

**TAXATION AND PERFORMANCE OF SELECTED SMALL SCALE BUSINESS IN
IGANGA DISTRICT, UGANDA**

A thesis
Presented to the college of
Higher degrees and Research
Kampala International University
Kampala, Uganda


In Partial fulfillment of the Requirement for the Award of a Degree of
Masters of Business Administration

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November, 2013

DECLARATION

I declare that this thesis is my original work and has not been presented for a Degree or any other academic award in any university or institution of higher learning


MACOLA STEPHEN

Name and signature of the candidate

13/DEC/2013

Date

APPROVAL

I confirm that the work reported in this thesis was conducted by the candidate under my supervision

Dr. Sendag Mohamed

Name and signature of the supervisor

13/12/2013

Date

DEDICATION

This thesis is dedicated to my wife Nakisanda Harriet and all my children whose prayers have enabled me to reach heights that I would never have reached.

ACKNOWLEDGEMENT

First and foremost I thank the Almighty God, without whose inspiration, guidance and wisdom the researcher would never have tackled nor accomplished his studies.

"For without Him I can do nothing".

The researcher acknowledges the contribution made to this study by his supervisor Dr. Sendagi Mohamed who helped to shape me through his ideas and writing in the field of Business administration.

The researcher also wishes to thank the respondents who partially filled up the questionnaires and this has contributed a great percentage towards his academic struggle.

Special thanks to the Deputy Vice Chancellor College of Higher Degree and Research of Kampala International University, Dr. Novembrieta R. Sumil for her generous contribution towards the completion of this thesis.

The researcher thanks all the people whose assistance enabled him to accomplish his masters' degree successfully; special thanks goes to my Sister kisakye Deborah for the continuous financial and spiritual support that she rendered towards the researchers' education since undergraduate level.

Lastly, the researcher wishes to thank his family members, friends and workmates, who provided him with vital moral and spiritual support. Thank you very much.

LIST OF ACRONYMS

PLCC	Pearson's Linear Correlation Co-efficient
SAQ	Self Administration Questionnaires
SPSS	Statistical Packages social scientists
CVI	Content Validity Index

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ABSTRACT

The study assessed the effect of Taxation on Performance of selected small scale businesses in Iganga district and was based on three specific objectives: (i) to determine the level of Taxation, (ii) to determine the level of Performance of selected small scale businesses in Iganga district, (iii) to establish whether there is a significant relationship between Taxation and Performance of selected small scale businesses in Iganga district. It employed a descriptive correlation survey design, Used SAQ to collect data from 157 out of 259 respondents, using simple random sampling. Data analysis was done using SPSS's frequencies and percentages; means and PLCC. The findings showed that Both the level of Taxation and performance was high. PLCC revealed positive and significant relationship between Taxation and performance. The researcher recommended that if Basing on the study findings, the researcher made the following recommendations both to the management and all the key stakeholders of the selected small scale businesses in Iganga district: The study revealed that the biggest problem with the tax paid is that the small scale business community does not understand how the tax is arrived at as well as how it is paid but not because it is too high. The URA in Iganga District should therefore improve on the method of collecting the taxes. It should adopt the closure of business premises on default only as a last resort after all the other methods of collection have failed. This should be an exception and not a rule. Basing on the Ability-to-pay theory of taxation by the American Economic Association of (1939) that guided the study, it was proved that continuous taxation influence performance by clarifying the ability to pay of the selected small scale businesses, this research makes several contributions to the new venture performance literature. First, when researchers are required to use self-reported measures of venture performance, growth and business volume are the dimensions of performance most familiar to and most commonly referenced by the founders. Second, it provides additional evidence for the accuracy and reliability of founder reported performance data. Third, it provides examples of specific measures with evidence that supports their relevance, availability, reliability, and validity. We believe this research can provide a base for future venture performance research. We hope that these findings will be used to help better our understanding of the dynamics impacting new venture performance and lead to improved managerial practice in emerging firms. On the basis of the results obtained from the study the researcher has the following recommendations both to the intending researcher on the same topic and to the tax authority and the owners of small businesses in order to improve on the performance of small businesses as a result of taxation. It is recommended to the tax authority that for any small business to perform well in the business field, there must be low or moderate rate of tax because low or moderate tax encourages efficiency and effectiveness of the small business enterprise and the share holders, hence good performance with the low rate of taxes the small business enterprise get high profit, due to high sale, low price, high production, consequently, the business enterprises are able to expand or invest more since there is reduction in costs, hence this increases performance of small businesses for example reduction in cost of advertising, non taxable benefits to employees and director's expense accounts may be met in the time by the business.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

1.1 Background of the Study

1.1.1 Historical perspective

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

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

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

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

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

In 1939, income tax was introduced in Uganda, but was collected jointly with the tax from the government of Tanganyika, Zanzibar and Kenya.

In 1962, a source tax on employment emoluments under the system of pay as you earn (PAYE) was introduced.

Uganda also introduced four other tax legislations , namely :the sales tax act of 1970, the stamp duties act of 1970 and the finance decree of 1972 which impose sales tax on Performance of selected small scale businesses in Iganga district goods, stamp duty on various instruments , various fees and charges relating to motor vehicles and drivers' permits and commercial transactions levy on various commercial service.

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

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

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

Performance study began around 60 years ago as a source of income justification and was used to determine small scale wage based on performance; however, organizations used performance management to drive behaviors of the employees to get specific outcomes (Brandt 2000). In practice, this worked well for certain small scale businesses who were solely driven by financial rewards but where

employees were driven by learning and development of skills, it failed miserably. Therefore, this gap between justification of pay and development of skills and knowledge became a huge problem and this was evident in the late 1980s'

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

1.1.2 Theoretical perspective

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

1.1.3 Conceptual perspective

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

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

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

1.1.4 Contextual perspective

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

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

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

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

(Balunywa, 1988). The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

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

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

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

The working definition adopted for this study is attributed to Armstrong (2007) who clearly put forward that small scale businesses performance is the total group effort both physical and mental employed towards effective attainment of organizational goals. In this study, small scal businesses performance was characterized by increased productivity which is a measure of efficiency of production. It's a ratio of what is

produced to what is required to produce it, and usually this ratio is in the form of an average, expressing the total output divided by the total input and thus it's a measure of output from a production process, per unit of input, improved human relations characterized by the skill or ability to work effectively through and with other people in all aspect of life.

1.2 Problem Statement

According to Water *Et al*, 2010, 90% of the small scale businesses started in Uganda die in their first year of operation. Failure of such businesses is indicated by their low creation of employment opportunities, failure to expand further, poor conditions of work, and low government revenue generated. This problem of small scale business failure is likely to result into high unemployment rate, low government revenue, low profits realized, and discouragement of young entrepreneurs from starting their own jobs, increased jobs seekers rather than job creators and static lifestyle. Many factors are responsible for the high rate of small scale business poor performance in Iganga. These include; increased debts, lack of determination, high taxes, poor planning, poor budgeting, poor managerial skills, inadequate control of inventory, and poor book keeping. While many studies have been conducted and investigation on the performance of small scale businesses, no study has been conducted on taxation and that is why the researcher has opted to investigate on the relationship between taxation and performance of selected small scale business in Iganga District.

According to the observer newspaper, 18th April, 2011, various groups including the Kampala city traders association (KACITA) and the private sector foundation (PSFU) in their meeting with President Yoweri Museveni, suggested that the tax rate was one of the factors undermining business. According to the draft bill, all entertainers will be required to pay taxes on their income just like any other business

1.3 The purpose of the Study

The purpose of the study was to, describe the relationship between taxation and performance of selected small scale business in Iganga District, the cause and effects of

the two variables, test hypothesis of no significant relationship between taxation and performance of small scale businesses, indicating how taxation impacts, performance of selected small scale businesses in Iganga District and bridge the gaps of previous studies and to validate existing information based on the theory to which this study is based.

1.4 Research Objectives

General objective

1. To determine the effectiveness of taxation in selected small scale businesses in Iganga District.
2. To determine the level of performance in selected small scale businesses in Iganga District.
3. To establish whether there is a significant relationship between Taxation and performance of selected small scale businesses in Iganga District.

1.5 Research Questions

The research was guided by the following specific research questions

1. What is the effectiveness of taxation of selected small scale business in Iganga District?
2. What is the level of performance of selected small scale business in Iganga District?
3. Is there a significant relationship between Taxation and performance of selected small scale business in Iganga District?

1.6 Hypothesis

The study was guided by the following hypotheses: "There is no significant correlation between taxation and performance of selected small scale business in Iganga District"

1.7 Scope of the study

Geographical scope

The study was carried out among employees of selected small scale business in Iganga District.

The respondents in the study included managers, secretaries, accountants, sales managers and employees that were randomly selected to represent the population.

Time scope

This study conducted in a period of four months, the time which included collecting, analyzing and interpretation of data from March to July 2013

1.8 Significance of the Study

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

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

To Policy makers, the study used as a reference document and continuing guideline to policy makers especially when coming up or drafting the taxation policies that are supposed to be adhered to when dealing with selected small scale businesses in Iganga District

Academicians and future researchers can use the findings of this research as they carry out research in Similar topics especially after it has contributed to methodology and literature review.

Operational Definitions of Key Terms

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

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

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

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

Small scale business

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

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

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at taxation and its impact to performance of small scale business enterprises in Uganda particularly Iganga district.

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

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

2.1 Theoretical Review.

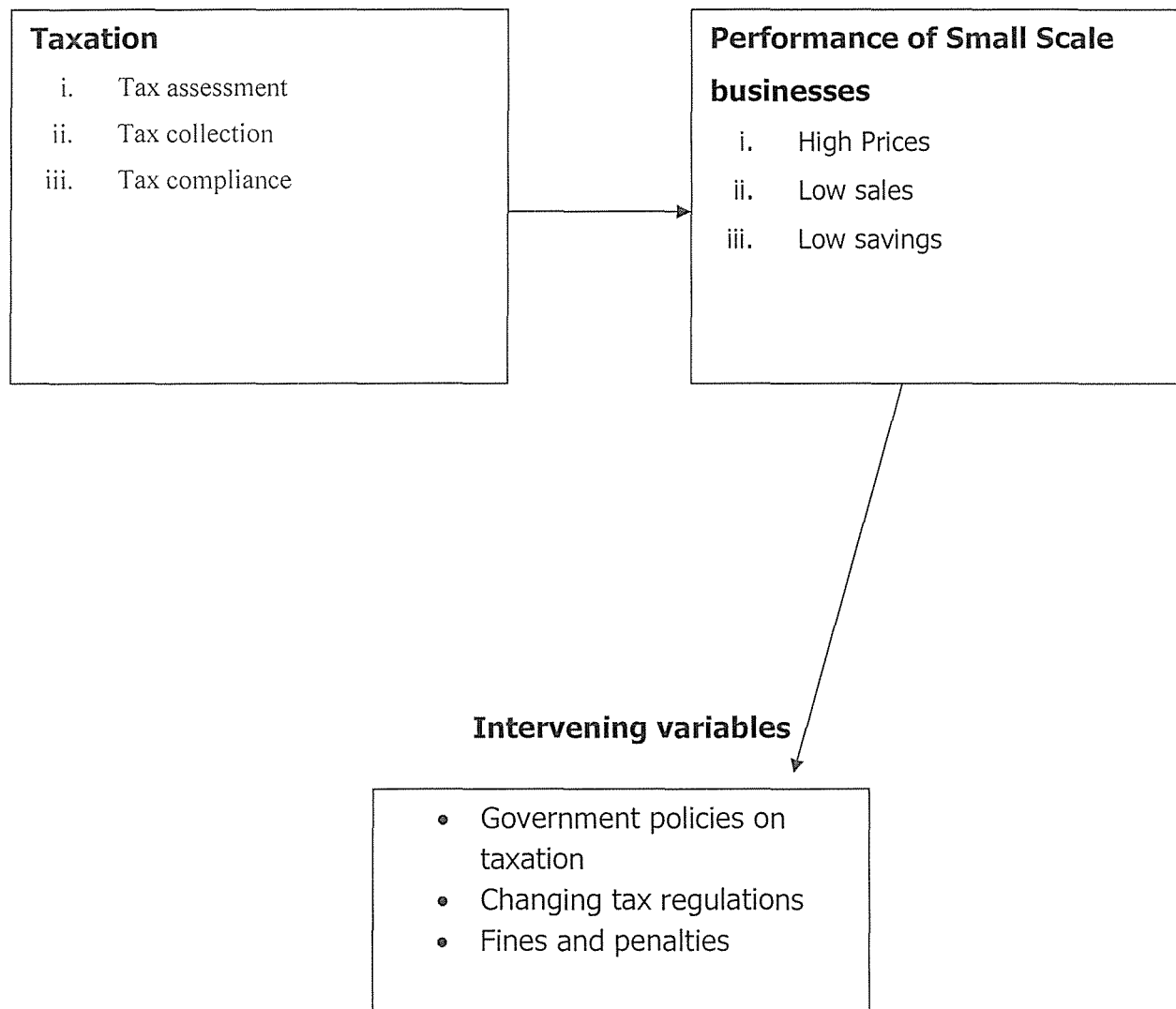
The study was guided by Ability-to-pay theory of taxation by the American Economic Association of 1939 in their book entitled 'The American Economic Review.' this theory presumes that money for public expenditures should come from 'him that hath' instead of from 'him that hath not.' the payment of a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

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

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

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

2.2 Conceptual framework



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

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

2.3 Related literature

Taxation

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

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

Proportional versus progressive tax

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

The purpose of taxation

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

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

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

According to the Uganda economic journal (1973), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (1973) also shows that, in stressing consumption reducing aspect, taxes may change the distribution of income and help to stabilize the economy.

Tax policies.

The World Bank has influenced many countries in under taking tax reform policies. For the case of Uganda, the tax base has remained significantly narrow since independence, leading to inadequate tax revenue. By May 2004, the tax ratio of tax

revenue to GDP was just 18-20%. The composition of tax revenue has been predominantly important. Small scale businesses are taxed differently compared to corporation/business with an annual turn over of above 50 million shillings. Medical practices, legal practices, engineering service, accounting and audit practices are tax payers even when their turn over is less than 50 million shillings.

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

Application of the standard tax provisions to all business activities

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

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

Approaches to tax administration

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

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

Identification of a tax payer

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

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

Performance of small scale business

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

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

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

- i. To meet its tax obligations.
- ii. Cover its operating expenses and still retain some profits which can either be used for re-investment or otherwise.
- iii. The ability of the business to make sales that sustain its expenses.

Taxation and business performance

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

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

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

Taxes and profit levels.

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

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

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

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

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

Taxation and investment

Given the fact that there are financial institutions and mechanism for collecting the community's savings and bringing them to investors, the level and patterns of

investment will be greatly influenced by taxes. This is because the investors are basically interested in making profit yet profitability of investment can be affected through various tax measures in the following ways;

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

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

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

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

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

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

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

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

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

Tax payer's knowledge

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

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

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

Tax

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

A tax can also be defined as a contribution imposed on any person, business/property, for supporting central/Performance of selected small scale businesses in Iganga district governments (Tayebwa, 1998). Also a tax is a financial charge or other levy upon a tax payer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2000). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2002).

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

Uganda's tax structure.

Uganda's tax structure is made up of both direct and indirect taxes.

Direct taxes are a form of taxation that are paid by the person or business on which they are imposed and the burden cannot be shifted or transferred to another person. Such direct taxes include; income tax which is the one levied on individual income, and it ranges from 10-30%; corporate tax which is the tax levied on the profits realized by the company and its rate is 30% .other direct taxes include; capital gains tax, inheritance tax, death duty, gift tax, land and agricultural tax and so on.

Indirect tax is the tax where the tax burden can be shifted from one person to another say from the producer to the consumer. Indirect taxes include; sales tax, excise duty, VAT which is 18%, custom duties, sumptuary tax, expenditure tax and so on.

Uganda's tax system is administered by Uganda Revenue Authority (URA), which has its headquarters in Nakawa-Kampala Uganda. URA is Uganda's only tax body that was established by the Act of Parliament in 1991. It is responsible for collecting taxes for national development in Uganda. URA has the following administrative structure with six administrative divisions.

- ✓ Commissioner general's office
- ✓ Board secretary/head of legal department
- ✓ Customs and excise department
- ✓ Domestic taxes department
- ✓ Corporate services department

Internal audit, tax investigation and internal affairs.

The taxes collected are both international and domestic taxes and this implies that Uganda's tax system is efficient and effective, mainly basing on indirect taxes.

Mode of assessment: If the determination of the tax payable (assessment) is made directly with direct reference to the tax payer's ability to pay, then the tax is said to be direct. However, if the assessment is made indirectly without specifically considering the tax payer's ability to pay, the tax is said to be indirect (Bhidia, 2002)

Classification of taxes.

According to Chen (1997), taxes are classified as either direct versus indirect or proportional versus progressive tax.

Direct taxes are those that affect the individuals/firms directly through a deduction from earnings. Examples include; individual income tax, corporation tax, taxes on property, inheritance tax, death duty, gift tax, wealth tax, land and agricultural tax and others.

Indirect taxes are those taxes that are paid to government by an intermediary and then passed on to the final user by including the tax in the final price of a good or service. Examples include; export and import duties, excise and Performance of selected small scale businesses in Iganga district production, value added tax (VAT), expenditure tax, sumptuary tax among others (Chen 1997),

Proportional, progressive tax, regressive and digressive taxes

On the basis of equity, taxes are classified as proportional, progressive, regressive and digressive taxes.

Proportional tax

This is a tax imposed so that the tax rate is fixed. The amount of the tax is in proportion to the amount subject to taxation. It describes a distribution effect on income or expenditure, referring to the way the tax rate remains consistent (does not progress from low to high or high to low as income or consumption changes), where the marginal tax rate is equal to the average tax rate. It can be applied to individual taxes or to a tax system as a whole. Proportional taxes maintain equal tax incidence regardless of the ability-to-pay and do not shift the incidence disproportionately to those with a higher or lower economic well being (Kalist, 2002).

In this tax system, the amount of tax payable increases in the same proportion as the income increases but the tax is a fixed percentage of income for all income groups.

A progressive tax is a tax by which the tax rate increases as the taxable base amount increases. It describes a distribution effect on income or expenditure referring to the way the rate progresses from low to high, where the average tax rate is less than the marginal tax rate. It can be applied to individual taxes or to a tax system as a whole, a year, multi-year or lifetime (Kalist, 2002).

Progressive taxes attempt to reduce the tax incidence of people with a lower ability-to-pay, as they shift the incidence increasingly to those with a higher ability –to- pay.

Regressive tax

It is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increase. Regressive describes a distribution effect on income or expenditure, referring to the way the rate progresses from high to low, where the average tax rate exceeds the marginal tax rate. In terms of individual income and wealth, a regressive tax imposes a greater burden on the poor than on the rich in that there is an inverse relationship between the tax rate and the tax payer's ability to pay as measured by assets, consumption, or income. Regressive taxes tend to reduce the tax incidence disproportionately to those with lower ability to pay. To determine whether a tax is regressive, the income elasticity of the good being taxed as well as the income substitution effect must be considered. For instance, television licenses that are implemented in many countries are considered regressive taxes, a value added tax on food and other essentials such as clothing, transport, and residential rents can be regressive since income elasticity of demand of food is usually less than 1. It intends to take up a higher percentage of the budget of a person or family with a lower income. It is very rare indeed to find a regressive tax based on earned income but it is rather based on expenditure. For example, if the purchase tax on a bicycle is 20% of the retail price, (which is 30), then the buyer has to pay 36 regardless of whether he is rich or not. (Kalist, 2002)

Digressive tax

This is tax that starts by being progressive up to a given amount of income above which the tax becomes proportional in that relatively less tax is paid at higher income levels. Digressive tax involves tax rates increasing with increase in the level of income up to a certain level beyond which it becomes constant. The higher income earners feel a relatively lesser burden since their sacrifice in form of tax is lower to what they earn (Kalist, 2002).

Small scale business

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

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

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

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

- i. A business which employees 1-50 people.
- ii. Has a capital investment of less than shillings 40 million.
- iii. Has average annual revenue/sales of less than shillings 50 million.

Fines and penalties

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

Performance of small scale business

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

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

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

- iv. To meet its tax obligations.
- v. Cover its operating expenses and still retain some profits which can either be used for re-investment or otherwise.
- vi. The ability of the business to make sales that sustain its expenses.

Taxation and business performance

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

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

According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/business they would

otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

Taxes and profit levels.

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

- i. Certain income which may be considered in the normal accounting system may not be liable to tax.
- ii. Certain expenses that are deducted on profit and loss account may not be available when determining taxable income.
- iii. Some tax allowances may be provided and will not be reflected in business account. (Manasseh T. 2000).

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

Taxation and investment

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

- i. The possibility of taxing savings themselves. If this happens, the investor will experience a low level of savings and the over all level of investment will be low.
- ii. The authorities might tax earnings from investment to an extent that it might become a problem for the firm to raise adequate resources in the market.

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

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

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

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

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

- i. There is unfair treatment of tax payers, some of which are not necessary tax obligations and thus not met as a result of this process.
- ii. Tax payers have little understanding of the obligation as a result of lack of tax education. It is said that URA would get fewer problems with tax payers if they were able to understand how their liabilities come about.

Tax payer's knowledge

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

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

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

Conclusions

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

CHAPTER THREE

METHODOLOGY

3.0 Introduction

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

3.1 Research Design

The research design was descriptive and correlation in that it was interested in relating taxation and performance of selected small scale business in Iganga district. The researcher used some aspect of a cross sectional survey design basing on the use of qualitative and quantitative approaches that were adopted to establish the relationship between taxation and performance of small scale businesses (Amin, 2005). This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Research Population

The study comprised of Managers/owners and employees of small scale businesses (SSBs) in Iganga District such as retail shops, drug shops, stationary shops, boutiques, and salons, which comprised a total population of over 259 employees.

3.3 Sample Size

From the total population of 259 employees of Iganga District Small scale selected businesses, the sample size was 157 employees. The sample size was determined using the sloven's formula; which states as follows:

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

Where **n** is the sample size, **N** stands for population and a^2 is 0.05 level of significance.

$$\begin{aligned}
n &= \frac{259}{1 + 259 (0.05)^2} \\
n &= \frac{259}{1 + 259 (0.0025)} \\
n &= \frac{259}{1 + 0.6475} \\
n &= \frac{259}{1.6475} \\
n &= 157
\end{aligned}$$

3.4 Sampling Procedure

The study was conducted using stratified sampling to reduce costs and the time of doing research and to increase the degree of accuracy of the study. The researcher set a selection criterion, where respondents were selected basing on their position/kind of job they do. A list of respondents was obtained from employees in their respective departments to act as the sample. Strata were made according to employee's level of operation. There after a sample was obtained from each of the strata using convenient sampling.

The sampling procedures used gave accurate and reliable samples that provided quantitative and qualitative data on taxation and performance of SSBs simple random techniques and purposive sampling were used to reduce bias of research and also ensure that the respondent with required knowledge are interviewed respectively; this is in accordance to a Amin ,2005. Simple random sampling used to select employees while purposive sampling procedures was used to select managers/owners. these sample provided both quantitative and qualitative data. it was thus used to collect qualitative data on all the three research question using closed ended question in the questionnaire and qualitative data on all the three research question were collected using closed ended question in questionnaire. In this case simple random sampling was used to select employees to respond to questions in the questionnaire. While purposive

sampling techniques was used to select managers/owners to be interviewed. The advantages is that this techniques ensures that information on taxation and performance of SSBs was collected from the sample size composed of different staffs categories which is in accordance with Amin ,(2005) ; Sekaran (2004) and Uganda and mugenda ,1999 who contended that the selection of sample from different categories in the population allows assessment of needs at each sub level of the population.

3.5 Research Instrument

There were two sets of questionnaires directed towards employees in Iganga District of small scale selected business employees; Section one was on the level of taxation on selected small scale business in Iganga District and section two was on the level of performance of selected small scale business in Iganga District. The questionnaires also consisted of the main title and the introductory letter, with a section of 6 bio-data questions, to help classify respondents. All questionnaires were close ended using four scales 1, 2, 3 and 4: where 1 = Strongly Disagree, 2 = Disagree, 3 = Agree, 4 = Strongly Agree. Respondents were required to rate each item by writing the right number/ figure in the space provided before the question.

3.6 Validity and Reliability of the Instruments

To ensure the validity and reliability of the instruments, the researcher employed the expert judgment method. After constructing the questionnaire, the researcher contacted experts in the study area to go through them to ensure that they measured what they were designed to measure and necessary adjustments were made after consultation and this ensured that the instrument was clear, relevant, specific and logically arranged. Secondly, a Pre-test was conducted in order to test and improve on the reliability of the questionnaires and lastly a content validity Index (CVI) of 0.9 was obtained using the formula:

$$CVI = \frac{\text{The number of items/questions declared valid}}{\text{The total number of items/questions}}$$

Calculations were indicated in the appendix (IV). CVI which were greater than 0.07 thereby declaring the instrument valid. Reliability of the instrument was tested using cronbach's co-efficient alpha (α) and the results obtained $\alpha = 0.75$ (SPSS results) which was greater than 0.70 indicating that the instrument was highly reliable.

3.7 Data Gathering Procedures

Before data gathering

Upon accomplishment of defending and acceptance of the research proposal, the researcher obtained an introductory letter from the college of higher degrees and research of KIU, seeking for permission from the Iganga District Performance of selected small scale businesses in Iganga district council to allow him access employees to participate in the study.

During data gathering

Due to the nature of work and busy schedule of some prospected respondents, the researcher through district leaders scheduled an appointment for such respondents. The researcher was available to give necessary explanation on some questions where need was. Then the researcher carried out a pilot study before the actual research to check feasibility of the research instrument in order to make necessary improvement and adjustments in the tool and to avoid time wastage. The researcher also made use of secondary data by reviewing available relevant texts books, journals articles, periodicals, manuals dissertation and publication.

After data gathering

After two weeks, primary data was collected through questionnaires which respondents had returned back to the researcher for data analysis. Completed (SAQs) was coded, edited, categorized and entered into a computer for statistical package for social scientists (SPSS) for data processing and analysis.

3.8 Data Analysis

Data on completed (SAQs) was edited, categorized and entered into a computer for the statistical package for social scientists (SPSS) which summarized them using frequency and percentage to analyze data on respondent's profile. Means were used to analyze data on the level of taxation on selected small scale businesses in Iganga District and the level of performance of selected small scale businesses in Iganga District. Pearson's Linear Correlation Co-efficient (PLCC) was used to establish whether there is a significant relationship between taxation and performance of selected small scale businesses in Iganga District. The 0.05 level of significance was used to determine the strength of the relationship between independent and dependent variables.

The following mean range were used to arrive at the mean of the individual indicators and interpretation

Table 1: Interpretation of the Mean Range

Mean range	Response mode	Level of Taxation
3.26- 4.00	Strongly agree	Very high
2.51- 3.25	Agree	High
1.76- 2.50	Disagree	Low
1.00- 1.75	Strongly disagree	Very low

3.9 Ethical Considerations

To ensure that ethics was practiced in this study as well as utmost confidentiality for respondents and the data provided by them, the following were done: (a) all questionnaire were coded; (b) the respondents were requested to sign the informed consent; (c) authors quoted in the study were acknowledged with in the text through citation and referencing; (d) findings were presented in a generalized manner.

3.10 Limitations of the Study

The anticipated threats to the validity in this study were as follows:

Intervening or confounding or extraneous variables: There was a very big threat on some respondents with personal biases and dishonesty. To minimize this threat, the researcher requested respondents to avoid being subjective while answering the questionnaires.

Instrumentation: The data collection instrument was not standardized and this problem was solved through testing it for validity and reliability.

Testing: There was a likelihood of research assistants being inconsistent in terms of the day and time of questionnaire administration. This was solved through thorough briefing and orientation of research assistants in order to address this threat.

Attrition: There was a likelihood of some respondents not returning back the questionnaires and this affected the researcher in meeting the minimum sample size. To solve this threat, the researcher gave quite more questionnaire exceeding the minimum sample size.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.0 Introduction

This chapter presents the findings on taxation and performance of small scale businesses in Iganga district. The findings were from both primary and secondary sources. The findings are presented in the gist of the three objectives that the study was set to achieve; The effectiveness of Taxation in selected small scale businesses in Iganga District, The level of performance in selected small scale businesses in Iganga District, Relationship between Taxation and performance of selected small scale businesses in Iganga District.

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

4.1 The level of Taxation styles in selected small scale businesses.

The first objective was set to determine the effectiveness of Taxation in selected small scale businesses in Iganga District for which the researcher intended to find out how satisfactorily these Taxation and the degree at which it stands when compared to performance. Taxation was broken into three aspects (including Tax Assessment, Tax collection, Tax compliance). In this study, all the three aspects were measured using 15 qualitative questions in which respondents were required to indicate the extent to which they agree or disagree with each statement by indicating the number that best describe their perceptions. All the fifteen items on Taxation were likert scaled using four points ranging between 1= Strongly Disagree, 2= Disagree, 3= Agree and 4= Strongly Agree. Their responses were analyzed and described using Means as summarized in table 4 below.

Table 2: Level of Taxation in selected small scale businesses in Iganga District

Tax Assessment	Mean	Interpretation	Rank
Tax payers are actively involved in tax assessment	2.92	High	1
Tax assessors are aware of existing tax assessment procedure	2.86	High	2
Tax assessors have enough knowledge on operators of small scale businesses	2.75	High	3
Tax assessment is done by qualified officers	2.66	High	4
Taxes are assessed basely on ability of tax payers	2.13	Low	5
Average mean	2.67	High	
Tax collection			
Your district has sufficient tax collectors	3.22	High	1
The public sensitization on different forms of taxes collected is done yearly or annually.	2.80	High	2
Tax payers pay taxes without being forced in Iganga districts	2.31	Low	3
Some times armed police men are involved in tax collection	2.29	Low	4
Iganga district was qualified tax collectors	1.47	Very low	5
Average mean	2.42	Low	
Tax compliance			
Tax payers in Iganga district are highly motivated	2.87	High	1
Iganga district provides adequate services to tax payers	2.73	High	2
Your district provides accountability on tax revenues	2.68	High	3
Tax payers pay taxes in time	2.65	High	4
Tax payers in this district pay taxes willingly	2.41	Low	5
Average mean	2.67	High	
Overall average mean	2.59	High	

Source: primary data, 2013

The means in table 2 indicate that Taxation used in the selected small scale businesses were rated at different levels. Out of the categories, Tax assessment and Tax collection both tied with (mean= 2.67) were rated highest, followed by Tax compliance (mean= 2.42). The average rating showed that of the ten items under Tax assessment and Tax collection, eight were rated high (equivalent to agree) and the

remaining two were rated low (equivalent to disagree). And lastly with Tax compliance, two items were also rated high (strongly agree), two rate low (disagree); and lastly the remaining one rated very low an (equivalent of strongly disagree). When you sum up all the three categories, the overall average mean is (2.59) which is equivalent to agree on the rating scale used and thus basing on these results, it can be concluded that Taxation is so influential tax authorities in Iganga district. Items which were highly rated among others included that the district has sufficient tax collectors (mean=3.22) followed by Tax payers are actively involved in tax assessment (mean=2.92) and lastly was that Tax payers in Iganga district are highly motivated (mean= 2.87). The three highly rated items belonged to a different category, the highest from Tax compliance, followed by one from Tax assessment and lastly from Tax collection. The findings conclude that there is a high degree of Tax compliance in Iganga District and if this is maintained, it will constitute to the satisfaction of high tax collection in the district. Therefore this style is more relevant for the district taxation activities. However the study rated four items low and these were that Tax payers in this district pay taxes willingly (mean= 2.41) followed by Tax payers pay taxes without being forced in Iganga districts (mean= 2.31); Some times armed police men are involved in tax collection (mean= 2.29) and lastly Taxes are assessed basing on ability of tax payers (mean= 2.13). The findings portray that Tax assessment is not best to be used in the selected small scale businesses in Iganga District because with this note on person alone determines the policy and makes the plans, and thus this can not allow tax payers in the selected small scale businesses to work together towards tax payment. However on the other side, the findings revealed that Iganga district was qualified tax collectors as being the lowest (very low) at a (mean= 1.47) which is equivalent to strongly disagree on the rating scale, These gives us a picture that despite Iganga district doing well in other categories of taxation, there is much effort needed to improve management in Taxation related matters.

To get a final picture on Taxation, the researcher computed an overall average mean for all the three categories in Table 4, which came out to be (mean = 2.59),

which confirms that the level of Taxation is moderate in the selected small scale businesses in Iganga district.

4.2 The level of performance in selected small scale businesses in Iganga District

The second objective was to determine the level of performance of selected small scale businesses in Iganga District. All the aspects of performance of the selected small scale businesses in Iganga district were measured using 17 qualitative questions in which respondents were requested to indicate the extent to which they agree or disagree with the statement by writing the number that best describes their perception. Each of the items on the questionnaires was rated with the aid of four response mode subjects ranging between one to four; where 1= strongly Disagree, 2= Disagree, 3= Agree, 4= Strongly Agree. There responses were described using means as summarized in table 3.

Table 3: Level of performance of Selected small scale businesses in Iganga District

performance	Mean	Interpretation	Rank
Quality of work in this organization is improving	2.77	High	1
you earn a lot of profits especially after reduction of taxes	2.55	High	2
You devote enough time to prepare your audit books for accounting	2.34	Low	3
The net profit margin is increasing	2.55	High	1
Your business makes a great deal of profits in terms of input and output costs.	3.56	Very high	1
The customer base in this business is increasing	1.40	Very low	3
Your return on quality ins increasing	2.47	Low	2
You are very careful with the flow of your books of accounts in order to monitor your profits .	2.87	High	1
The debt to equity ratio is decreasing	2.48	Low	3
The level of liquidity is increasingly	3.50	Very high	1
Taxation has led to your business down fall due to high taxes imposed.	2.54	High	2
The owners equity in this business is increasingly	2.91	High	2
You exhibit high level of creativity while executing your duties in your organization	2.34	Low	3
Profits earned have been used appropriately to expand your business.	2.60	High	1
The level of borrowed funds is declaring	2.50	Low	3
The sales volume in this business is increasing	3.41	Very high	3
The percentage of profits on sales in increasing	3.19	High	4
Overall Average mean	2.71	High	

Source; Primary data 2013

The results in table 3 revealed that there different levels of Performance of selected small scale businesses in Iganga District. On overall, three (3) out of (17) rated very high, seven (7) were rated high, five (5) were rated low and one (1) rated very low respectively. The three items which were highly rated as far as Performance of selected small scale businesses in Iganga District is concerned were, Your business makes a great deal of profits in terms of input and output costs. was the highly rated

item with (mean= 3.56), followed by You follow The level of liquidity is increasingly (mean= 3.50) and lastly The sales volume in this business is increasing with (mean= 3.41) respectively. All these were equivalent to strongly agree on the rating scale used. Nevertheless, we narrow down to specific items; the study revealed that the three highly rated.

On the other hand, however, the findings revealed four areas which led to low levels of performance; The level of borrowed funds is declining ,You exhibit high level of creativity while executing your duties in your organization, The debt to equity ratio is decreasing, Your return on quality in increasing, You devote enough time to prepare your audit books for accounting with (mean= 2.50, 2.48, 2.34 and 2.34 respectively) which are all equivalent to disagree on the response mode.

Lastly issues like the customer base in this business is increasing as being the lowest (very low) at (mean= 1.40) which is equivalent to strongly disagree on the response mode.

To get a final picture on the Performance of selected small scale businesses in Iganga District, the researcher computed an overall Grand average mean for all aspects in Table 5, which came out to be (mean = 2.71), which confirms that the level of Performance of selected small scale businesses in Iganga District employee performance stands at moderate level.

4.3 Relationship between Taxation and performance of selected small scale businesses in Iganga District

The third objective in this study was to establish whether there is a significant relationship between Taxation and Performance of selected small scale businesses in Iganga District. On this, the researcher stated a null hypothesis that there is no significant relationship between Taxation and Performance of selected small scale businesses in Iganga District. To achieve this last objective and to test this null hypothesis, the researcher correlated the means for aspects of Taxation and those on Performance of selected small scale businesses in Iganga District using the Pearson's Linear Correlation Coefficient, as indicated in table 4.

Table 4: Pearson's Linear Correlation Coefficient results for Taxation and performance of Selected small scale businesses in Iganga District

Variable correlated	R-value	Sig.	Interpretation	Decision on Ho
Taxation Vs performance	-.365	.000	significant relationship	Rejected

Source: primary data, 2013

The results in Table 4 indicate that Taxation and performance of selected small scale businesses in Iganga District are significantly correlated ($r = -0.365$). The sig. value indicates that there is a positive and significant correlation ($\text{sig.} = 0.000 < 0.05$) leading to a conclusion that Taxation significantly influences performance of selected small scale businesses in Iganga District at 5% level of significance. Basing on these results, the stated null hypothesis of "there is no significant relationship between Taxation and performance of selected small scale businesses in Iganga District" is rejected, and thus the findings showed a negative relationship between Taxation and performance. These results lead to a conclusion that an improvement in the Taxation is likely to improve performance of selected small scale businesses in Iganga District.

To get the final picture on how Taxation affects performance of selected small scale businesses in Iganga District, three aspects of performance of selected small scale businesses in Iganga District index were regressed against Taxation, results of which are indicated in table 5 below; and the remaining three aspects were not significant however the overall general picture showed a positive and significant effect.

Table 5: Regression Model for Performance Selected small scale businesses in Iganga District Employee Performance and Taxation Styles

Variables regressed	Adjusted R ²	F	Sig.	Interpretation	Decision on Ho
Performance of Selected small scale businesses in Iganga District Vs Taxation	.120	22.290	.000	significant effect	Rejected
Coefficients	Beta	T	Sig.		
(Constant)	—	31.798	.000	significant effect	Rejected
Tax Assessment	-.339	-4.485	.000	significant effect	Rejected
Tax collection	-.311	-4.077	.000	significant effect	Rejected
Tax compliance	-.182	-2.300	.023	significant effect	Rejected

Source: primary data 2013

The Linear regression results in Table 5 above indicate that Taxation significantly affects performance of selected small scale businesses in Iganga District ($F=22.290$, $\text{sig.} = 0.000$). The results indicate that the three constructs of Taxation included in the regression model contribute over 12% towards variations in all the three aspects of performance of selected small scale businesses in Iganga District (Adjusted $R^2 = 0.120$). The coefficients section of this table indicates the level to which Taxation affect performance of selected small scale businesses in Iganga District and this is indicated by Beta values. For example, of all the three aspects in Taxation, Tax compliance has the biggest impact on performance of selected small scale businesses in Iganga District with a beta value of -0.182, suggesting that Tax compliance contribute over -18% towards variations in performance of selected small scale businesses in Iganga District. This is followed by Tax collection (Beta=-0.311), and lastly Tax Assessment (Beta=-0.339). This implies that for performance of selected small scale businesses in Iganga District to improve and flourish, the tax administrators in the selected small scale businesses in Iganga district should come up emphasis tax compliance, followed by tax

collection and tax assessment should be hardly thought of if they want to boost performance of selected small scale businesses in Iganga District.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

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

5.1 Discussions

This study intended to assess the effect of Taxation on Performance of selected small scale businesses in Iganga District and it was guided by the following objectives namely: (i) to determine the effectiveness of Taxation of selected small scale businesses in Iganga District; (ii) to determine the level of Performance of selected small scale businesses in Iganga District (iii) to establish whether there is a significant relationship between Taxation and Performance of selected small scale businesses in Iganga District.

Data analysis that was done using SPSS's descriptive statistics. From the findings it was found out that to reveal that the level of Taxation styles was at high level (mean=2.59). The reasons behind this level are imbedded in the two categories which were rated high; Tax assessment (mean=2.67), Tax collection (mean=2.67) and then Tax compliance which was rated low at (mean=2.42). On the other hand, was results that also show that Taxation of selected small scale businesses stood at a very low level and thus unrealistic and un achievable goals under Tax compliance rated very low (mean= 1.47). this was in line with what was found out by Balunywa (1988) who noted that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice. The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. These countries face a number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of

growth that covers a number of aspects; the tax system has to be designed to help the economy (Bhatia, 2002).

From the findings on the level of performance of small scale businesses in Iganga district, the level of Performance of selected small scale businesses in stood at a moderate level implying that it was low. This was concluded that the level of performance of small scale businesses in Iganga district is low because of the high level of taxation by Uganda Revenue Authority thus not giving access to the growth of profit margins to these small scale businesses. This was in line Manasseh T. (2000) who said that the taxable profits of business are always different from the normal business account profits for three major reasons; Certain income which may be considered in the normal accounting system may not be liable to tax. Certain expenses that are deducted on profit and loss account may not be available when determining taxable income. Some tax allowances may be provided and will not be reflected in business account. Also Gordon and Dawson (1987) assert that many business people have complained probably with some justification that taxes interfere with the opportunities to re-invest their profits in their businesses.

Results using Pearson's Linear Correlation Coefficient found that Taxation is significantly and positively correlated with Performance of selected small scale businesses in Iganga District ($r=-0.365$, $\text{sig.}=0.000$). Regression analysis results indicated that Taxation was found responsible for over 12% variation towards Performance of selected small scale businesses in Iganga District (Adjusted $r^2=0.120$).

Basing on the Ability-to-pay theory of taxation by the American Economic Association of (1939) that guided the study, it was proved that continuous taxation influence performance of small scale businesses by clarifying the ability to pay of the selected small scale businesses.

5.2 Conclusions

In this section, the researcher gives conclusion to the study findings in relation to the study objectives and the tested null hypothesis.

The first objective was set to determine the level of Taxation of selected small scale businesses in Iganga District and it was found out that the level of Taxation was at high (mean=2.59) and this is due to the fact that the two categories were rated high that is Tax assessment and Tax collection.

The findings indicated that the performance of SSBs is affected by stock levels, capital employed, daily expenses, daily sales and the average amount of taxes paid annually.

Most business owners are not aware of taxes paid, uncertain of the mode of assessment and little assistance is given as regards tax awareness.

The findings revealed the problems faced by the tax payers as regards mode of assessment, collection and tax collectors, inefficiency by tax collectors, loss of equipment, loss of sales and loss of stock as a result of taxes.

The second objective of the study was to determine the level of Performance of selected small scale businesses in Iganga District and it was found out that the overall level of Performance of selected small scale businesses in Iganga District stood at high level (mean=2.73) due to high performance of all the categories

The pattern of results favors the use of two dimensions of venture performance: growth and business volume. The growth and business volume measures operationalized in this research have good availability and internal consistency and are superior to the satisfaction with performance and performance relative to competitors' scales in terms of content validity. Evidence of the external validity of the measures is provided by regression analysis showing independent variables identified and substantiated by previous research to be related to performance in the hypothesized manner.

The satisfaction with performance index had a high disclosure rate, strong internal consistency, and relatively strong inter-rater reliability. There is little evidence

supporting its external validity. With the exception of its negative relationship with the level of competition, none of the predicted relationships are substantiated.

The performance relative to competitors' disclosure rate was somewhat lower as was the inter-rater reliability; however, it emerged as a strong independent construct with a high level of internal consistency. There was evidence for the external validity of this measure. The independent variables related to the performance relative to competitors' index are similar to those related to both the growth and business volume dimensions as predicted from previous theoretical work and research findings.

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

5.3 Recommendations

Basing on the study findings, the researcher made the following recommendations both to the management and all the key stakeholders of the selected small scale businesses in Iganga district:

On the basis of the results obtained from the study, as a way of reducing the burden of taxes on SSBs as well as to increase the revenue of Iganga district. The administration of Iganga district should find a way of assessing the tax in that the SSBs should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously. The tax administrators of Iganga district should introduce a scheme that allows tax payers to pay the tax obligation in the installments over a given period of time as opposed to lump some at once.

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

Areas for future Research

Notwithstanding the efforts made by the researcher, he could not exhaust entirely this particular area; therefore he recommends that the future researchers should focus on the following.

1. Factors leading to tax evasion among small scale enterprises.
2. Tax eradication and the performance of small scale enterprises.
3. Installment tax payment and the performance of small scale enterprises.
4. Tax collection and the performance of small scale enterprises.
5. Tax assessment and the performance of small scale enterprises.

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Appendix I: informed consent

In signing this document, I am giving my consent to be part of the research study of Mr. Magola Stephen that will focus on taxation and performance of selected small scale businesses in Iganga District

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and the right to withdraw my participation 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.

Initial: _____

Date: _____

Appendix II: TRANSIMITTAL LETTER FOR THE RESPONDENTS
Questionnaires to taxation and performance of selected small scale
businesses in Iganga District

Dear Sir/Madam

Greetings

I am a candidate for Masters of Business Administration at Kampala international university and am conducting a study on **Taxation and performance of selected Small scale businesses in Iganga District**. The purpose of this study will fulfill my academic requirements so by filling this questionnaire, you have also contributed a great percentage towards my academic struggle.

Thank you very much for your cooperation

Yours faithfully



Mr. Magola Stephen

Masters candidate

SECTION 1: QUESTIONNAIRE ON THE LEVEL OF TAXATION.

Direction: please describe the level of taxation in your business and 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 wrong or right answer

Score	Response Mode	Interpretation
4	Strongly agree	you agree with no doubt at all
3	Agree	you agree with some doubt
2	Disagree	you disagree with some doubt
1	Strongly disagree	you disagree with no doubt at all

Tax Assessment	1	2	3	4
Tax payers are actively involved in tax assessment				
Tax assessors are aware of existing tax assessment procedure				
Tax assessors have enough knowledge on operators of small scale businesses				
Tax assessment is done by qualified officers				
Taxes are assessed basely on ability of tax payers				
Tax collection	1	2	3	4
You district has sufficient tax collectors				
The public sensitization on different forms of taxes collected is done yearly or annually.				
Tax payers pay taxes without being forced in Iganga districts				
Some times armed police men are involved in tax collection				
Iganga district was qualified tax collectors				
Your district has committed tax collectors				
Taxes are collected at this convenience of tax payers				
Tax compliance				
Tax payers in Iganga district are highly motivated				

Iganga district provides a adequate services to tax payers				
Your district provides accountability on tax revenues				
Tax payers pay taxes in time				
Tax payers in this district pay taxes willingly				
Iganga district has clear polices regarding tax administrations				

SECTION 2: QUESTIONNAIRE TO DETERMINE THE LEVEL OF PERFORMANCE OF SMALL SCALE BUSINESSES.

Direction: please describe the level of performance of your business and respond to each item by using the scoring scale 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.

Score	Response	Description
4	strongly agree	you agree with no doubt at all
3	agree	you agree with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all

Quality of work in this organization is improving	1	2	3	4
you earn a lot of profits especially after reduction of taxes				
You devote enough time to prepare your audit books for accounting				
The net profit margin is increasing				
Your business makes a great deal of profits in terms of input and output costs.				
The customer base in this business is increasing				
Your return on quality ins increasing				
You are very careful with the flow of your books of accounts in order to monitor your profits .				
The debt to equity ratio is decreasing				
The level of liquidity is increasingly				
Taxation has led to your business down fall due to high taxes imposed.				
The owners equity in this business is increasingly				
You exhibit high level of creativity while executing your duties in your organization				

Profits earned have been used appropriately to expand your business.				
The level of borrowed funds is declining				
The sales volume in this business is increasing				
The percentage of profits on sales is increasing				