

**THE INFLUENCE OF TAXATION ON BUSINESS PERFORMANCE:  
A CASE STUDY OF UMESCO DEVELOPMENT FOUNDATION,  
LOCATED IN KIBAALE DISTRICT.**

**BY**

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## DECLARATION

This research dissertation has been done by **MUGISA VINCENT REG No BBA/17833/71 /DU** and it is my original composition. This dissertation has never been presented in any university or higher institution of learning for any award or publication.

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MUGISA VINCENT

Date:

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## APPROVAL

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

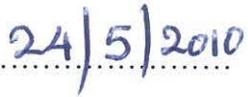
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## **ABSTRACT**

Taxation is an important factor or issue in any country. Without taxation, a country may not be able to fund its services since its major source of income is taxation. Therefore it is a requirement by all organizations and businesses to pay their taxes to the government.

Taxation has been a considerable and sustainable factor for along period of time and as a result of accreditation requirements, many organizations have addressed the issue of taxation. This paper aimed at examining the relationship between taxation and business performance.

The evolution of taxation is discussed and a frame work is presented to examine the influence of taxation on business performance which are either positive or negative or both.

This study provided a more systematic, strategic and sustainable way for how taxation influences performance and how the taxation system can be improved.

The report presents practical and proven facts about the influence of taxation on business performance in organizations today.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION**

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

#### **1.1 BACKGROUND OF THE STUDY**

Taxation in Uganda is based on the system that existed in British by 1900 when the hut tax regulation was introduced and administered under the local government system and charged on each residential house. It was a simple tax intended to attract citizens into monetary production. It was followed by the poll tax in 1905, due to cotton growing in Uganda. It was aimed at raising revenue for the administrative; through promoting Africans voluntary labor necessary in the production of cash crops and minerals for exports. In 1919, the first law legislation was introduced under the local authorities' ordinance, which later governed tax collections. In 1925, in Uganda, most people were exempted from paying income tax because the majorities were peasants who relied on coffee and cotton for their income leaving the initial tax collection effort on the higher income. In September 1991, after a period of review, the Uganda Revenue Authority was established. All taxes include income taxes, customs taxes and the authority collects excise duties. (Manasseh, 2000).

Taxation is one of the major sources of government revenue. The government uses the realized revenue to carry out its on going activities to regulate the economy, to make social goods and services available. Therefore, with the aim to widen and increase on revenue, the government levies different forms of taxes on the economic activities of its nationals of which businesses dominate the larger part of the informal sector, (Musgrave and Musgrave, 1985).

The taxes collected are various classifications such as; direct taxes are those that affect the individuals of firm directly through deduction, such as wealth tax, turnover. Indirect taxes are paid on government by an intermediary then passed on to the consumer by including the tax in the final price, such as value added tax customs duty, turnover tax. Proportional tax is one where

the tax liability increases with increase in the income. Progressive tax is when the tax rate and the absolute tax amount increases with the increase in revenue. Regressive tax is a tax whose tax liability falls with the increase in income. Digressive tax is one where high income earners pay less or low tax for the extra income earned. (Tusubira, 1995).

## **1.2 STATEMENT OF THE PROBLEM**

All organizations do pay taxes to the government in return for the services which the government renders to them such as maintenance of the roads, provision of medical services and education to its citizens. But at times, after the organization has paid their taxes, the government does not render these services to the expectations of the organizations. Therefore the businesses faces a problem of poor infrastructure, poor medical services, insecurity and many other problems of which the tax payers do not know where these taxes they pay are used. So the problem is do the tax payers get the facilities they expect in turn of the taxes they pay?

## **1.3 PURPOSE OF THE STUDY**

The purpose of the study was to establish the relationship between taxes on the business performance of Umesco Development Foundation in Kibaale district.

## **1.4 SPECIFIC OBJECTIVES OF THE STUDY**

- ❖ To establish the relationship between taxes and the business performance.
- ❖ To examine the influence of taxes on the business performance.
- ❖ To find out the strategies used to collect taxes in the district.

## **1.5 RESEARCH QUESTIONS**

- ❖ What are the relationships between taxes with the business performance?
- ❖ How do taxes affect the business performance?
- ❖ What strategies are used to collect the taxes of the business?

## **1.6 SCOPE OF THE STUDY**

The study was carried out in Kibaale district where Umesco Development Foundation is located. The researcher chose Kibaale district due to the easy accessibility to the organization and accepted good response from the employees of the organization.

## **1.7 SIGNIFICANCE OF THE STUDY**

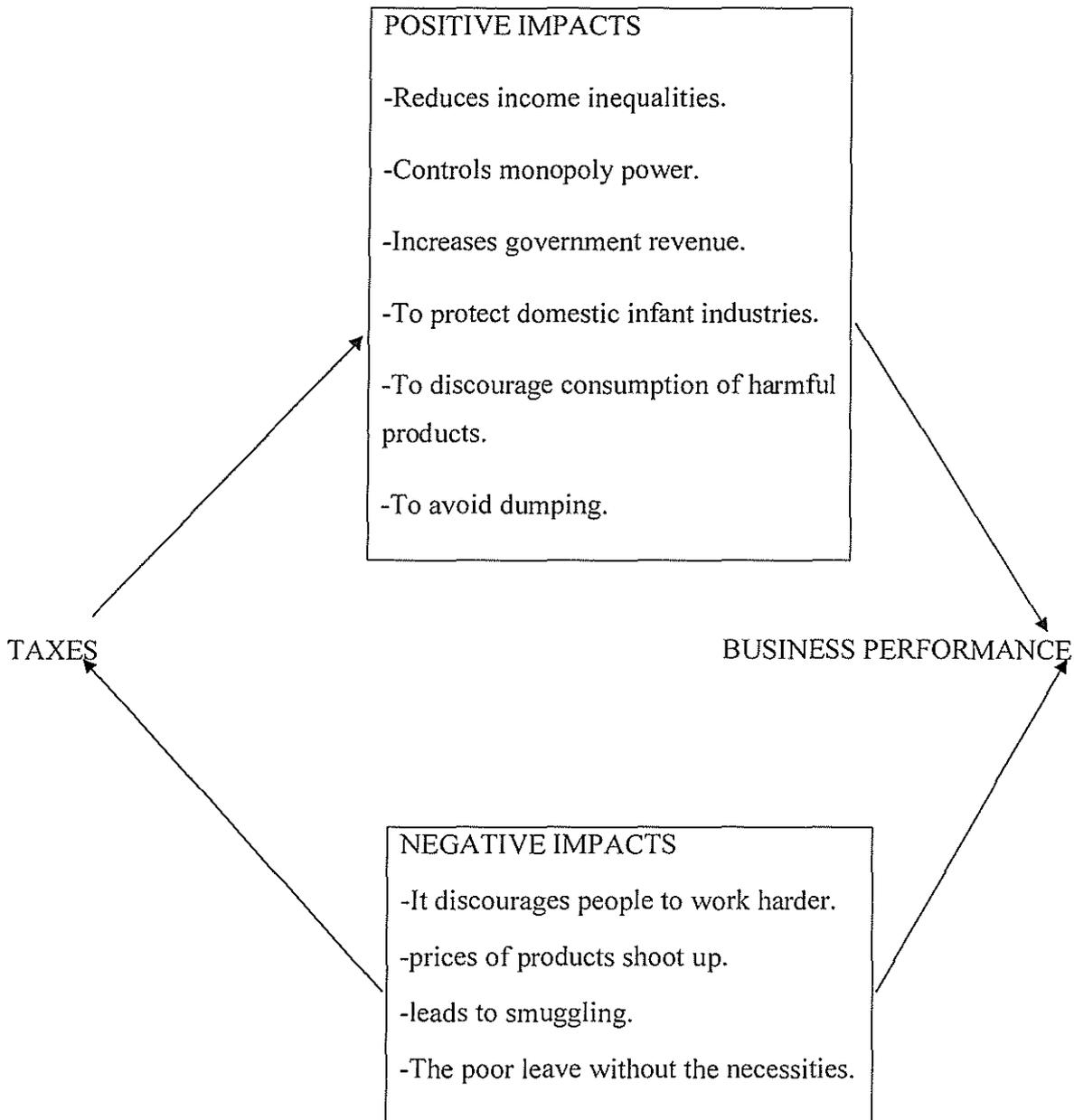
- The study helped the management of Umesco Development Foundation to know whether there are lop holes in the collection of the taxes of the organization brought about by the employees of the organization.
- The study provided up to date literature to the management of Umesco Development Foundation concerning the collection of taxes in Uganda.
- The study also brought to the management's awareness that incase of fraud into the organization, one of the causes could be poor assessment of the tax system within the organization.

## 1.8 CONCEPTUAL FRAME WORK

**Independent variables**

**Dependent variables**

**Intervening variables**



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter presents what other scholars had said and had in mind to the topic which was identified by the researcher. The literatures were very important and enabled the researcher to investigate further to find out whether what was being said is the truth on ground. The literature was mainly taken from other secondary sources of data.

#### **2.1 DEFINITION OF CONCEPTS**

According to Tumuhimbise (2000) defined taxation as the administration and collection of taxes and it is the responsibility of the Uganda Revenue Authority (URA) in Uganda to collect the taxes.

Tusubira (1994) defined taxation as a compulsory and non refundable contribution exacted by the government for public purpose.

Further more, Bhatia (2002) argued that taxation is a process of tax administration that involves enumeration, assessment, collection and control.

Bahemuka (2001) agrees that taxation is based on economic theory; such as the process agreement of leakage from the circular flow of income into the public sector, with exception of loans transaction and indirect payments for publicly produced goods and services.

Harper (1998) defined a tax as a compulsory and unrefundable contribution executed by the government for public purposes.

Bhatia (2002) argued that a tax is a compulsory levy, those who are taxed have to pay the sums irrespective of any corresponding return of goods and services by the government.

Manasseh (2000) said that tax is paid without a corresponding return in terms of goods and services to government hence it is referred to as non-proquo payment.

Subba Rao (2001) defined performance as the degree of accomplishment of tasks that make up a business a success. It indicates how well an individual is fulfilling the business demands.

Bahemuka (2001) defined performance as being in terms of financial analysis, where financial analysis is the process of indentifying the financial strength and weakness of the firm by properly establishing relationship between the items in the balance sheet and profit and loss account.

## **2.2 THE RELATIONSHIP BETWEEN TAXES AND THE BUSINESS PERFORMANCE**

Bahemuka (2001) defined performance as being in terms of financial analysis. Once a tax is levied onto an organization, depending on whom the incidence of a tax will fall, if the incidence of a tax is elastic that means that the burden of the tax will be shared by both the consumer and the manufacturer depending on the weight of the tax.

But if the burden of the tax is inelastic, that means that the incidence of the tax will fall on the consumer since the manufacturer will shift and include all the costs in the price of either the commodity or service.

Incase the producer shifts the entire tax burden to the consumer, which means that the business will have a large profit margin as compared when the incidence of the tax is elastic where by the tax burden is shared by both the producer and the consumer.

## **2.3 CHARACTERISTICS OF A GOOD TAX SYSTEM**

The following are some of the requirements of a good tax system;

### **a). convenience**

A tax should be collected at the time that is convenient to the tax payer. The authorities should not come to collect either tax when the tax payer is not in position tom pay the taxes, that is to say the tax authorities should collect their taxes at the beginning of the month or at the time the organization is being paid or at the time it is making its financial statements.

### **b). Fairness**

A person should pay taxes according to his or her ability. A tax that reflects the ability to pay off those who bare its burden or the burden should be matched by the benefit that the tax payer receives.

**c). Certainty**

A tax should be clear and certain to every one concerned. The rules of taxation should be simple, clearly stated and evenly applied.

**d). Neutrality**

A good tax system should not distort the way a community should use its resources unless it's very clear that a charge is social desirable.

**e).Efficiency and effectiveness**

Fair tax administration should be visible and efficient. The collector and the compliance should be out of proportion to the revenues. The tax should be appropriate for its geographical organization. It should be neither easy to avoid nor costly to enforce.

**f). Political responsibility**

A tax system should be designed so that the individuals can ascertain what they are aspiring for so that the political system can accurately reflect the preferences of individuals.

**g). Flexibility**

The tax system ought to be able to respond easily to changed economic circumstances.

**i). Productivity**

A good tax system should produce sufficiently stable revenue.

**2.4 PRINCIPLES / CANONS OF TAXATION**

When a tax is imposed certain conditions must be fulfilled and those are known as principles or canons of taxation and the main principles of taxation are as follows;

**a). Equity**

A tax must be imposed in such a way that the incidence of tax must be equitable on different individuals. It is possible when a tax is imposed at a high rate on rich persons and at a low rate on the poor persons. The equality in sacrifice is important for the welfare of the society.

### **b). Economy**

This means the cost of collection of a tax must be minimal. A high cost of collection means the government should receive less net proceedings or less taxes and the government is at a loss. Adam Smith said, "Every tax ought to be contravened as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasure of the state." The taxes that require a large number of clerks and officers to collect them involve a high cost of collection to collect and they should be avoided. Such taxes, similarly, where there are leakages due to corruption should also be avoided.

### **c). Simplicity**

This refers to the understanding of the measures of law and administration. The tax system should be simple rates, precisely laid down and items of taxation should be easily identified. The tax laws should be clearly and easily understood to a common man tax exemptions should be defined clearly. This minimizes resentment by tax payers and minimizes compliance to the tax authority.

A good tax should be easy to understand the poor should know the exact amount to pay and when to pay without any difficult. If the tax regulation is so complex to understand by the common man, this increases the level of resentment paying way to tax evasion and tax avoidance. Complex tax regular will always require a lot of manpower and facilities to implement.

### **d). Canon of convenience**

Every tax ought to be levied at a time or in the manner in which its most likely to be convenient for the contribution to pay it. The time and the mode of payment of the tax should be such as to cause the minimum convenience to the tax payers. In the case of salaries, workers income tax is deducted from the source and the total collection operating to the authorities by the employers thus satisfying the canon of convenience.

**e). Canon of productivity**

Since government expenditure is increasing able to multifarious an activity, it is essential that taxes should be productive, they should generate more and more revenue where progressive rates of taxes and taxes of goods of mass consumption through regressive in nature, this principle of productivity in nature can be satisfied. Instead of taxing a multitude of items fielding a small revenue from each of them and involving greater cost of collection, it would be advisable to depend on the major items of taxation which idle large revenue with smaller cost of collection.

**f). Canon of elasticity**

There should be a fair degree of flexibility in a tax system. It should be capable of revision and amendment as a circumstance demand. First the tax system should not be rigid and there should be adequate scope for wide range.

**g). Canon of diversity**

Though we have said the government should be paid upon few major taxes for bulk its revenue, it is also necessary that there should be diversity in taxation. There should be a number of resources of tax revenue so that there should be no uncertainty about revenue collection. If there is any fall of the tax revenue from the tax source, it should be automatically made good from certain other sources. More over diversity will also satisfy the canon of equity instead of burdening a few people its equitable diversification source of taxation would cover as many people as many items and taxes as possible.

A good and ideal tax system which fulfills the maximum possible number of principles of taxation and at the same time a good tax system should be helpful to achieve the following objectives;

- i). To maintain the economic stability.
- ii) To equalize the distribution of resources.
- iii).To increases the rate of economic growth.

## 2.5 CLASSIFICATION OF TAXES

The income tax Act (1997) classifies taxes as;

### *a). Direct Vs indirect taxes;*

The distinction between direct taxes and indirect taxes has not always been satisfactory and consistent. However, the basic distinctions include;

- i). Incidence of the tax; where the incidence of the tax rests upon the person paying the tax, then it is regarded as direct tax. On the other hand, the tax is deemed indirect when the burden falls on another person, rather than the person paying their taxes.
- ii). Tax base or activity; tax base is the activity from which the tax is got. Activity tax on this basis taxes levied on production and incomes are generally direct taxes while those levied on consumption and expenditure are indirect.
- iii). The relationship between tax payers and tax authorities; where the tax authority deals directly with a tax payer, such a tax is a direct tax while if the tax payers deal with a tax authority through an intermediary then such a tax is referred to as indirect tax.
- iv). Mode of transaction; on this basis of distinction the liability in respect of a direct tax is determined directly with reference to the tax liability is assessed directly, that is to say, there is no prior contact with the tax payer to assess his or her ability to pay.

### *b). proportionate vs. progressive taxes*

progressive taxes are those taxes where by an increase in the income increases with the tax base or activity and the tax base increases in proportion to the income, for example Pay As You Earn, presumptive. Sometimes progressive taxes are defined as taxes in which the marginal tax rate rises as income rises.

While proportional tax is one where the tax liability increases with increase in income.

*c). regressive vs. digressive*

Regressive tax is a tax whose tax liability falls with an increase in income / taxable capacity. The burden falls more on the poor than the rich do. Most turn over taxes is regressive.

While digressive tax is a tax that where high income earners pay less or low tax for the extra income earned.

## **2.6 THE PURPOSE OF TAXATION**

According to the Uganda Economic Journal, (1973) on taxation and economic development the main purpose of taxation is to reduce the quantity of resources consumed by the private sector. It further shows that in stressing the consumption reducing aspect, taxation may be there for the objectives such as to change the distribution of income, to reduce consumption of particular commodities which may be harmful such as cigarettes and to help stabilize the economy.

Tumuhimbise (1998) argued that taxation is both an important source of government revenue and also important economics tool for government.

Balunywa (1988) said that the failure of the market mechanism and the rationale for taxation.

Several scholars have argued that government has to perform three function outlined below;

Allocation function; that is based on the premises that certain goods cannot be efficiently provided by the market. In those circumstances if we leave provision of all goods and services to private sector will lead to market failure. Therefore government must step in to provide these goods.

Distributive function; this function is concerned with creating equity among members of society. Distributive is concerned with systems that will lead to equitable distribution of wealth and income. The distribution of income and wealth are initially dependant on factors endowments because of differing factor endowments and earning abilities differ.

Stabilization function; it involves use of fiscal policy to bring about full employment and price stability in a market economy. Without public policy guidance the economy suffers from periodic or cyclical fluctuations that create unemployment.

Derived from the above functions therefore are three objectives for government to attain using taxation. It remains revenue for government and development expenditure. Though current expenditure government is able to fund its day to day operations like payment of salaries and wages to government employees, facilitation of government schools with scholastic materials and drugs for hospital.

Encourage development of local industries and protect against foreign competition with a view to providing employment and saving foreign exchange, by imposing high duties on competing imports.

To achieve greater equality in the distribution of wealth and income, the government may impose a progressive tax on the incomes and wealth of the rich. The revenue raised is then used to provide social services for the benefit of the society.

Encourage export of goods and services in order to make more competitive in the world market, by reducing or removing tax on the exports. (Uganda Revenue Authority, copying with taxes, 2007)

## **2.7 TAXES PAID BY BUSINESSES IN UGANDA**

Income Tax Act 1997 section 3 spells out the taxes paid by businesses as follows;

### ***a). Corporation Income Tax***

This tax is charged on income earned by a person companies and trust other than individuals. Like in the case of individual's tax corporate income comprise of income from various sources of tax payers corporate income is charged at a rate of 30%.

### ***b). Individuals Income Tax***

This is charged on income earned by an individual, for example a sole trader. The term is more applied to individual is self employed businesses. However individual tax income is not limited to businesses income alone. It includes incomes earned by an individual from all sources except that income which is assessable separately.

**c). Rental Income Tax**

It is income tax charged on rent earned by individual by way of letting property. It is levied differently from other sources of income by the same person and taxed separately under the rental tax structure.

**d). Presumptive Tax**

This is charged on small scale businesses whose gross turn over is less than shillings 50000000. The income paid by such a person is estimated and varies according to the segment of the gross turn over in which his or her sales fall for any given year.

**TABLE 1: THE TURN OVER IS BROKEN DOWN INTO DIFFERENT AMOUNTS WITH THEIR CORRESPONDING RATES AS SHOWN BELOW.**

GROSS ANNUAL TURN OVER	TAX RATE
Less 5000000/=	Nil
5000000/= less than 20000000	100000/=
More than 20000000/= but less than 30000000/=	250,000/= or 1% of gross turn over whichever is lower.
More than 30000000/= but less than 40000000/=	350000/= or 1% of gross turn over whichever is lower.
More than 40000000/= but less than 50000000/=	450000/= or 1% of gross turn over whichever is lower.

Source; Taxes Payers Guide, (22<sup>nd</sup> Edition)

**TABLE 2: TYPES OF TAXES AND SOURCES OF INCOME**

TYPES OF TAXES	SOURCE IN INCOME
Corporate Tax	Company income
Rental income Tax	Rental earned
Individuals tax	Income earned
Presumptive tax	Gross turnover

Source Tax Payers Guide (2<sup>nd</sup> Edition, 2001)

## **2.8 FACTORS AFFECTING THE PERFORMANCE OF BUSINESSES**

Kibera (1997) said that businesses have an important role to play in many economies. He has enumerated the factors that affect the business. These include lack of market opportunity, access to finance, enabling environment, market information and managerial skills as explained below.

Lack of market opportunity; in the poor countries, effective demand and consequently market opportunity is a constraining factor for businesses development. This may not be the case in the developed countries. Consequently, even if is opportunity to exploit, it may be difficult to realize because of lack of market.

Another aspect is the fragmentation of African markets both physically and culturally. For instance selling in Uganda with over 40 languages becomes a nightmare for salesmen whereas in the developed countries, the commodity of culture and language eases the selling process. The level of development itself imposes additional constraints to business growth, because of usage of low level of technology. Businesses cannot compete with other businesses that have benefits that arise from economies of scale.

Lack of access to finance; the access of finance as one of the key constraints to business growth. This is worsened by the absence of financial markets in the developing countries. Business owners cannot easily access finance to expand their business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. This means that they cannot access finance to enable them grow. He makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, inability to evaluate financial proposals and lack of financial management skills as hindrance to business growth. There are no financial instruments and no independent financial sources that is market driven.

Low level of technology; in developing countries, businesses end up using cheap technology which is usually not top of the range. This results into high costs of production and uncompetitiveness, for instance, businesses cannot afford to use computers or even where they have a computer they cannot continuously upgrade their equipment. Therefore they cannot compete with other businesses. This may not be the case in the developed countries because of the market opportunity and the likely success due to environmental enabling factors, it is easier

to secure new technology. Besides, this technology originates from the developed countries and unlike in the developing countries where it must be imported, it is relatively cheap.

Enabling environmental; while many countries have acknowledged that businesses have an important role in their economies, not much effort has been done to facilitate their growth. They have to compete for finances, markets, personnel and utilities like any other business until. In a few countries especially India, there has been affirmative action to promote businesses ever a long period. In Uganda the government has only paid a lip service.

Managerial skills; the managerial skills is the most important constraints faced by businesses but as it grows more and ages, managerial demands arise. There are in the form of operational managerial requirements like production, sales and finance most important is the ability to deal with them.

## **2.9 THEORIES OF TAXATION**

Hatred for tax by the tax payers is a well established fact word over and is as old as man is. Strong statements from tax payers like “A tax collector should lead those people going to stay on the moon so as to make this earth a better place to live in ....” are a conformation that imposition of taxes can create great unrest in society. Therefore, efforts have to be made to ensure that there is justice in taxation in order to avoid disaster. In this regard, six theories have been advanced to help achieve justice in taxation. (Okello 2006). These theories are examined below;

### **2.9.1 PRACTICALLY THEORY**

This theory asserts that the choices of various tax proposals, the authorities need not to consider various economic and social objectives or the effect of the tax system. The authorities would in general want to place the goose where the feathers are thickest and there is a minimum amount of squawking.

### **2.9.2 SOCIO-POLICAL THEORY**

This theory is creation of Adolph Wagner, a German scholar. He asserted that in contrast to the practicability theory, the social and political objectives should be the corner stone in designing a

tax system. Wagner argued in his theory that a society had an existence and entity of its own which need preservation and taking care of. In this regard, a tax system should not be designed to serve the needs of the individual members but should be used to cure the ills of the society in so far as it is possible. Wegner was specifically in favor of using taxation for reduction of income inequalities, and so to achieve this objective, he advocated for small incomes to be exempted from taxation.

### **2.9.3 BENEFIT RECEIVED THEORY**

This theory traces its origin from the contracts theory of the state, where the state provides various goods and services to the member of the state and they contribute to the cost of these supplies in proportion of the benefits received. Normally, income is sometimes used as an indicator of the benefits received. In this case it is assumed that without the protection of the state the economy cannot exist and accordingly it may be inferred that benefits each member of society derives from the state are in proportion to his income. Such an inference would lead to policy recommendation for proportional taxation.

### **2.9.4 COST OF SERVICE THEORY**

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

### **2.9.5 ABILITY-TO-PAY-THEORY**

The theory suggests that the citizen is to pay taxes because he can and his relative share in the total tax burden is to be determined by his relative paying capacity.

The theory emphasizes that the burden of taxation should be shared amongst the members of society so as to conform to he principles of justice and equity and that, this equity criteria will be satisfied if the tax burden is apportioned according to the relative ability to pay.

The theory of ability-to pay is combined with the objective of maximum welfare of the society. The index of paying ability is translated in terms of equal marginal sacrifice such that society undergoes the least aggregate sacrifice in meeting the tax liability. Therefore the ability to pay is not an absolute quantity. It is related, among other things to the expenditure side of the government budget. Different indices are available for determining the relative ability to pay of the tax payers; it could be income, wealth/ property or consumption expenditure.

### **2.9.6 THE THEORY OF EQUAL SACRIFICE**

This theory is closely related to the ability-to-pay theory. It has its meaning derived from two angles, namely, equity and the welfare view. The equity approach presupposed that each tax payer should be made to undergo some amount of sacrifice irrespective of his income. It should therefore be investigated that equal sacrifice admits of different inter-presentations and one such interpretation tallies with the welfare consideration.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter presented and described the methods and techniques that were used to collect and analyze data. It included the research design, area of study, study population, sampling design, data collection instrument, processing analysis and limitation of data collection.

#### **3.1 RESEARCH DESIGN**

The research design is a case study of Umesco Development Foundation, in Kibaale district. The researcher used both qualitative and quantitative methods of data collection analysis.

#### **3.2 SCOPE OF STUDY**

The study was carried out at Umesco Development Foundation in Kibaale district. The information was got from the director and employees in the different departments.

#### **3.3 STUDY POPULATION**

The study population comprised of 100 employees and out of this population, a sample of 20 respondents was selected from the different departments of Umesco Development Foundation. The respondents were chosen by a simple random method where by each employee within the organization had the same opportunity to be interviewed and to be issued out with questionnaires.

#### **3.4 SAMPLING DESIGN**

The researcher used simple random sampling technique in a sense that whether one is on probation or confirmed was put into consideration. The identification of respondents depended on the willingness and availability to take part in the exercise of study. The various departments formed sample where respondents were selected at random.

### **3.5 DATA COLLECTION INSTRUMENTS**

The research data was collected through the use of basically two methods, namely;

#### ***a). Questionnaires***

These were a set of written questions which required the respondent fill the gaps on the open ended questions appropriate answers and tick the best option on some of the close ended questions. The data / answer that were given highly contribute to the researcher's conclusion and recommendation because it was taken as first class information.

#### ***b). Interview***

The researcher used this method by questioning or asking and requiring the respondent to give a straight answer. This process was verbally conducted. Interviewing was also done on only a sampled specific number of respondents and only the majority answer was considered.

### **CONCLUSION**

Through the use of the above method the researcher therefore expected to achieve the objective of the topic under study and a clear conclusion was drawn and recommendation made.

### **3.6 RESEARCH PROCEDURE**

The researcher obtained an introduction letter from Kampala International University, school of Business and Management to Umesco Development Foundation. Permission was sought to the director of Umesco Development Foundation to allow the researcher conduct the study. Participants willing to provide information were guided in the questionnaires filling process and questions were asked by the researcher's clarity what was not clear.

### **3.7 DATA ANALYSIS AND PRESENTATION**

When the researcher was through with data collection, the researcher only coded, edited and analyzed the correctly filled in questionnaires. Analysis was carried out by use of frequencies, percentages and true findings were presented using illustrations like pie charts, graphs and tables.

### **3.8 RESEARCH LIMITATIONS**

As the researcher was carrying out the study the following are some of the problems the researcher faced;

- a). Language barrier; majority of the workers in Umesco Development Foundation were Runyoro speaking people who got difficulties in getting the information from them.
- b). Time bond; the time brackets within which the researcher was supposed to carry out the study was not enough for the researcher to get the required information for a valid report.
- c). The managers of the different departments failed, to disclose put all the necessary information that the researcher wanted in fear that their competitors may get the information.
- d). Illiteracy among the employees since most of the workers in Umesco Development Foundation did not reach higher institutions of learning.

## **CHAPTER FOUR**

### **PRESENTATION OF SUMMARIES OF FINDINGS, INTERPRETATION AND DISCUSSION OF FINDINGS.**

This chapter reflects the findings of the study, the related interpretations and discussions on the influence of taxation on business performance in Uganda.

This chapter of the study sought to find out from the respondents about their gender, age, educational background, marital status and the different departments in which the respondents work, the period of which taxes are collected, how taxes reduce the profit margin of the business, what the business and its employees get in return of the taxes collected and the performance of businesses after the payment of taxes of which the case study in is Umesco Development Foundation.

#### **4.0 CHARACTERISTICS OF RESPONDENTS**

The respondents were classified under five different grounds in order to establish whether there was fair representation of the study population and that the respondents were informed to provide adequate data that would be relied on to make valid conclusion.

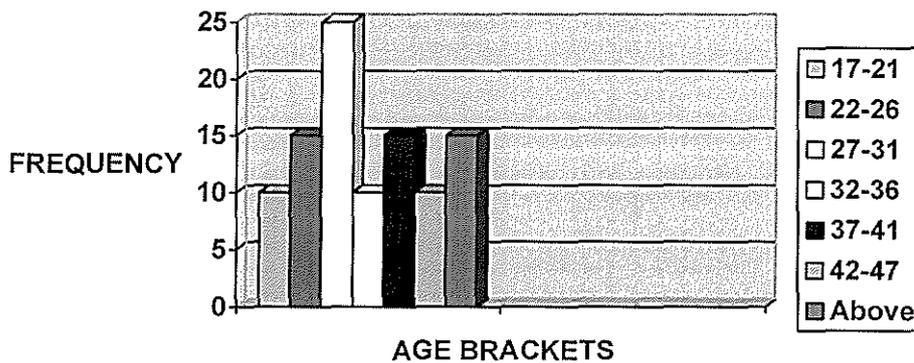
#### 4.0.1 CHARACTERISTICS ACCORDING TO AGE

**TABLE 3: AGE COMPOSITION OF RESPONDENTS**

17-21	2	10
22-26	3	15
27-31	5	25
32-36	2	10
37-41	3	15
42-47	2	10
Above	3	15
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary Data

**A BAR GRAPH SHOWING AGE COMPOSITION OF RESPONDENTS**



According to table and pie chart above, 10% were between 17-21 years of age, 15% were between 22-26 years of age, 25% were between 27-31 years of age, 10% were between 32-36 years of age, 15% were between 37-41 years of age, 10% were between 42-46 years of age and 15% were above 46 years of age. From the above analysis, it was indicated that at least all age groups were represented irrespective of the reason either under age or over aged according to the

retirement age of Uganda or according to the laws of Uganda and because of this, the representation was fair.

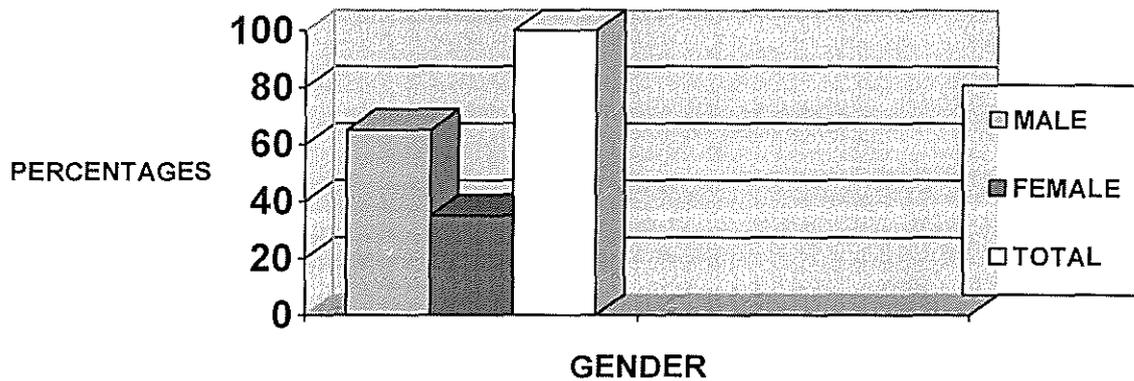
#### 4.0.2 CHARACTERISTICS ACCORDING TO GENDER

**TABLE 4: SHOWING GENDER COMPOSITION OF RESPONDENTS**

GENDER	FREQUENCY	PERCENTAGES
MALE	13	65
FEMALE	7	35
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary Data

**A BAR GRAPH SHOWING GENDER COMPOSITION OF RESPONDENT IN PERCENTAGES**



From the above table and chart, 65% were males and 35% were females. It was more reliable and willing for the males to help the researcher to call out his research on the “Influence of taxation on business performance” than the females though there was gender balance amongst the employees within the organization.

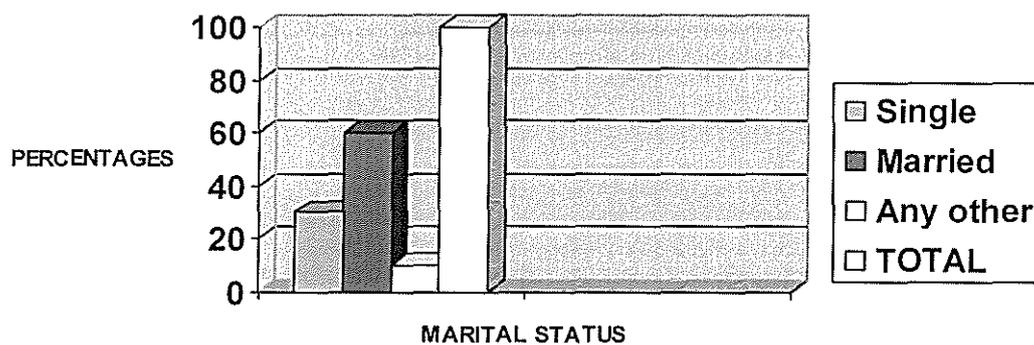
#### 4.0.3 CHARACTERISTICS ACCORDING TO THE MARITAL STATUS

TABLE5: SHOWING THE MARITAL STATUS OF THE RESPONDENTS

MARITAL STATUS	FREQUENCY	PERCENTAGE
Single	6	30
Married	12	60
Any other	2	10
TOTAL	20	100

SOURCE: Primary data

A BAR SHOWING THE MARITAL STATUS OF RESPONDENTS IN PERCENTAGES



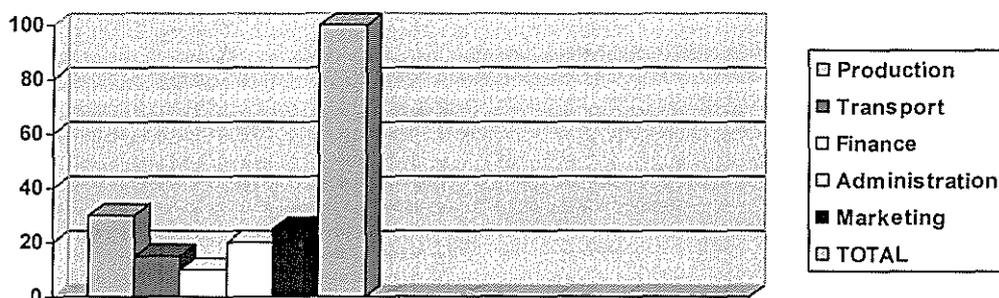
#### 4.0.4 CHARACTERISTICS ACCORDING TO THE DEPARTMENT OF WORK

**TABLE 6: SHOWING THE DIFFERENT DEPARTMENTS IN WHICH THE RESPONDENTS WORK.**

DEPARTMENT	FREQUENCY	PERCENTAGE
Production	6	30
Transport	3	15
Finance	2	10
Administration	4	20
Marketing	5	25
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: primary data

**BAR GRAPH SHOWING DIFFERENT DEPARTMENT WHERE RESPONDENTS WORK IN PERCENTAGES**



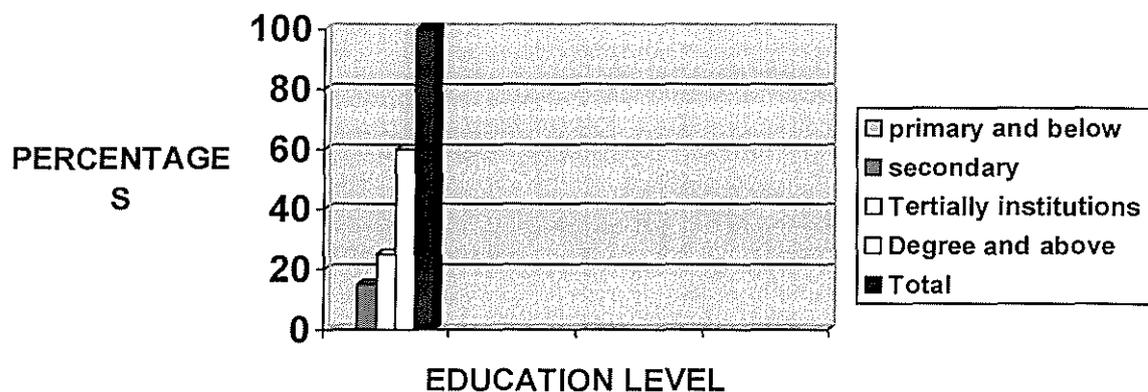
#### 4.0.5 CHARACTERISTICS ACCORDING TO EDUCATION BACKGROUND

**TABLE 7: SHOWING EDUCATION LEVEL FOR RESPONDENTS**

EDUCATION LEVEL	FREQUENCY	PERCENTAGES
Primary and below	-	-
Secondary	3	15
Tertiary institutions	5	25
Degree and above	12	60
<b>TOTAL</b>	<b>20</b>	<b>100</b>

**SOURCE: Primary Data**

**A BAR GRAPH SHOWING THE EDUCATION LEVEL FOR RESPONDENTS IN PERCENTAGES**



From the table and bar graph above, no employee with his or her education level is was in primary and below, 15% the education level was secondary, 25% the education level was tertiary institution and 60% the level of education was degree and above. There was also fair representation of the study population since the respondents had relatively good education.

**4.1 THE RELATIONSHIP BETWEEN TAXES WITH THE BUSINESS PERFORMANCE.**

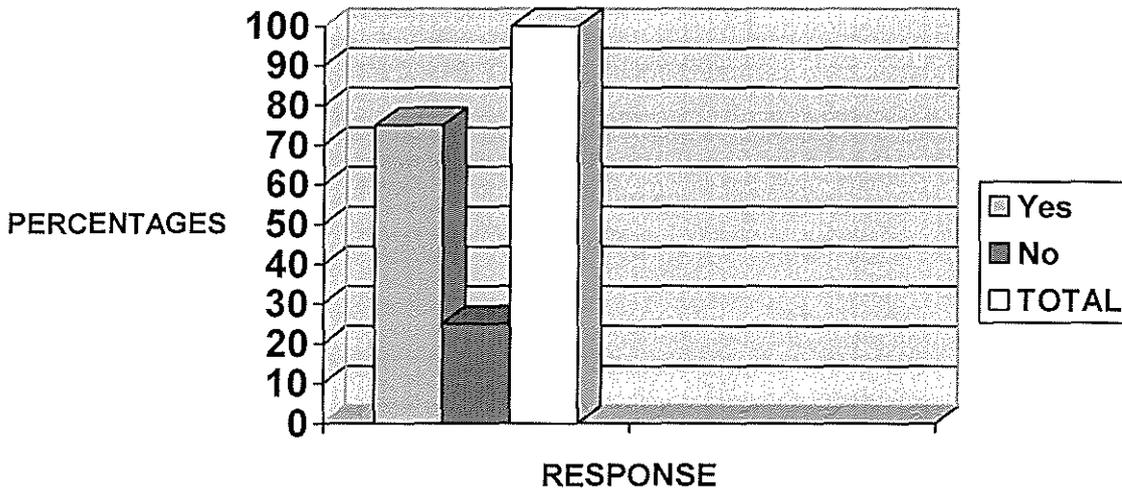
The study ought to establish whether there is any relationship between the taxes paid with the business performance of Umesco Development Foundation. The findings are represented in the table below.

**TABLE 8: SHOWING THE RELATIONSHIP BETWEEN THE TAXES PAID WITH THE BUSINESS PERFORMANCE OF UMESCO DEVELOPMENT FOUNDATION.**

RESPONSE	FREQUENCY	PERCENTAGES
Yes	15	75
No	5	25
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary data

**A BAR GRAPH SHOWING THE RELATIONSHIP BETWEEN THE TAXES PAID WITH THE BUSINESS PERFORMANCE OF UMESCO DEVELOPMENT FOUNDATION IN PERCENTAGES**



According to the table and the bar graph above, 75% do agree that there is a relationship between the taxes paid with the business performance and 25% do not agree that there actually exists a relationship between the taxes paid by the businesses to the business performance. The biggest percentage indicated that there actually exists a relationship between the taxes and the business performance.

The study revealed that taxation is the process of administering and collecting taxes. It is concerned with public revenue, public expenditure and public debt. Further more it is also a process of tax administration, where by within the tax administration there are other activities which take place such as enumeration, assessment, tax collection, tax services and control. In Uganda tax administration is the responsibility of Uganda Revenue Authority for the central government and town councils for the local government. Taxes play an important role in the economic development of the country and the nation at large as it is the major source of revenue to the country and although the issue behind the collection of taxes is to provide the public goods and service, they are a non-quid-pro-quo payment.

According to the study, the more taxes the authorities impose on the organization the less the business performs according to its objectives. Through the classification of taxes which are either direct versus indirect taxes which is based on the incidence of the taxes, or progressive versus regressive, or proportional versus progressive which base on the income and behavior of the organization and the employees in the relation to the tax base, the higher these taxes are in accordance to their classification, the poorer the business performs and the lesser these taxes are, the better the business performs. All the taxes are derived from four functions of the government which are as follows;

- ❖ Allocation
- ❖ Regulation
- ❖ Distribution
- ❖ Stabilization

The study also found out that economists looked at taxation as a process of circular flow of income in public sector. Further more, the study also revealed on taxation that the performance of businesses to be called fair and for it to be able to achieve their objectives, they should consider the Income Tax Act 1997 section three.

The research revealed that in Umesco Development Foundation, businesses pay different taxes that is;

- ❖ Individual Income tax charged on income earned by the individuals.
- ❖ Rental Income tax charged on rent earned by the individuals.
- ❖ Presumptive tax charged on small scale business whose gross turnover is less than the shillings 50,000 million.
- ❖ Corporate tax charged by all businesses doing business in Uganda.

On a contrally, the study also revealed that why some respondents do not agree as to why there is no any relationship between taxation and the business performance is that the businesses are not performing very well whether the taxes are imposed on the business are not. So these businesses are not affected in any way by these taxes which are imposed on them to a smaller extent.

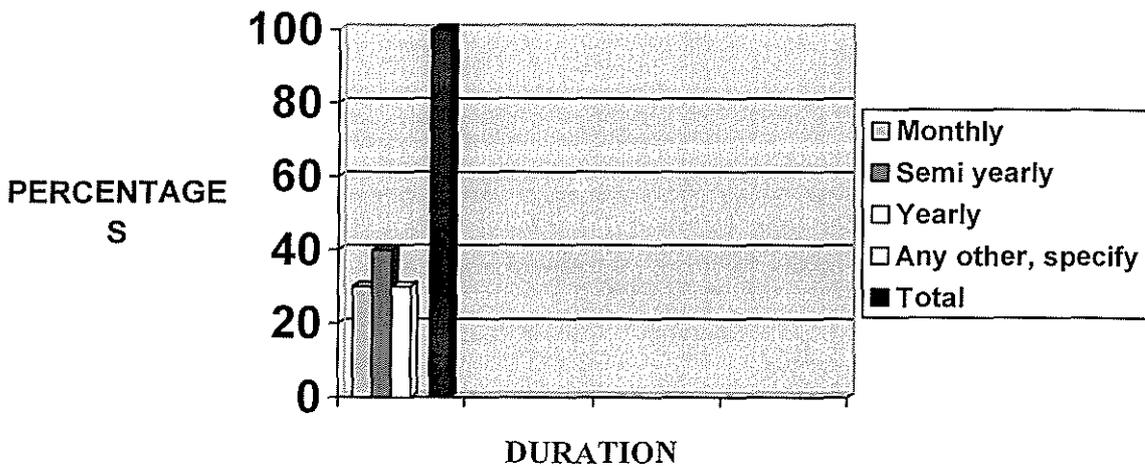
The study sought to find out how often are these taxes collected and the following were the findings from the study;

**TABLE 9: SHOWING DURATION OF TAX COLLECTION.**

RESPONSE	FREQUENCY	PERCENTAGES
Monthly	6	30
Semi yearly	8	40
Yearly	6	30
Any other, specify	-	-
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary data

**A BAR GRAPH SHOWING THE DURATION IN WHICH TAXES ARE COLLECTED**



From the table and bar chart above, 30% say that taxes are collected monthly, 40% say that taxes are collected semi yearly, 30% say that taxes are paid yearly and 0%, there is no any other duration on which the taxes are paid.

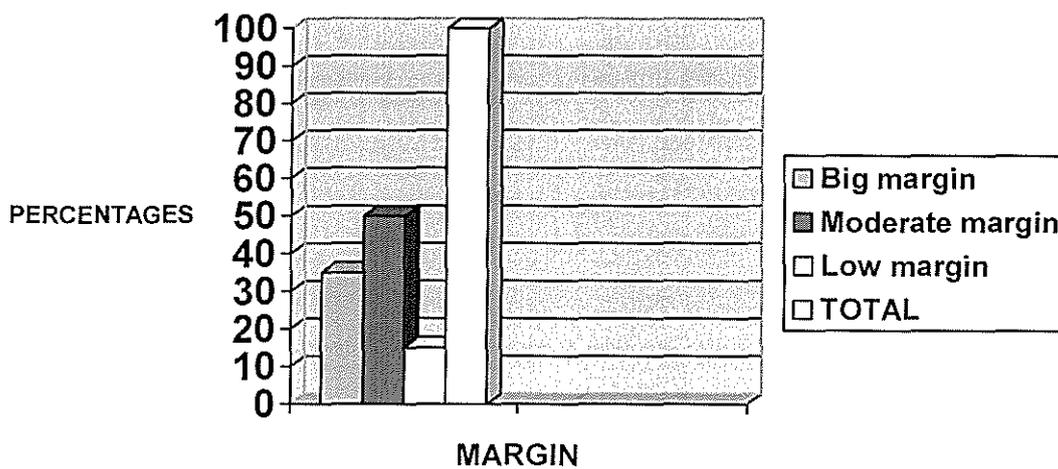
The study sought to establish the margin by which these taxes reduce the profits of Umesco Development Foundation and the following are the findings summarized in the table and the bar chart.

**TABLE 10: SHOWING THE MARGIN BY WHICH TAXES REDUCE THE BUSINESSES'S PROFITS.**

RESPONSE	FREQUENCY	PERCENTAGE
Big margin	7	35
Moderate margin	10	50
Low margin	3	15
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary data

A BAR CHART SOWING THE MARGIN BY WHICH TAXES REDUCE THE BUSINESSES'S PROFITS



From the table and the bar graph above, 35% revealed that the profits of the organization are reduced by a big margin, 50% revealed that the profits of the business are reduced by a moderate margin and 15% revealed that the profits are reduced by a low margin.

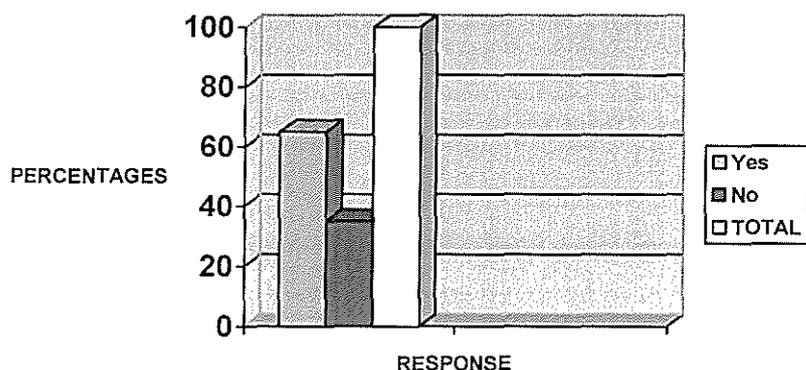
The study sought to establish whether there are any benefits which the organization gets from the taxes paid by the business, the results of which are tabled below and represented on the bar graph.

**TABLE 11: SHOWING WHETHER THERE ARE ANY BENEFITS GOT FROM THE TAXES PAID BY UMESCO DEVELOPMENT FOUNDATION.**

RESPONSE	FREQUENCY	PERCENTAGE
Yes	13	65
No	7	35
<b>TOTAL</b>	<b>20</b>	<b>100</b>

**SOURCE: Primary data**

**THE BAR CHART SHOWING WHETHER THE BUSINESS GETS ANY BENEFITS FROM THE TAXES IT PAY**



From the table and the bar chart above, 65% revealed that the business gets benefits from the taxes it pay in the form of infrastructure, education health care and many others and 35% do not see any befits that they actually get from the taxes they pay.

#### **4.2 FINDINGS TO EXAMINE THE IMPACT OF TAXES ON BUSINESS PERFORMANCE OF UMESCO DEVELOPMENT FOUNDATION.**

The study sought to examine the impact of taxes on business performance of Umesco Development Foundation.

The study revealed that taxes have affected the business performance in one way or another of which the following are some of the findings of the study.

- The high taxes imposed on the businesses have reduced the profits of the organization by a very big margin which have not enabled the business to achieve its objectives as the proprietor may be wishing to do.
- Further more, the standard of living of the proprietor and the employees have reduced simply because most of the money got as a result of providing services have been turned it taxes and thus reducing on the money which would have been issued out as salaries to their employees.

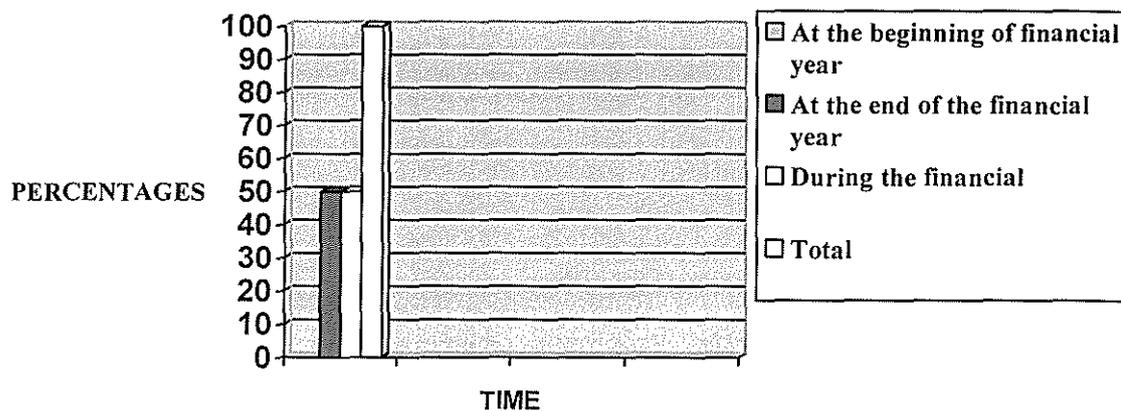
**4.2.1 HOW EFFECTIVELY AND EFFECIATELY ARE TAXES PAID BY THE BUSINESS.**

**TABLE 12: SHOWING THE EFFIECIENCE AND EFFECTIVENESS OF TAXES PAID BY THE BUSINESS.**

RESPONSE	FREQUENCY	PERCENAGE
At the beginning of the financial year	-	-
At the end of the financial year	10	50
During the financial year	10	50
<b>TOTAL</b>	<b>20</b>	<b>100</b>

**SOURCE: Primary data**

**THE BAR CHART SHOWING THE EFFECTIVENESS AND THE EFFICIENT OF TAXES PAID BY THE BUSINESS.**



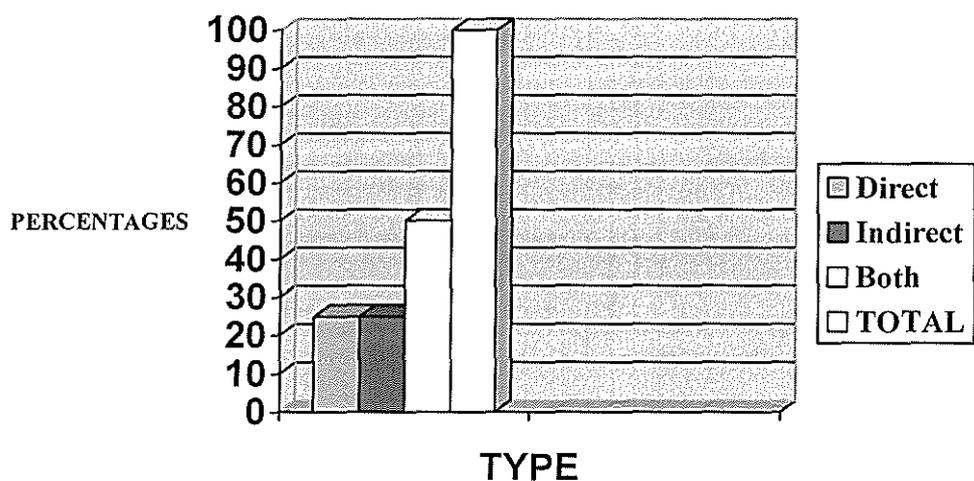
### 4.3 FINDINGS ON THE STRATEGIES USED TO COLLECT TAXES IN THE DISTRICT

TABLE: 13 SHOWING THE TYPE OF TAXES PAID BY UMESCO DEVELOPMENT FOUNDATION.

RESPONSE	FREQUENCY	PERCENTAGE
Direct	5	25
Indirect	5	25
Both	10	50
TOTAL	20	100

SOURCE: Primary data

THE BAR GRAPH SHOWING THE TYPES OF TAXES PAID BY THE BUSINESS.



The study revealed that 25% say that the business pays only direct taxes, 25% also say that the business pays indirect taxes and the biggest percentage of 50% pay both the direct taxes and the indirect taxes of which all organizations or businesses in Uganda pay both types of taxes so that

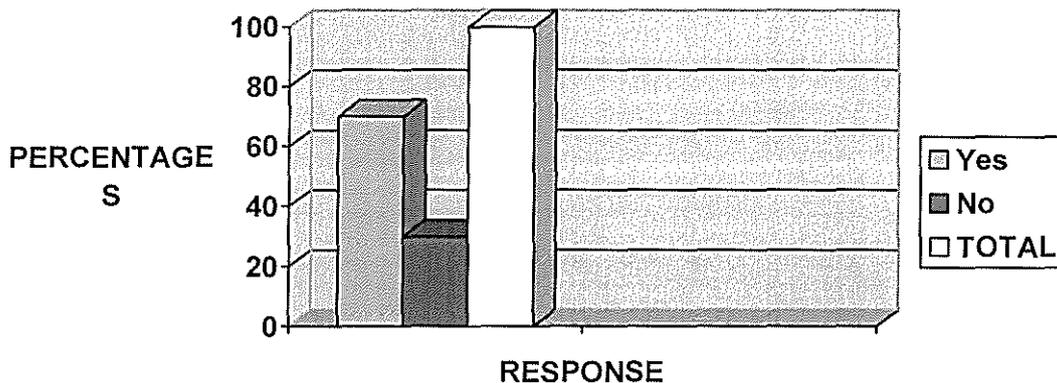
the government or the tax authorities can be able to get enough revenue from the its public and be able to cater for the services it offers to its people.

**TABLE 14: SHOWING WHETHER THERE ARE ANY POSSIBILITIES OF DOUBLE PAYMENT OF TAXES.**

RESPONSE	FREQUENCY	PERCENTAGE
Yes	14	70
No	6	30
<b>TOTAL</b>	<b>20</b>	<b>100</b>

SOURCE: Primary Date

**THE BAR GRAPH SHOWING WHETHER THERE ARE ANY POSSIBILITIES OF DOUBLE PAYMENT OF TAXES.**



The study revealed that the business incurs double payment of taxes at certain instances although it is not common. This is brought about by the narrow tax base of the country. The double payment of taxes on the same commodities and services provided by Umesco Development Foundation comes in when there are some uncertainties within the tax authorities. However, this is not very common. It was very common in the 60s but in this modernized world with a lot of technology it has been minimized.

Further more, the study revealed that the tax payers in this case Umesco Development Foundation as a business, there are some strategies that are used to collect these taxes. The tax authorities should inform the tax payer through public awareness that the offices are going to be invaded and the taxes assessed on them.

**Statistic analysis.** Before a tax is collected and assessed, a statistical analysis should be carried out to evaluate those who are supposed to pay taxes and those who are not supposed to pay, to tax the rich not in comparison with the poor. There should be some difference in the tax assessed. People who own property in the region are taxed separately.

**Effectiveness of the tax collector/ authority.** Incase the tax payer fails to pay the taxes assessed onto his business, after a certain time the offices are invaded and closed until when the tax payer clears up with the tax assessed onto him together with a fine of 2%.

On the problems that Umesco Development Foundation faces during the tax assessment exercise, the study revealed that the business is over taxes in the excess of what it should have actually paid. In other wards the business is over valued.

**The harassments by the tax authorities.** They use arrogant language and they do not what to listen to whatever the tax payer has got to say to them whether it is vital or not for them they regard it to be useless to them.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 INTRODUCTION**

This chapter presents conclusion drawn from discussions of findings and are closely related to the purpose and objectives of the study. Also recommendations on the influence of taxation business performance and further research basing on the literature review.

#### **5.1 SUMMARY OF FINDINGS**

The findings in chapter four indicated that taxation has a negative effect on the business performance in terms of profits. Taxes charged on businesses have gross effect on the expansion of these businesses as they encroach on the expected revenue. Hence reducing investment finance since most businesses are financed out of their profits and saving, as a result the performance of these businesses has been undermined.

The findings also revealed that taxation system on businesses aim at increasing tax revenue while maximizing constraints to business survival. Policy regarding tax burden like corporate tax encourage these firms to prepare proper books of accounts, locating taxpayers' tax rates, tax penalties, incentives needed to be applied on businesses under different income levels. Thus taxation policies aim at protecting them although tendering of tax collection endangers the objectives of tax collection.

#### **5.2 CONCLUSION**

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

Poor performance of businesses is as a result of inadequate identification assessment and collection, which are aspects of taxation performance. Therefore tax policy should focus on improving taxation performance in favor of businesses. Likewise other factors also affecting this

variable should be taken into account. Taxation performance remains a major area to be explored by revenue authorities of various classes of taxes, since improving taxation performance enhances almost all aspects of tax policy, including taxes from businesses.

Businesses whose annual gross turnover does not exceed fifty million Ugandan shillings, (50,000,000/=) are taxed depending on gross turnover and they pay fixed amount or 1% of the annual turnover which is lower businesses whose capital is more than fifty million Ugandan shillings are taxed at rate of 30%. Because of the differences brought up by the this capital inequality, Uganda Revenue Authority has tried to avoid business Income tax difference by imposing a fixed rate of 30% on businesses regard ness of whether it is has an annual turn over of 50,000,000 millions or more. High direct taxes will bring about high prices of goods hence a shift in consumption pattern from highly taxation and performance businesses are mutually related.

### **5.3 RECOMMENDATION**

Basing on the study carried out, the researcher recommends the following;

The government through the Uganda Revenue Authority should embark on intensive tax education program especially for business community. This should be done through various media and in different languages on radio stations, televisions, magazines and news papers.

Uganda Revenue Authority should carry out massive training of its staff about tax assessment and collection methods, as well as how to handle taxpayers

Taxpayers should employ skilled people like accountants to ensure proper and complete records keeping in their businesses. This will enable them to pay only the taxes that they must pay and infringe on their profits.

In relation to the above, the tax payers should make sure the their businesses have got good internal control systems which are in operations very well so as to minimize on the errors made during the tax assessment.

Since most of the business owns did not reach to higher educations levels in the country, tax education should be included in primary school syllabus to ensure greater sensation even among

the young generation so as incase one drops out of the education carrier should be well informed of the assessment of the tax system and the benefits got from the payment of the taxes.

#### **5.4. AREAS FOR FURTHER RESEARCH**

- . How effectively can we improve on the taxation system within the region?
- . Is it possible to make an accountability of the taxes paid by the different businesses by the Uganda Revenue Authority?
- . The roles of taxation in the economic development of the country.

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**A. INSTRUMENTS**  
**QUESTIONNAIRES**

The researcher is pursuing a degree in Business Administration at Kampala International University. The researcher is carrying out research on “The impacts of taxes on business performance,” a case study of Umesco Development Foundation, Kibaale district. The purpose of the study is to fulfill the researcher’s academic tools. Therefore, the researcher kindly requests you to answer for him the following questions.

Note: Your response will be treated with the highest degree of confidentiality.

**Please tick the appropriate box and do not tick more than one box.**

**QUESTIONS 1-5 ACCORDING TO THE BACKGROUND.**

**1. Age**

- |            |                          |            |                          |
|------------|--------------------------|------------|--------------------------|
| (a). 17-21 | <input type="checkbox"/> | (b).22-26  | <input type="checkbox"/> |
| (c). 27-31 | <input type="checkbox"/> | (d). 32-36 | <input type="checkbox"/> |
| (e). 37-41 | <input type="checkbox"/> | (f). 42-46 | <input type="checkbox"/> |
| (g). Above | <input type="checkbox"/> |            |                          |

**2. Gender**

- |           |                          |             |                          |
|-----------|--------------------------|-------------|--------------------------|
| (a). Male | <input type="checkbox"/> | (b). Female | <input type="checkbox"/> |
|-----------|--------------------------|-------------|--------------------------|

**3. Marital status**

- |                         |                          |             |                          |
|-------------------------|--------------------------|-------------|--------------------------|
| (a). Married.           | <input type="checkbox"/> | (b). Single | <input type="checkbox"/> |
| (c). Any other, specify |                          |             |                          |

**4. Department**

- |                  |                          |                     |                          |
|------------------|--------------------------|---------------------|--------------------------|
| (a). Production. | <input type="checkbox"/> | (b). Transport      | <input type="checkbox"/> |
| (c). Finance     | <input type="checkbox"/> | (d). Administration | <input type="checkbox"/> |

(e). Marketing

**5. Level of education**

(a). Primary and below

(b). Secondary

(c). Tartially institution

(d). Degree and above.

**QUESTIONS 6-10 ACCORDING TO OBJECTIVE ONE**

6. Is there any relationship between taxes with your business performance?

a). Yes

b). No

7. If yes, which relationship is there and if no, why do you think that the relationship is not there?

.....  
.....

8. How often are these taxes collected?

a). Monthly

b). Semi yearly

c). Yearly

d). Any other, specify

9. By what margin do these taxes reduce your profits?

a). Big margin

b). Moderate margin

c). Low margin

10. Do you get any benefit from the taxes you pay?

a). Yes

b). No

**QUESTIONS 11-12 ACCORDING TO OBJECTIVE TWO**

11. How have taxes affected your business?

.....  
.....

12. How effectively and efficiently are taxes paid by your business?

- a). At the beginning of the financial year
- b). At the end of the financial year
- c). During the financial year

**QUESTIONS 13-19 ACCORDING TO OBJECTIVE THREE**

14. What strategies are used to collect the taxes?

.....  
.....

15. Which type of taxes does your business pay?

- a). Direct
- b). Indirect
- c). Both

16. What are some of the problems that you face during the tax assessment exercise?

.....  
.....  
.....

17. What are some of the solutions in part (18) above?

.....  
.....  
.....

18. Are there any possibilities of double payment of taxes?

a) Yes

b). No

19. If yes, how does the double payment of taxes come in?

.....  
.....  
.....  
.....

**THANKS VERY MUCH FOR YOUR COPERATION**

## APPENDICES

### B. Time frame for the study

Proposal	March
Data collection	April
Dissertation	May
Submitting	June

### C. BUDGET FOR THE STUDY

ITEM	AMOUNT IN UGANDA SHILLINGS
Typing and Printing	100000
Literature collection	90000
Data collection	150000
Miscellaneous	100000
TOTAL	440000