA in 2007 (Marshall, 2009.) That is why governments regulate the banking sector through their central banks to foster a sound and healthy banking system which avoid banking crisis and protect the depositors and the economy (Heffernan, 1996; Shekhar and

Shekhar, 2007.) Thus, to avoid the crisis due attention was given to banking performance. This has attracted the interests of researcher to examine commercial bank performance in relation to corporate income tax in Uganda.

1.2 Problem Statement

Financial performance is used as a general measure of a firm's overall financial health over given period of time. Financial performance of financial institutions contributes to growth of the economy through mobilization, allocation, and investment of the society's savings. For sustainable intermediation function, banks need to be profitable.

The financial performance of commercial banks has been fluctuating and worsened in 2012 when the majority of the commercial banks recorded marginal profits in the year compared to 2011; others incurred heavier losses; while others saw a decline in their profits (Adam. M, the executive director for Research at BoU). It was realized that Centenary Rural Development bank's financial performance has been increasing for the years 2006 to 2013 but the increase in profits after tax has been varying highly for the same consecutive years. The profits after tax were 7.84, 3.99, 3.06, 5.92, 18.5, 6.97 and 3.1 billion (www.centenarybank.co.ug).

The government of Uganda over the years has accepted the fact that taxes have serious effects on the banks 'financial performance and Centenary Rural Development bank was given a certificate of incentives from Uganda Investment Authority which exempted it from 100% corporation taxation. The certificate expired on 31 December 2002. Effective 1st January 2003, the bank was liable to pay corporation tax (Directors report Centenary bank, 31 December 2003).The challenge of Centenary Rural Development Bank comes in amidst of corporate income tax in excess of 30% which has led to increased labour costs, tax consultancy fees, reduced share price and reduced retained earnings. Taxation can be used as a venue to protect infant industries, create an incentive for investors in certain areas of the economy or create disincentive for other activities (Ali-Nakyea, 2008). Most research has been done on different dimensions of taxation in relation to financial performance but limited studies have been carried out regarding corporate income tax and financial performance specifically in commercial banks and this has enticed the researcher to carry out this study.

1.3 Purpose of the Study

The purpose was to establish the effects of corporate income tax on financial performance of commercial banks in Uganda.

1.4 Specific Objectives

i. To evaluate the effects of corporate income tax on financial performance Centenary Rural Development- Ishaka Branch.
ii. To find out the level of financial performance in Centenary Rural Development Bank Ishaka Branch.
iii. To establish the relationship between corporate income tax and financial performance in Centenary Rural Development Bank Ishaka Branch.

1.5 Research Questions

i. What are the effects of corporate income tax on financial performance of Centenary Rural Development Bank Ishaka Branch?
ii. What is the level of financial performance in Centenary Rural Development Bank Ishaka Branch?
iii. What is the relationship between corporate income tax and financial performance in Centenary Rural Development Bank Ishaka Branch?

1.6 Scope of the Study

1.6.1 Geographical scope

The study was conducted in Centenary Rural development Bank Ishaka branch. The bank is located in Ishaka town approximately 145 meters from Mbarara-Kasese Road, alongside Ishaka Rukungiri Road. The study was to establish the effect of corporate income tax on financial performance. The study was restricted to Centenary Rural Development Bank Ishaka Branch; one of the commercial banks but the findings were generalized to cover the whole Country.

1.6.2 Content scope

The study was limited to two main variables; corporate income tax and financial performance where by financial performance is the dependent variable and corporate income tax is the independent variable. The study evaluated the effects of corporate income tax on commercial bank of Centenary Rural Development; assessed the level of financial performance in Centenary Rural Development Bank Ishaka Branch and to find the relationship between corporate income tax and financial performance in Centenary Rural Development Bank Ishaka Branch.

1.6.3 Time scope

The study was focused on a period of five years 2009-2013 inclusive. This generated a detailed analysis of corporate income tax on financial performance of Centenary Rural Development bank.

1.7 Significance of the Study

The study will be helpful to the researcher by enabling her gain more knowledge and skills about corporate income tax and financial performance of commercial banks in Uganda.

The findings will be used as reference by other researchers as they embark on related studies especially students at Kampala International University and other institutions of higher learning.

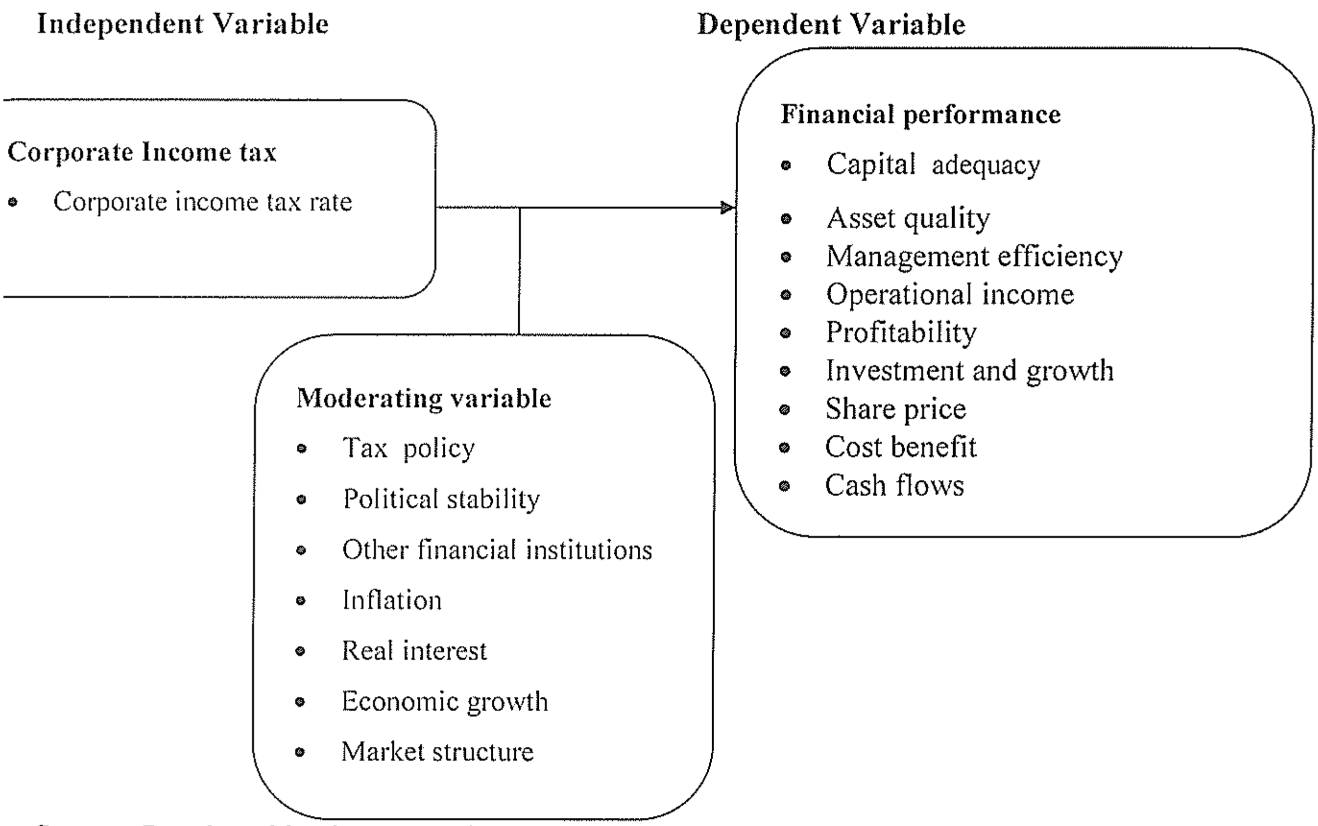
The study findings will help the shareholders including both The Catholic Dioceses, SIDI, The Uganda Catholic Secretariat, other individuals and STICHTING HIVOS-TRIODOS FONDS; An investment fund, specializing in investing in microfinance and trade finance, managed by Triodos Investment Management to make financial decision to effectively plan and improve the management system for corporate income tax in Centenary Rural Development Bank.

The study findings will be added on the existing body of knowledge in the field of corporate income tax system and financial performance such that they are able to focus on their thought and add on the relevant knowledge to aid corporate income tax police review.

In addition, the findings will help the community to make decisions of how to operate with the bank and even gauge what they can contribute towards the development of the existing financial institutions.

1.8 Conceptual Framework

The conceptual framework shows the relationship between the independent, dependent and moderate variables.



Source: Developed by the researcher

The conceptual framework attempts to explain the relationships that exist between the independent variable, the dependent variables and moderating variables. In the figure above, the independent variable is corporate income tax rate which was identified to be the construct on the financial performance.

In the framework, independent variables were used in an effort to show how they affect financial performance of commercial banks. These variables include; management efficiency, asset quality, capital adequacy, profitability, investment, cash flows and share price. There are other moderating variables that affect financial performance and these include other bank charges, Government policy, Political stability, other financial institutions/competitors and Inflation.

1.9 Operational Definition of Terms

Commercial bank: A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit.

Corporate income tax: An assessment levied by a government on the profits of a company.

Financial performance: A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

Performance: This is how well or badly a person does the work. Therefore, employee performance is the action / manner of carrying out an activity or the ability of a person to do something well.

Researcher: The person who carries out research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter highlights information as presented by different researchers concerning income tax and financial performance in previously researched work. The literature was reviewed according to sections based on the research objectives. These are;

2.1 Effects of Corporate Income Tax on Financial Performance of Commercial Banks

The macroeconomic consequences of taxation of the banking sector were analyzed in the theories of fiscal repression that stress the link between the efficiency of the financial sector and the process of capital accumulation (Caminal, 2003). From a more microeconomic point of view, the standard optimal taxation theory suggests that intermediate goods and services should not be taxed (the connected distortions to the production process make taxing these markets more costly than taxing the final outputs). Given that banks operate both with firms and retails consumers, the loss of efficiency connected with the distortion engendered by the taxation of banks depends on who is actually bearing the fiscal burden. For these reasons, it is important to assess both if banks actually bear the burden of taxes formally levied on their activities and, should this not be the case, onto which category of clients they can manage to transfer it.

The link between bank profits and corporate income taxation is determined by two factors. One is denoted the "market effect" of the corporate income tax: an increase in the corporate income tax rate modifies the demand for bank services and bank price setting should take these demand shifts into account. The second factor is the "cost of equity effect", due to the presence of capital requirements that render the corporate income tax rate equivalent to a tax on equity (Freixas & Rochet, 2007).

The changes in regulation demand composition and technology have modified the structure and the boundaries of credit markets. All these changes have strengthened competition, especially in traditional lending activity, reduced intermediation margins and encouraged banks to diversify their sources of revenue and increase efficiency in production and distribution. It was observed that corporate income tax has an effect on the following in the banking systems:

Profits obtained by banks through their traditional lending activity are correlated to business cycle indicators like GDP and long term interest rates. Moreover, they are higher in those countries where both the financial markets and the banking sector are more developed. It was pointed out that the presence of a cost of equity effect (the corporate income tax rate alters the cost of bank external equity) was a necessary condition for having a positive impact of the corporate income tax rate on bank profits. At the same time, considering the cost of equity effect alone, by neglecting the market effect, would not generate an interval of years in which its marginal impact on the net interest income is negative (Ugo & Gambacorta ,2006)

Corporate income tax rate can affect the different items of the income statement of banks. Accordingly, a change of the corporate income tax rate will determine distortions on the choices of banks. This implies that the tax shifting occurs and so banks will try to shift the tax burden by asking higher interest rates on loans and fees or by paying lower interest rates on deposits.
Lower corporate tax rates increase the after tax profit and thereby the size of the income that Corporations can pledge to shareholders in return for their ex-ante investment (Tirole ,2006).

According to Tirole (2006), financial institutions may keep financial resources such as cash in jurisdictions that have lower tax rates, but also where the return on those resources is lower. If tax rates go down, financial institutions will shift those financial resources to where they yield the highest return.

Academics have extensively debated the role of corporate income taxes in promoting investment and economic growth. While research in macroeconomics has found conflicting evidence of a negative or no effect of higher taxes on economic growth and employment (Ramey & Shapiro (1998), Ramey (2011), Romer & Romer (2010), Barro & Redlick (2010), several unresolved issues still remain.

The Finance Minister of Canada Flaherty claimed that by lowering corporate income tax rates, companies would have more money to invest in their machines, technology, and employees. The argument goes: these investments would help to spur Canada's chronically low productivity growth, driving long term economic growth while creating employment and wealth in the process (David, 2011)

Operational income refers to the gross income (the sum between net interest income and non-interest income) at the net of operating expenses and provisions. The overall effect of an increase in the corporate income tax rate is an increase in profit before taxes which shows that banks can shift at least part of the corporate income tax. This is coherent with findings of Demirgüç-Kunt & Huizinga (2001).

2.2 Level of Financial Performance of Commercial Banks

The determinants of bank performances can be classified into bank specific (internal) and Macroeconomic (external) factors according to Al-Tamimi (2010) & Aburime (2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The management decision, in turn, is affected by the interests of the owners which are determined by their investment preferences and risk appetite (Ongore, 2011). This implies the moderating role of ownership identity.

The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks. The overall financial performance of banks in Uganda previously has been improving. However, this doesn't mean that all banks are profitable, there are banks declaring losses (Oloo, 2010). Studies have shown that bank specific and macroeconomic factors affect the performance of commercial banks (Flamini et al. 2009).

Capital Adequacy

Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al. 2005). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induces weak demand for liability, the cheapest sources of fund. Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio. Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi & Nazir, 2010).

Asset Quality

The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. It is the major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi & Nazir, 2010).

Bank Size

The size of bank was also included to account for size-related economies and diseconomies of scale. Size was a result of a bank strategy, but the variable alone does not guarantee the earning of excess returns. Boyd & Runkle (1993), in their banking performance study, conclude that an inverse relation exists between size and profitability. Similar results were obtained Naceur (2003) in Tunisia and Jiang *et al.* (2003) in Hong Kong, implying that larger banks achieve a lower level of profits than smaller ones. However, findings from Sinkey (1992) are mixed. The former shows that firm size impacts banking profitability negatively for large banks but positively for small ones. The latter also concludes that medium-sized banks earn the highest return followed by small banks. This may suggest that inter-bank market is competitive and efficient since banks with a large retail deposit-taking network do not necessarily gain a cost advantage.

Management Efficiency

Management Efficiency was one of the key internal factors that determine the bank profitability. It was represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of these ratios used to measure management quality is operating profit to income ratio (Rahman et al., 2009) and (Sangmi & Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al., 2005).

Liquidity

Liquidity was another factor that determined the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said & Tumin, 2011).

Political Stability

Some of papers, including Rodrik (1991), Alesina & Perotti (1996), Feng (2002), and Campos & Nugent (2003), studied the impacts of political instability on aggregate investment or foreign direct investments. They found that political instability generates significantly negative impacts on aggregate investment and foreign direct investment. The other papers, including Stewart and Venieris (1985), Venieris & Gupta (1986), Gupta (1987), Gyimah-Brempong & Traynor (1996), investigated the effects of political instability on aggregate savings using cross national data. They find that political instability has a negative and significant impact on savings.

Ownership

In relation to performance according to Javid & Iqbal (2008), the identity of ownership matters more than the concentration of ownership. This is so because ownership identity shows the behavior and interests of the owners. Ongore (2011) argues that the risk-taking behavior and investment orientation of shareholders have great influence on the decisions of managers in the day-to-day affairs of firms.

According to Ongore (2011), the concept of ownership can be defined along two lines of thought: ownership concentration and ownership mix. The concentration refers to proportion of shares held (largest shareholding) in the firm by few shareholders and the later defines the identity of the shareholders. Morck et al. in Wen (2010) explained that ownership concentration has two possible consequences.

The dominant shareholders have the power and incentive to closely monitor the performances of the management. This in turn has two further consequences in relation to firm performance. On the one hand close monitoring of the management can reduce agency cost and enhance firm performance. On the other hand concentrated ownership can create a problem in relation to overlooking the right of the minority and also affect the innovativeness of the management (Ongore, 2011) and (Wen, 2010).

According to Anna, Vong & Hoi Si Chan in Macau, other external factors included economic growth, real interest rate and inflation, whereas the financial structural factors comprise the Monopoly Index and the size of the banking sector

Economic Growth

Firstly, economic growth, which was measured by the real GDP growth rate, was hypothesized to affect banking profitability positively. This is because the default risk is lower in upturns than in downturns. Besides, higher economic growth may lead to a greater demand for both interest and non-interest activities, thereby improving the profitability of banks.

Real Interest

According Ongore (2011), the real interest was also expected to have a positive relationship with profitability. In the essence of lend-long and borrow-short argument, banks, in general, may increase lending rates sooner by more percentage points than their deposit rates. In addition, the rise in real interest rates will increase the real debt burden on borrowers. This, in turn, may lower asset quality, thereby inducing banks to charge a higher interest margin in order to compensate for the inherent risk.

Inflation

Finally, high inflation was associated with higher costs as well as higher income. If a bank's income rises more rapidly than its costs, inflation is expected to exert a positive effect on profitability. On the other hand, a negative coefficient is expected when its costs increase faster than its income.

Financial Structure

Many studies in the banking literature investigate whether financial structure, which is defined as the relative importance of banks, plays a role in determining banking performance. In general, a high bank asset-to-GDP ratio implies that financial development plays an important role in the economy. This relative importance may reflect a higher demand for banking services, which in turn, attracts more potential competitors to enter the market. When the market becomes more competitive, banks need to adopt different strategic moves in order to sustain their profitability.

Demirguc-Kunt & Huizinga (1999) presented evidences that financial development and structure variables were very important. Their results showed that banks in countries with more competitive banking sectors, where bank assets constitute a large portion of GDP, generally had smaller margins and were less profitable. Also, they notice that countries with underdeveloped financial systems tend to be less efficient and adopt less-than-competitive pricing behaviours. In fact, for these countries, greater financial development can help to improve the efficiency of the banking sector.

Market Structure

Consequently, the market structure of the banking industry showed important implications for profitability. Furthermore, studies by Smirlock (1985), Bourke (1989), Staikouras & Wood (2003) suggested that industry concentration has a positive impact on banking performance. The more concentrated the industry is, the greater the monopolistic power of the firms will be. This, in turn, improves profit margins of banks. However, there were also some studies that reported conflicting results. For example, Naceur (2003) reported a negative coefficient between concentration and bank profitability in Tunisia. Also, Karasulu (2001) found that an increasing concentration did not necessarily contribute to profitability of the banking sector in Korea.

Tax Policy

If the tax policy is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying institutions and eventually affect the final consumer due to the shifter ability of tax. According to a study report (Mnewa & Maliti, 2008), the majority of banks were less likely to attain or maintain the growing profitability in Dar es Salaam region in Tanzania.

2.3 Relationship between Corporate Income Tax and Financial Performance of Commercial Banks

Jens & Schwellnus (2008) examined the effects of corporate income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of 1996-2004; through stratified sampling this was found to be true across institutions of different size and age classes, except for young and small institutions. The results suggested that corporate income taxes reduce investment through an increase in the user cost of capital. This was partly explained by the negative profitability effects of income taxes if there is an increase in the corporate tax rate.

Rohaya, Nor'Azem & Bardai, (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of financial institutions. The study related to the impact of corporate income tax liabilities on different variables of an institution as gross profit, cost of sales, expenses etc. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the size and age.

De Mooij et.al, (2001) & Meg (2008) all found a negative relationship between corporate taxation and financial performance, and that it was valid to develop a hypothesis that; there is a negative association between corporate income tax and financial performance of institutions.

Becker & Holmes (2010) analyzed the effect of taxation on both institutions which are profitable and unprofitable. Investment, Tax, liquidity and firm growth were the main variables. They described the events in which corporate income taxes changed by three percentage points and compared to the five years past tax change effect with two years following it. Research findings concluded that corporate income tax adjustment had an economically considerable adverse effect on allocation of the investment, profitability but has no relationship with growth. Plosser (1992) found a significant negative correlation between the level of taxes on crporate income and profits (as a share of GDP) and growth of real per capita GDP.

According to Gordon, Roger & James, Hines (2002), commercial banks only pay corporate income tax on their profits, not on their revenues. If a bank is just breaking even and doesn't have any money left over, the tax rate could be 0%. No profits means no taxes paid. Alternatively, the more profit a bank makes, the bigger their gain from corporate tax cuts.

According to John , George & Robert (March 2013), companies that pay corporate income taxes must consider the impact corporate income taxes have on cash flows for long-term investments, and make the necessary adjustments. Investment and working capital cash flows are not adjusted because these cash flows do not affect taxable income. Revenue cash inflows and expense cash outflows are adjusted by multiplying the cash flow by (1 – tax rate). Although depreciation expense is not a cash outflow, it provides tax savings. The tax savings is calculated by multiplying depreciation expense by the tax rate.

2.4. Gaps Indentified in the Literature

Most research has been done on the relationship between taxable income and financial accounting income , taxation and corporate investment (Lawrence et al, 1981), tax impact on the financial performance of companies, determinants of financial performance of commercial banks (Ongore, 2013) tax challenge and financial institution and solutions, effect of corporate taxes on investment and entrepreneurship according to Simeon et al (March, 2009) , corporate income tax, profit and employment performance of companies (MacDonald,2011). However, some gaps have not been filled and among others include corporate income tax and financial performances in commercial banks and the study intends to fill the gap.

2.5. Related Studies

John Gartchie Gatsi et al (2013) explored the relationship between income tax and financial performance. The study covered 10 manufacturing companies for a period of 7 years spanning from 2005 to 2012. The descriptive - causal research design was employed with the panel data methodology as the analysis method. The study has found that, there is a significant negative relation that exist between corporate income tax and financial performance on the other hand firms' size, age of the firm, growth of the firm shows a significant positive relationship with financial performance. From this backdrop it is recommended that manufacturing companies should employ the services of tax experts to aid them in tax planning in other to reduce the net tax payment so as to increase their financial performance. Again they should increase their asset size and ensure efficient use of those assets to reflect in the production turnover of the companies.

In the Journal of Political Economy, Harzberger wrote an article called "The Incidence of the income tax" where he attempted to provide a theoretical framework to understand the effects that income tax on corporations has and to determine inferences of this tax in the United States. He proposed the general-equilibrium nature, in which he assumes a two-sector economy one corporate and the other not. In this model, Harzberger theorizes that by redistributing the economies resources, the market will move toward a constant equilibrium in the long-run where the elasticity's of substitution are the same for both capital and labor and are then equal to the elasticity of substitution between the two goods being consumed.

Hassett & Mathur (2006) used a large data set of tax rates for 72 countries over 22 years to investigate the effects of taxes, including income taxes, on wages rather than investment.

Their data came from the AEI International Tax Database, which relies on summaries of tax rates produced by accounting firms, including PricewaterhouseCoopers, as well as the International Bureau of Fiscal Documentation2. Hassett & Mathur have time series data, which we do not.

The number of domestic banks declined according to Claessens & Hore (2012). This has attracted the interests of researchers to examine bank performance in relation to these reforms. There has been noticed a significant change in the financial configuration of countries in general and its effect on the profitability of commercial banks in particular. It is obvious that a sound and profitable banking sector is able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou et al., 2005.) Moreover, commercial banks play a significant role in the economic growth of countries but the effects of income tax on financial performance of commercial banks in Uganda has not been clarified. Therefore the study intends to investigate the effects of income tax on financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter details the methodology and procedure that was employed in the study. The chapter covers the study area, research design, study population, sampling strategies and the study sample, data collection instruments and methods, pre-testing (validity and reliability), procedure of data collection, data analysis and measurement and ethical consideration.

3.1 Research Design

This is a plan which guided the researcher in collecting, analyzing, interpreting the observations of the data. It allowed the researcher to draw inferences concerning casual relations among the variables under investigation. It was a road map for the study.

The research design was cross sectional that was analytical and descriptive in nature through sampling. Cross-sectional design also known as social survey is the type of design where data was collected from the accessible population and the sample represented a cross-section of the population and either the entire population or a subset thereof was selected, and from these individuals, data are collected to help answer research questions of interest.

The study took a quantitative approach that was based on variables measured with numbers and analyzed with statistical procedures. The quantitative research design was used in form of mathematical numbers and statistics assigned to variables that were not easy to measured using statements.

The study also used qualitative methods to get information from respondents. Qualitative research used data collection methods such as interviews and the findings were conveyed subjectively through descriptions using words.

3.2 Study Population

The study population comprised of 30228 including staff of Centenary Rural Development Bank Ishaka Branch. Out of the population, 20 were staff bank of Uganda Mbarara Branch, 30180 were clients and 28 were staff Centenary bank Ishaka Branch (Centenary bank March report, 2014).

3.3 Study Sample and Sampling Techniques

3.3.1 Sample Size

The researcher used Sloven's formular to calculate sample size of 395. The formula and computation are below; only a fraction was used because the population was big. However, the sample size was enough to give adequate data that was reliable.

$$n = \frac{N}{1 + N(e)^2} \qquad \text{where } e = 0.05$$

Where;

n- Sample size

N- Population of the study.

e- Level of confidence

Computation of sample size;

$$n = \frac{30228}{1+30228(0.05)^2}$$

$$= 395$$

The study sample size was 395 including staff Bank of Uganda, staff and customers Centenary Bank Ishaka Branch as shown below in the table.

Table 3. 1: Showing the sample size of respondents

Particular	Total population	Sample size	Sampling technique.
Staff centenary bank	28	26	Purposive sampling
Staff Bank of Uganda	20	19	Purposive sampling
Other clients	30180	350	Stratified sampling
Total	**30228**	395	

3.3.2 Sampling technique

The research used stratified sampling and purposive sampling method was used. Stratified sampling was used to collect data from bank clients because they were desegregated in different areas.

According to Amin (2005), purposive sampling is also known as judgmental or common sense sampling. The method is often used to select participants by virtue of their positions and have varied information. Purposive sampling was used to select amongst the bank staff of Centenary bank especially those whom the researcher thought were able to give reliable information on the subject matter. The researcher adopted the same technique especially to the staff Bank of Uganda Mbarara branch because the researcher thought they were reliable, highly representative and presented general view of the results.

3.4 Data Collection Methods and Instrument

Interview Guide

This is a method of interaction where the interviewer askes questions to the interviewee face to face (Amin, 2005). The method was flexible and easy to find out complex information and also give a chance to the researcher to take into account verbal communications such as behavior and attitude and of the respondents.

This is a method of collecting data where by questions were asked to selected participants in order to find out what they thought, did and even felt to enable the researcher obtain information about the variables under study through probing (Denscombe, 2000). This instrument was significant because it would collect information that was not directly observed or information that would be difficult to put in writing, by observations of the facial expressions and emotional behaviors.

n interview guide was formulated with specific and predetermined questions. Predetermined questions would probe and create rapport between the interviewer and the respondents and this would help the respondent give information at length.

Questionnaire Method

According to Amin (2005), a questionnaire is a self report instrument used for gathering information about variables of interest in an investigation. This method involved preparing questions pertaining to the field of inquiry (Chandan, 1995). The method relied on questionnaire as data collection instrument. The questionnaire provided the researcher with the facts and opinions of the respondents. Questionnaire was adopted because it would enable respondents to give opinions without objectively without prejudice. Most people are familiar with questions and so avoid respondents from being comprehensive (Cohen & Morrison, 2000).

A five point Likert scale with response choices such as, (1) strongly agree, (2) Agree,(3) Strongly disagree, (4) Disagree was used. The questions were based on the study objectives. The questions were self constructed and close ended. The answers were limited to only the questions set in the instrument. The results were made more dependable and reliable, cheaper than other methods and free from bias.

Documentary Review

This method involved delivering information by carefully studying written documents, visual information from sources called documents. These included texts, journals, advertisements, news papers, articles and others (Amin, 2005). Also, secondary data from the study area such as reports, Uganda Revenue Authority and recent studies were used.

3.5 Validity and Reliability of Instruments

The research instrument was pre-tested to minimize the random errors and increase the validity and reliability of the data that was collected.

3.5.1 Validity

Validity refers to the extent to which a measurement procedure actually measures what it is intended to measure. It is a judgment of appropriateness of a measure for specific conclusion that results from scores generated. Validity of research instruments was measured using content validity index. Content related evidence of validity was quantified by content validity index (CVI). Content related evidence of validity refers to the degree to which an instrument measures an intended content area i.e. it indicates the nature of the content that is included with in the instrument. The content validity index was tested using cronbach method and was 0.81 and the instrument was used because the CVI was within the statistically accepted range of 0.7 and above. For computation, refer to appendix vii.

3.5.2 Reliability

This is a measure of the degree to which research instruments yielded consistent results after repeated trials. Reliability of research instruments was measured using test- retest technique. Test retest reliability refers to the degree to which scores on the same individuals are consistent over time (Amin, 2005). Reliability was done by administering the test to an appropriate group of subjects, then after some time passed, two weeks, the same test was administered to the same group of subjects, and the two sets of scores were correlated using Pearson product moment correlation and results evaluated. The coefficient was above 0.7 and the instrument was reliable.

3.6 Procedure for Data Collection

The following data collection procedures were followed:

A. **Before the administration of the questionnaires**

An introductory letter was obtained from Kampala International University School of Post Graduate Studies and then copies were presented to Centenary Rural Development Bank to be permitted to conduct the study. The letter contained the criteria for selecting the respondents and the requested to be provided with the list employees from Centenary Rural Development Bank Ishaka Branch. When the permission was approved, the requested list was used by the researcher as a guide in identifying the participants of the study, after which pre-testing of the instrument follow.

B. During the administration of the questionnaires

The researcher requested the respondents: (1) to sign the informed consent; (2) to answer all questions and not to leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher also tried to retrieve the questionnaires within two weeks from the date of distribution. All questionnaires retrieved were checked if they were completely filled out.

C. After the administration of the questionnaires

The data was collected organized, summarized, statistically treated and drafted in tables and graphs using the Statistical Package for Social Scientists (SPSS).

3.7 Data Analysis

After collecting all the necessary data by the use of data collection tools, data was coded and edited, and rephrased to eliminate errors and ensure consistency. It involved categorizing, classifying, discussing, and summarizing of the responses to each question by coding to easy tabulation; help remove unwanted responses which would be considered insignificant.

Data was entered into a computer, analyzed using SPSS and micro soft excel, which helped to summarize the coded data and this facilitated quick interpretation. Pearson product moment of correlation was used to determine the relationship between corporate income tax and financial performance in Centenary Rural Development Bank.

Organizing

To promote accuracy and meaningful form, classification of responses according to the questions was done during data processing. The information was organized through labeling on data piece according to the targeted category of respondents so as to get easy differentiation of data during editing, coding and tabulation. Tables were used in the presentation of the data

Editing

To ensure that there was accuracy and conformity, the researcher checked over the data to ensure that there are no errors and mistakes.

Coding frames were used by the researcher to tabulate the information required by the researcher into simple tables and percentages of the respondent against each particular related to the questions. The researcher used coding to assign symbols for identification of similar responses in order for the researcher to come up with the quality data in a way of making it easy to analyze and prepare tables.

Tabulation

The researcher used tabulation to present the coded information, and presented information in table form and expressed them into percentages from the questionnaire.

3.8 Ethical considerations

Care was taken to ensure the rights of respondents were reserved. The researcher respected the dignity of the respondents and did not reveal the identity of the respondents in the study.

Integrity of Respondents

The researcher would first introduce herself and explained what the study was all about. Time was always given to the respondents to ask questions to the researcher before commencement of data collection exercise. All respondents were respected irrespective of gender, age, and status and education level and were treated equally according to the social conventions.

Informed Consent

In case of need to reveal the identity of the respondent, informed consent of the respondent was be thought first and the researcher would respect the views of the respondents.

Integrity

Both the integrity of the respondents and the researcher were respected on the major issues like time management, use of proper communication and answering accordingly to the respondents' questions and dressing appropriately in the public.

Confidentiality

The researcher ensured that the data collected from the respondents was not be disclosed but was specifically be used for study purposes. Therefore the researcher was ethically confidential.

3.9 Limitations

The researcher faced the challenge of language barrier whereby some respondents especially bank customers would not ably respond and some were not able to read and write hence the questionnaire instrument which was presented in English language could not work due to language barrier. This necessitated the researcher to take time and translate in the most understandable and easy language.

Some respondents were suspicious of the study and reluctant to give the required information. The researcher would encourage respondents to give out their views informed them that once they gave in their views , that information would be treated with confidentiality and it was for only academic purposes.

Some respondents were unwilling to fill the questions with a feeling that they were wasting time during data collection. In this case, the researcher would be patient and explain to the respondents the importance of the research.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter presented the study findings as collected from the respondents. The purpose of the study was to assess the effect of corporate income tax and financial performance in commercial banks in Uganda. The chapter presents the demographic characteristics of respondents and the study findings according to the objectives.

4.1: Demographic Characteristics of Respondents

A sample size of 395 gave the responses about the effects of corporate income tax and financial performance of commercial banks in Uganda, a case of Centenary bank Ishaka branch. Different demographic characteristics of the respondents were obtained which include gender, age, education background and marital status.

Table 4. 1: Distribution of Respondents by Gender and Age Brackets

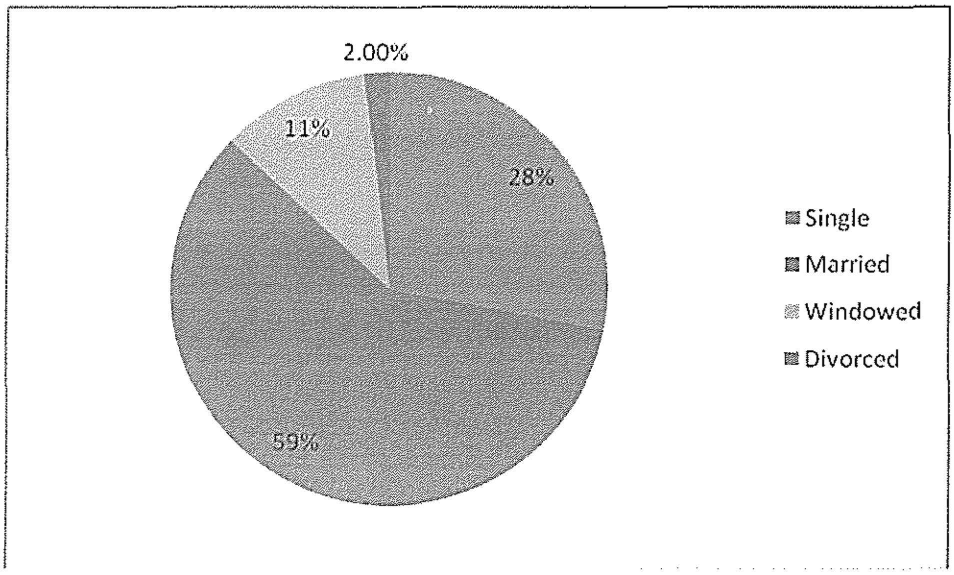
Gender	Population	Percentage
Males	237	62%
Females	158	38%
Age bracket		
18-30	67	17%
31-45	134	34%
46-60	90	23%
Above 60	104	26%

Source: Field Data, 2015

The responses in the table 4.1 above indicated that 62% of the respondents were males and 38% were females. This shows that the majority of centenary clients were males as compared to females. This implies that the majorities of men are highly involved in searching for money and so actively participate in the banking system. The percentage of females is more than half of males and this shows that the data obtained is fairly balanced according to gender.

Also, the respondents' age was another demographic characteristic considered. According to table 4.1, the majority of the respondents (34%) were in the age bracket 31-45, followed by 23% respondents in the age bracket of 46-60. The least age bracket (17%) was 18-30. This implies that the respondents' views were dependable and mature to give a representative sample.

Figure 4.1: A Pie Chart Showing Marital Status of Respondents



Source: Field Data 2015

According to the pie chart above, it was found out that 59% of the respondents were married, 28% were single, 11% were windowed and 2.0% had divorced. This implies that the majority of Centenary clients are stable and reliable since most of them have families. This means that the majority of bank clients are likely to be active since the family responsibilities require them to utilize the bank resources.

Table 4.2: Distribution of Respondents by Level of Education

Education level	Sample	Percentage
None	09	2.0%
Primary	86	22%
Secondary level	214	54%
Tertiary certificate	55	14%
Bachelor and above	31	08%
Total	**395**	**100%**

Source: Field Data 2015

The responses indicated that majority of the respondent (54%) completed while the least (08%) were those who completed bachelors degree and above. This implies that most clients of Centenary bank are able to write, read and understand thus could ably contribute necessary information required for the study.

4.2 Effects of Corporate Income Tax on Financial Performance of Centenary Rural Development Bank

Table 4. 3: Showing the Effects of Corporate Income Tax on Financial Performance

Effect	Strongly agree (a)	Agree (b)	Strongly disagree©	Disagree (d)	Total agreed (a+b)	Total Disagree (c+d)	Percentage disagreed	Percentage agreed
Reduce Loan interest income	112	228	20	35	340	55	14%	86%
Reduce Retained earnings	107	217	31	40	324	71	18%	82%
Increase charges on bank service	69	291	16	19	360	35	9%	91%
Lowers Share price	103	209	27	56	312	83	21%	79%
Reduce statutory reserves	80	245	9	61	325	70	18%	82%

Source: Field Data 2015

The findings of the study indicated that 91% of the respondents agreed that corporate income tax lead to imposition of charges on the bank services offered. Some of the respondents said that in centenary bank, they are charged for corporate income tax. Also, findings from interviews show that some clients have started fearing to utilize some of the bank services due to the increasing tax charges involved on most of the services provided in centenary bank. That implied that centenary bank transfers corporate income tax onto their customers through increased cost of services offered. Also, some of the products and services of centenary bank are likely to remain unutilized due to fear for the corporate income tax that is imposed.

It was found out from interviews that corporate income tax reduces the interests of the share holders who may wish to buy more share shares in Centenary bank because of the low share dividends received. This implies that when low dividends are obtained by the share holders, they are discouraged to invest capital by buying more shares in the bank.

In addition, 79% of the respondents agreed that corporate income tax reduces share price for a share in Centenary bank. This implies that when the bank pays corporate income tax, bank profit reduces and the dividends paid for each share is low and when the share holder is to sale the share, the share price increases by a small percentage equivalent to the dividend posted.

The findings of the study indicated that corporate income tax reduces loan interest income by the bank. The research found out from the respondents views especially the staff that corporate income tax affects interest fees income from loans especially. The respondent's views and observations was that some bank clients fear the loan charges that are charged during loan processing with perception that the charges are high because the bank pays corporate in tax. This implies that some of the bank customers will not take loans due to fear for the corporate income tax that is transferred informs of increased costs and the bank will not be able to obtain fees charged when loans are disbursed.

It was found out that 82% of the respondents agreed that corporate income tax affects the statutory reserves for centenary bank. This means that corporate income tax paid to Uganda Revenue Authority would have always remained in the bank reserve and a certain fraction also used to run other bank activities.

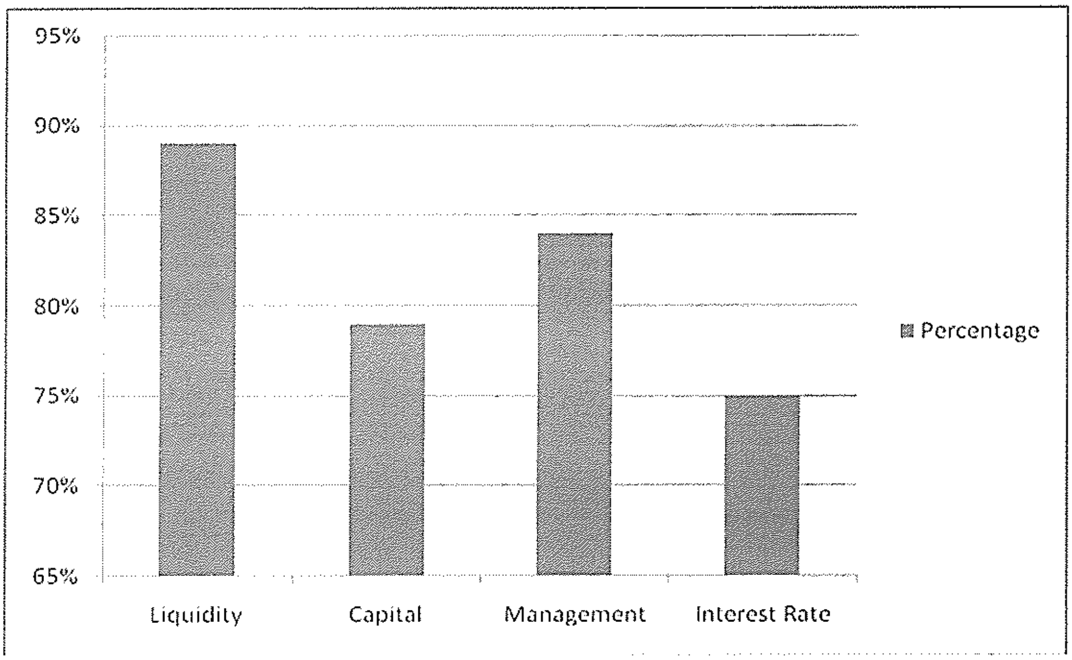
4.3: Level of financial Performance in Centenary bank

Table 4. 2: Showing the Level of Financial Performance

Particular	Strongly agreed (a)	Agreed (b)	Strongly disagree ©	Disagree (d)	Total disagreed (c+d)	Total agreed (a+b)	Percentage disagreed	Percentage agreed
Liquidity enough	97	255	12	31	43	352	11%	89%
Capital availability	68	245	19	63	82	313	21%	79%
Management efficiency	74	233	22	66	88	307	16%	84%
Attractive Interest Rate	84	211	27	73	100	295	25%	75%

Source: Field Data 2015

Figure 4.2: A Graph Showing the Level of Financial Performance in Centenary bank



Source: Field Data 2015

It was found out that 89% of the respondents agreed that Centenary Rural Development Bank has enough capital adequacies. This implies that Centenary bank is able to with stand risks mainly credit, market and other operational activities. Findings from interviews show that the bank has enough capital to meet the bank's business and act as a buffer in case of adverse situations. The bank's capital creates liquidity for the bank in case of demand for the deposits and other daily activities. Therefore adequate capital enables the bank to be profitable by determining its expansion to risk but profitable areas.

In addition, 89% of the respondents agreed that centenary is liquid enough. Some respondents gave their views that they always get their deposits and the loan advances whenever they are in need. It was found out from interviews that those who fail to get the money in terms of loans are not because the bank does not have but because their credit status is not good in the bank. This implies that liquidity enables the bank to fulfill its obligations that result into profits. This gives the bank a good financial image in the public.

The researcher found out that Centenary bank has favorable interest rates for the various loan products that encourage the account holders to acquire and repay their loans easily. Findings from interviews show that the loan clients are able to pay the determined and bank interest rates and principle. This implies that the favorable interest rates improves the quality of the loan portfolio which is one the determinants of financial performance in Centenary bank.

It was found out that 84% of the respondents agreed that the management Centenary Rural Development Bank contribute a lot towards the financial performance. Some of the respondents who were interviewed said that the staff of Centenary bank are hard working utilize the bank resources like the computerized systems. This implies that the management determine the bank profitability if they have the capacity utilize the resources efficiently, maximize income and reduce operational costs.

4.4: Relationship between Corporate Income Tax and Financial Performance in Centenary Rural Development Bank

Table 4. 3: Showing Pearson Correlation Coefficient Results

		Performance	CI T	Investment	Profitability	Liquidity	Growth
Performance	Pearson correlation	1	1	1			
CIT	Sig.(2 tailed) Pearson correlation	-0.318	1				
Investment	Pearson correlation Sig. (2tailed)	-0.235 0.985	-0.101 0.002	1			
Profitability	Pearson correlation Sig. (2tailed)	0.233 0.001	-0.286	-0.567	1		
Liquidity	Pearson correlation Sig. (2tailed)	-0.036 0.521	-.002 0.87	-0.103 0.127	-0.058 0.416	1	
Growth	Pearson correlation Sig. (2tailed)	0.026 0.00	-0.385 0.000	0.226 0.001	0.188 0.008	0.421 0.000	1
Correlation is significant at 0.01 level at (2 tailed)							

Source: field data 2015

The results established from the table above show that corporate income tax has an inverse relationship with financial performance of -0.318. This implies that corporate income tax reduces the financial performance. An increase in corporate income tax leads to a decrease in financial performance and vice versa.

Also, profitability showed a negative association of -0.286 with corporate income tax implying that corporate income tax reduces the bank profits. This means that when bank profits increase, the corporate income tax to be paid will also increase and when profits reduce, the corporate income tax will also reduce.

Also, investment showed a negative relationship with financial performance of -0.235. This implies that making investment may prove risky and reduce the financial performance since investment involves cash outflow. Investment constrains the liquidity of Centenary bank and the cash that would be used to disburse loans, meet deposits and other financial obligations is pulled out for investment hence reduce the financial performance.

Among others, growth showed a negative relationship with corporate income tax of -0.385 however showed a positive relationship with financial performance of 0.260. This implies that when the bank grows it becomes financially sound and profitable and therefore liable to paying higher corporate income tax. The more the bank growth, the more it becomes profitable and the more corporate income taxes it pays and vice versa. The positive relationship between growth and financial performance implies that when the bank grows it financially performs well. This implies that the more the bank grows, the more its financial performance increases.

Findings from interviews showed that corporate income tax increases labour costs, tax consultancy fees and penalties which reduce the bank profits. This implies that corporate income tax reduces financial performance due to increased expenditure.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, conclusions and recommendations of the study findings on corporate income tax and financial performance of commercial banks in Uganda a case study of Centenary Rural Development Bank Ishaka Branch. The discussions, recommendations and conclusions of the findings are in relation to both primary data obtained from the responses and secondary data. The discussions and interpretations have been presented according to the study objectives. The conclusions and recommendations are done basing on discussion and interpretation.

5.1 Discussion

5.1.1 Effects of Corporate Income Tax on Centenary Rural Development Bank

The findings indicated that corporate income tax lead to imposition of charges on the bank services offered to the bank clients. This was found in agreement with the study findings of Ugo Albertazzi and Leonardo Gambacorta (November 2007) concerning net interest income, that there was presence of corporate income tax shifting from the bank to its clients. Such corporate income tax shifting occurred in two ways: through an increase of the interest rate on lending or through a decrease in the interest rate on deposits.

The findings also show that that corporate income tax reduces loan interest income for the bank. Commercial banks are liable to paying corporate income tax on loan interest income with exception of loan income from agricultural loans.

In addition, the findings indicated that corporate income tax reduces the share price. This is because corporate income taxes reduce the bank retained earnings. It is out of the bank retained earnings that the bank pays dividends to share holders. Reduced dividends imply reduced share price and vice versa.

Also, the findings indicate that corporate income taxes reduce statutory bank reserves. It is out of the bank retained earnings that a fraction remains in the bank reserves. When high corporate income tax is paid, it implies that the bank retained earnings will greatly reduce by an equivalent cost.

5.1.2 Level of Financial Performance in Centenary Rural Development Bank

The findings indicated that Centenary bank is liquid enough to fulfill its business obligations that are profit making. This is in agreement with findings of Dang (2011) who affirms that adequate level of liquidity is positively related with bank profitability. However, the study conducted in Malaysia found that liquidity level of banks has no relationship with the financial performance of banks in relation to profitability (Said &Tumin, 2011).

The findings indicated that the management are hard working and utilize the bank resources like the computerized systems. According to Rahman et al (2009), management is responsible for utilizing resource efficiently and reduces operating costs to maximize profits. That is why management quality is determined using the operating profit to income ration. Therefore, management quality determines the level of operating expenses and in turn affects profitability (Athanasoglou et al, 2005).

Findings indicated that capital availability enables the bank to be liquid and meet the agent cash needful business activities in difficult situations. This was found in agreement with findings of Athanasoglou et al. (2005), who affirmed that bank capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs.

In addition, the findings indicated that favorable interest rates for the various loan products encourage the bank clients to acquire and repay their loans easily hence improves the quality of the loan portfolio which is one the determinants of financial performance. This in agreement with Ongore (2011) who found that unfavorable interest rate increase the real debt burden on borrowers and in turn lowers the asset quality a major determinant of financial performance.

5.1.3 Relationship between Corporate Income Tax and Financial Performance in Centenary Rural Development Bank

The study findings indicated that corporate income tax showed inverse relationship with financial performance. This is in agreement with the findings of Rohaya et al (2010), who affirmed that when corporate income tax burden increases, the level of financial performance decreases.

Findings showed a negativity relationship between investment and financial performance. This implied that whenever Bank purchases the assets, the cash flows are strained by costs hence reduce the financial performance. This is in agreement with the findings of Jens &Schwellnus (2008) who found out that investments increase the user cost of capital.

Liquidity showed a negative relationship with financial performance meaning that when the bank income increases, the corporate income tax obligations put pressure on the cash flow. The positivity relationship showed by growth and financial performance implies that as Centenary bank growth, financial performance becomes better.

In addition, the findings indicated that corporate income tax has a negative relationship with the bank profits. This is in agreement with the findings of Plosser (1992) who found a significant negative correlation between the level of taxes on corporate income and profits. The findings were also in accordance with the findings of Gordon; Roger H, and James R. Hines (2002), who found that commercial banks pay corporate income taxes on their profits. If a bank is just breaking even and does not have any money left over, the tax rate could be 0%. No profits means no taxes paid.

5. 2 Conclusion

5.2.1 The effects of corporate income tax on financial performance of Centenary Rural Development- Ishaka Branch.

Corporate income tax affects majorly the bank retained earnings, statutory reserves and the charges the bank charges its customers. The bank shifts the corporate income tax to its clients informs increased cost charged onto the services offered to its customers.

5.2.2 The level of financial performance in Centenary Rural Development Bank Ishaka Branch.

According to the research findings Centenary bank has enough capital that enables the bank to remain liquid enough to with stand risks mainly credit, market and other operational activities that enable the bank to be profitable. The management staff determines and contributes towards the bank profitability by utilizing the bank resource, reduce operational costs and maximize profits.

5.2.3 The relationship between corporate income tax and financial performance in Centenary Rural Development Bank Ishaka Branch.

The study found out that, there was a significant negative relationship that existed between corporate income tax and financial performance. Also, liquidity and investment showed a negative relationship with financial performance. On the other hand, profitability and growth showed a positive relationship with financial performances.

5.3 Recommendations

5.3.1 The effects of corporate income tax on financial performance of Centenary Rural Development- Ishaka Branch.

The researcher recommended that Centenary Rural Development Bank should employ the services of corporate income tax experts to aid them in corporate tax planning and to reduce the net corporate income tax payment so as to increase their financial performance.

5.3.2 The level of financial performance in Centenary Rural Development Bank Ishaka Branch.

Also, the bank should plan to mobilize more active and product clients and hard working management to improve the growth so as sustain and improve the financial performance.
In addition, Centenary Rural Development Bank should be conscious when making investments so as to avoid constraining the bank cash flows.
The researcher also recommended that Centenary Rural Development Bank should plan for additional ways to increase bank profitability.

5.3.3 The relationship between corporate income tax and financial performance in Centenary Rural Development Bank Ishaka Branch.

Further studies should be done to find out the effect of the newly introduced 10% tax on bank charges such as bank charge on ATM withdrawal transactions and bank charges bank statements issued to the clients on financial performance on Centenary Bank.

REFERENCES

Aburime, U. (2005). *Determinants of Bank Profitability*: Company-Level Evidence from Nigeria.A dministration, University of Macau.

Akakpo, V. K.A. (2009). "*Principles, Concepts and Practice Of Taxation*" (3rd ed).Accra: BlackMask Ltd.

Al-Tamimi, H., Hassan, A. (2010). *Factors Influencing Performance of the UAE Islamic* and

Anna P. I. Vong and Hoi Si Chan: *Determinants of bank profitability* in Macao

Athanasoglou, P.P., Sophocles, N.B., Matthaios, D.D. (2005). *Bank-specific, industry-specific and macroeconomic determinants of bank profitability.* Working paper, Bank of Greece. 1(1), 3-4.

Azam, M., Siddiqoui, S. (2012). *Domestic and Foreign Banks' Profitability: Differences and their Determinants.* International Journal of Economics and Financial Issues 2(1), 33-40.

Becker,K. &Holmes. S, (2006). "*Corporate Income Tax Reform and Foreign Direct Investment* in Germany Evidence from Firm-Level Data", *Cesifo Working Paper No. 1722 Category 1: Public*

Barro, R.J., and C.J. Redlick, (2010). *Macroeconomic effects from government purchases and taxes*, Harvard working paper.

Benson Ndungu. Uganda Fiscal guide 2012/13. www.kpmg.com.

Berger, A. (1995). "*The Relationship between Capital and Earnings in Banking*,"

Journal of Money, Credit and Banking, Vol. 27, No. 2, 432-456.

Bourke, P. (1989). "*Concentration and Other Determinants of Bank Profitability* in

Europe, North America and Australia," Journal of Banking and Finance, Vol. 13, 65-79.

Boyd, J. and D. Runkle (1993). "*Size and Performance of Banking Firms*: Testing the Predictions of Theory," Journal of Monetary Economics, Vol. 31, 47-67.

Caminal. R, (2003). "*Taxation of Banks; Modeling the Impact in P. Phonohan (ed.),* Taxation of Financial Intermediation: The World Bank and Oxford University Press.

Chantapong .S, (2005). *Comparative Study of Domestic and Foreign Bank Performance in Thailand*: The Regression Analysis. The Office of Macroeconomic Policy and Analysis, Monetary Policy Group (MPG), the Central Bank of Thailand, Bangkhunprom, 2005

Claessens, S. Asli, D, Harry. H, (1998). *How Does Foreign Entry Affect the Domestic Banking*

Claessens, S., Hore, N. (2012). *Foreign Banks: Trends, Impact and Financial Stability.* IMF Working Paper, Research Department Conference, Hosted by the International Monetary Fund, Conventional National Banks; Department of Accounting, Finance and Economics, College of Business Administration, University of Sharjah.

Dang & Uyen (2011).*The CAMEL Rating System in Banking Supervision*: a Case Study of Arcada University of Applied Sciences, International Business. *International Journal of Economics and Financial Issues, Vol. 3, No. 1, 2013, pp.237-252, 252.*

David .M, (2011). Corporate Income Taxes, Profit, and Employment Performance of Canada's Largest Companies

Demirgüç-Kunt. A. & Huizinga. H. (1999). "*Determinants of Commercial Bank Interest Margins and Profitability:* Some International Evidence", the World Bank Economic Review, Vol. 13, pp. 379-408.2

Detragiache, E., Poonam, G., Thierry, T. (2006). *Foreign Banks in Poor Countries*: Theory and

Diamond, D.W., Raghuram . A, (2000). Theory of Bank Capital. The Journal of Finance 52(6), 12-23. *Empirical analysis of listed companies in Kenya.* African Journal of Business

Management, 5(6), 2120-2128. Evidence. Washington, DC: Paper presented at the 7th Jacques Polak Annual Research

Farazi, S., Erik, F., Roberto, R. (2011). *Bank Ownership and Performance in the Middle East and Financial Institutions and Instruments:* Tax challenges and solutions [Background paper for the international Tax Dialogue Conference 1]. Beijing, October

Flamini, C., Valentina C., McDonald, G., Liliana, S. (2009). *The Determinants of Commercial Bank Profitability in Sub-Saharan Africa.* IMF Working Paper.

Geoff Lloyd (2009). Moving Beyond the Crisis: *Strengthening Understanding of how Tax Policies Affect the Soundness of Financial Markets.*

Gordon, Roger .H., and James R. ,Hines (2002). "*International Taxation.*" In *Handbook of Public Economics, Volume 4,* edited by Alan J. Auerbach and Martin Feldstein. North Holland/Elsevier, Amsterdam

Gupta, Kanhaya L. (1987). "*Aggregate Savings, Financial Intermediation, and Interest Rate,*" *The Review of Economics and Statistics* 69, 2, 303-311.

Gupta, Dipak K. (1990). *The Economics of Political Violence: Effect of Political Instability on Economic Growth*, New York: Praeger.

Gyimah-Brempong, Kwabena & Thomas L. Traynor (1996). "*Political Instability and Savings in Less Developed Countries:* Evidence from Sub-Saharan Africa," *The Journal of Development Studies* 32, 5, 695-714.

Demirguc-Kunt & Huizinga (1999). Commercial *Banks Profitability Position*: University, Roerdam.

De Mooij, Ruud A. & Ederveen, S. (2001). "Taxation and foreign direct Investment", *Journal of investment*, 2(3), 23-47

Diamond. & Zodrow. G. (2004). *Macroeconomic effects of recent lower corporate income tax rate.*

Jens, A. & Schwellnus,C. (2008). *Do corporate income taxes reduce productivity and investment at the firm level?* Cross-country evidence from the Amadeus dataset.

Jiang, G., N. Tang, E. Law and A. Size (2003). "*Determinants of Bank Profitability in Hong Kong*," Hong Kong Monetary Authority Research Memorandum, September

John Gartchie Gatsi, Samuel Gameli Gadzo, Holy Kwabla Kportorgbi (2013). *The Effect of Corporate Income Tax on Financial Performance of Manufacturing Firms in Ghana.* Research Journal of Finance and Accounting. ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.4, No.15, 2013

Karasulu, M. (2001). "*The Profitability of the Banking Sector* in Korea," IMF Country Report, July.

Lawrence et al, (1981). "*Taxation and economic performance*", Working papers No.172

Ilhomovich, S.E. (2009). *Factors affecting the performance of foreign banks in Malaysia.* Malaysia: A thesis submitted to the fulfillment of the requirements for the degree Master of Science (Banking).

Ismi, A. (2004). *Impoverishing a Continent*: The World Bank and the IMF in Africa. 2004. ISSN: 2146-4138, www.econjournals.com

James D. Gwartney and Robert A. Lawson: *The impact of tax policy on economic growth, income distribution, and allocation of taxes.*

Joel Slemrod (2009). "*Lessons for Tax Policy from the 2008-09 Economic Crisis*" (mimeo, University of Michigan) Limited, Kenya : Revised: May 1998.

John. D, George Z and Robert .C (March, 2013). *Reforming America's Taxes Equitably (RATE) Coalition*

Mika Mungaya, Andrew H. Mbwambo, Shiv K. Tripathi (2012).*Tax system impact on the growth of small and medium enterprises* in Tazania

Miller, S. and A. Noulas (1997), "*Portfolio Mix and Large-bank Profitability in the USA,*" Applied Economics, Vol. 29, 505-12.Mugenda Olive .M. & A.G.Mugenda (1999).

Naceur, S. B. (2003). "*The Determinants of the Tunisian Banking Industry Profitability*: Panel Evidence," Universite Libre de Tunis Working Papers.

Oloo, O. (2010). *Banking Survey Report*, The best banks this decade 2000-2009 , Think Business

Ongore, V.O. (2011). *The relationship between ownership structure and firm performance*: An

Perotti, Enrico and Paolo Volpin (2004). "*Lobbying on Entry*," CEPR Working Paper, 4519

Ramey, V.A., 2011, *Identifying government spending shocks*: It's all in the timing, Quarterly Journal of Economics 126, 1-50.

Ramey, V.A. and Matthew S. (1998). *Costly capital reallocation and the effects of government spending*, Carnegie Rochester Conference on Public Policy.

Rodrik, D (1991). "*Policy Uncertainty and Private Investment in Developing Countries*," *Journal of Development Economies* 36, 2, 229-242.

Rohaya, M. N., NurSyazwani M. F. & Nor'Azam, M (2010). "*Corporate Tax Planning*: A Study on *Corporate Effective Tax Rates of Malaysian Listed Companies*", *International Journal of Trade, Economics and Finance*,1(2), 1-5.

Roger, Gordon and Wei Lei (2005). *Tax structure in developing economies*: many puzzles and a possible explanation, mimeo

Romer, C.D. and D.H. Romer, (2010). *The macroeconomic effects of tax changes*: Estimates based on a new measure of fiscal shocks, American Economic Review 100, 763-801.

Rungsomboon, S., Okuda, H. (2004). *Comparative Cost Study of Foreign and Thai Domestic Banks.*

Said, R.M., Mohd, H.T. (2011). *Performance and Financial Ratios of Commercial Banks* in Malaysia and China.

Sangmi, M., Tabassum, N. (2010). *Analyzing Financial Performance of Commercial Banks in India:* Application of CAMEL Model. Pakistan Journal Commercial Social Sciences.

Simeon et al (2009). "*Financial Development and Economic Growth*" The Nigerian Experience. *Indian Journal of Finance.*

Shekhar, K., Lekshmy, S. (2007) *Banking Theory and Practice*, 20th ed,. VIKAS publishing House,New Delhi

Sinkey, J. Jr. (1992). *Commercial Bank Financial Management in the Financial Services Industry,* N.Y : Macmillan Publishing Company

Smirlock, M (1985). "*Evidence on the (Non) Relationship between Concentration and Profitability in Banking,*" Journal of Money, Credit and Banking, Vol. 17, No. 1, 69-83.

Staikouras, C. and G. Wood (2003). *The Determinants of Bank Profitability* in Europe, Paper presented at the European Applied Business Research Conference.

Stewart, D.B and Y.P. Venieris, 1985, "*Sociopolitical Instability and the Behavior of Savings in Less Developed Countries,*" *Review of Economics and Statistics* 67, 4, 557-563.

Ugo .A and Leonardo .G (2006). Bank *Profitability and Taxation*, Economic Research Department.

Vincent Okoth Ongore. *Determinants of Financial Performance of Commercial Banks in Kenya.* International Journal of Economics and Financial Issues. Vol. 3, No. 1, 2013, pp.237-252

Vong, A, Hoi, S (2009). *Determinants of Bank Profitability in Macao.* Faculty of Business management.

Wen, W. (2010). *Ownership Structure and Banking Performance*: New Evidence in China. Universitat Autònoma de Barcelona Departament D'economia de L'empresa, 2010.

Willi Leibfrift, John Thorn & Alexandra Bibbee: *Taxation and Economic performance*; Economics Department, working papers No. 176. www.asadismi.ws

APPENDIX I

INFORMED CONSENT FORM

By signing this document, I am giving my consent to be part of the research study about corporate income tax and financial performance in Uganda a case study of Centenary Bank, Ishaka Branch of Ms Twesiime Monica, a student of Kampala International University. The study aims at finding the effects of corporate income tax and financial performance of commercial banks in Uganda. The study findings will help the community, the clients, and commercial banks to establish the effect of corporate income tax. As a way of my participation; I shall be required to fill a questionnaire.

I have been assured that, this study will not be of any kind of risk to my life but aiming at completing the academic requirement for master of Business administration.

I have also been assured of confidentiality, and integrity that I will be given the option to withdraw from participation at any time.

I have been informed that the research is voluntary and that the results will be given to me if I ask for them. For any more information, I shall contact the researcher on 0774381941/07503367709

Names.. (Optional)

Signature...................................... **Date...............**

APPENDIX II

RESPONDENT's PROFILE

Section A: Bio- data of Respondent

1. **Gender:** Female ☐ Male ☐
2. **Age bracket:** 18 – 30 ☐ 31 – 45 ☐ 46 – 60 ☐

   Above 61 ☐
3. **Marital status**
4. Single ☐ Married ☐ widowed ☐ Divorced ☐
5. Account held

   Savings ☐ Fixed ☐ Current ☐

6. Level of education

   Primary ☐ Secondary level ☐ Tertiary level ☐

   Bachelors master and above ☐ None ☐

APPENDIX III

QUESTIONS TO DETERMINETHE EFFECTS OF CORPORATE INCOME TAX ON FINACIAL PERFORMANCE OF CENTENARY RURAL DEVELOPEMNT BANK

Direction: please respond to the options and kindly be guided with the scoring system below. Write your rating in the space provide.

Mean range	Score	Response Mode	Description
3.26-4.00	5	strongly agree	You agree with no doubt at all
2.6-3.25	4	Agree	You agree with some doubt
1.76-2.50	3	Strongly Disagree	You disagree with no doubt at all
1.00-1.75	2	Disagree	You disagree with some doubt
0.25-1.55	1	None	Neither agree nor disagree

____7 Centenary Rural Development bank pay penalties due to failure to comply with corporate income tax.

____8 Centenary Rural Development Bank impose increase charges onto services offered to customer because of corporate income tax.

____9 Centenary Rural Development Bank statutory reserves reduce because of corporate income tax.

____10 The interest rates for centenary Rural Development Bank high because the bank pays income tax.

___11 Corporate income tax reduces the retained earnings of Centenary Rural Development Bank.

____12 Corporate income tax affects the management performance of centenary bank as they are not fully motivated because the bank pays a lot of income tax.

____13 Corporate income tax reduces loan interest income of centenary bank.

____14 Corporate income tax lowers the share price in centenary Development bank.

____15 Corporate income tax effect the financial budget of Centenary Rural Development Bank.

APPENDIX IV

QUESTIONS TO DETERMINE THE LEVEL OF FINACIAL PERFORMANCE

Direction: Please respond to each item by using the scoring guide below. Kindly write your best choice in the space before each item. Be honest about your options as there is no right or wrong answers.

Mean range	Score	Response Mode	Description
3.26-4.00	5	strongly Agree	You agree with no doubt at all
2.6-3.25	4	Agree	You agree with some doubt
1.76-2.50	3	Strongly Disagree	You disagree with no doubt at all
1.00-1.75	2	Disagree	You disagree with some doubt
0.25-1.55	1	None	Neither agree nor disagree

____16 Loan portfolio affects most of Centenary Rural Development Bank profits.

____17 Centenary Rural Development Bank has enough capital to meet the cash demanding activities.

____18 Centenary Rural Development Bank loss a lot of profit due to delinquent loans

____19 Loan portfolio contribute a lot to profits of Centenary Rural Development Bank.

____20 Management of Centenary Rural Development Bank manage operational expenses properly.

____21 Management Centenary Rural Development bank utilize all the available resources to generate bank income.

__ 22 The bank has money to run the bank operational activities.

___ 23 The interest rate of Centenary is favourable for its customers.

APPENDIX V

QUESTIONS TO FIND OUT THE SIGNIFICANT RELATIONSHIP BETWEEN CORPORATE INCOME TAX AND FINACIAL PERFORMANCE

Direction: please respond to the options and kindly be guided with the scoring system below. Write your rating in the space provide.

Mean range	Score	Response Mode	Description
3.26-4.00	5	strongly Agree	You agree with no doubt at all
2.6-3.25	4	Agree	You agree with some doubt
1.76-2.50	3	Strongly Disagree	You disagree with no doubt at all
1.00-1.75	2	Disagree	You disagree with some doubt
0.16-1.25	1	none	Neither agree or disagree

____24 Corporate income tax that is always paid is related to cost of service given to the customers of Centenary Bank.

____25 Corporate income tax paid has a relationship with quality of loan portfolio performance in Centenary.

____26 Centenary Rural Development corporate income tax paid influences investment of side income activities.

___27 Corporate income tax reduces the level of bank investment due to an increase cost.

____28 Corporate income tax computations increase the expenditure for Centenary Bank.

___29 Corporate income tax paid by Centenary bank increase the bank expenditure.

___ 30 Corporate income tax paid by Centenary bank increases the management expenditure.

____31 Corporate income tax reduces the level of income made by Centenary bank.

___ 32 The growth rate of Centenary bank is interrupted because of corporate income tax charge imposed.

Thank you for your contribution

APPENDIX VII

COMPUTATION OF CONTENT VALIDITY INDEX

The researcher computed the content validity index (CVI) using the formula:

CVI=n/N; where

n; is the number of items relevant

N; is the total number of items in the questionnaire

CVI; Content Validity Index

Table showing the computation

Total number of questions	32
Total number of irrelevant questions	6
Total number of relevant questions	32-6=26
CVI	26/32=0.81