

THE IMPACT OF TAXATION ON BUSINESS PERFORMANCE

CASE STUDY: CHAKALA ENTERPRISE

(ARUA DISTRICT)

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS  
AND MANAGEMENT IN THE PARTIAL FULFILLMENT OF THE  
REQUIREMENT OF THE AWARD OF A BACHELOR'S DEGREE  
IN HUMAN RESOURCE AND MANAGEMENT OF  
KAMPALA INTERNATIONAL  
UNIVERSITY

Nov 2011

### DECLARATION

I **KONGA LILIAN FELIX REG NO: BHR/20047/82/DF** declare that this research project is from my own findings and has never been produced by anybody else for the same award in any institution.

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Signature ..... 

Date ..... 8-12-2011

### APPROVAL

This is to satisfy that, the research proposal entitled the impact of taxation on business performance to be submitted to the faculty of human resource management as a requirement for the fulfillment for award of degree in bachelors of human resource management has been KONGA LILIAN FELIX work and has been under my supervision.

Name of supervisor; **MR. BARASA HENRY**

Signature.....

Date .....

## **DEDICATION**

I dedicate this piece of work to the Almighty God who loves cares and gives me life and knowledge to do things through Him, to my loved Mum Grace, and my Daddy Felix. my brothers and sisters for their efforts that made me become who I am today and notification accorded to me during my research. May God bless you abundantly?

## **ACKNOWLEDGEMENT**

This is a great pleasure to pass my sincere thanks to the authorities and the entire staff of Kampala International University for the good academic excellence and the good atmosphere provided for us during our studies.

More appreciation goes to my supervisor Mr Barasa, Ester Samuel, Felix, Rose and Ester, Emma for their good guidance, care and support given to me throughout my research work and writing of this dissertation. May God bless your entire family?

I further pass love thanks and appreciation to my brothers and sisters Joyce, Yani, John and Emmanuel for their caring and giving me parental advice.

Finally my sincere thanks go to my friends Paul, Fatima, Lakizo, and Steven who helped me academically, spiritually, material, physically, socially. May God bless them?

## **TABLE OF CONTENTS**

<b>DECLARATION.....</b>	<b>i</b>
<b>APPROVAL.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iv</b>
<b>TABLE OF TABLES.....</b>	<b>v</b>
<b>ABSTRACT.....</b>	<b>vi</b>

### **CHAPTER ONE**

1.0 Introduction.....	1
1.1 Background of the study.....	1
1.2 Statement of the problem.....	3
1.3 Purpose of the study.....	3
1.4 Specific objectives of the study.....	4
1.5 Research questions.....	4
1.6 Scope of the study.....	4
1.7 Significance of the study.....	4
1.8 Conceptual frame work.....	5

### **CHAPTER TWO**

#### **LITERATURE REVIEW**

2.0 Introduction.....	6
2.1 Definition of the concepts.....	6
2.2 Relationship between taxation and business performance.....	6
2.3 classification of taxes.....	7
2.4 Tax rate structures.....	8

2.5 Types of common taxes.....	10
2.6 Principles or canons of taxation.....	12
2.7 Objectives of taxation.....	14
2.8 The effects of taxation.....	16

### **CHAPTER THREE**

#### **METHODOLOGY**

3.0 Introduction.....	18
3.1 Research design.....	18
3.2 Area of study.....	18
3.3 Study population.....	18
3.4 Sampling design.....	18
3.5 Data collection instruments.....	18
3.6 Research procedure.....	19
3.7 Data analysis and presentation.....	20
3.8 Research limitation.....	20

### **CHAPTER FOUR**

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

4.0 Introduction.....	31
4.1 respondent characteristics.....	31

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS.**

5.0 Introduction.....	40
5.1 Personal data.....	40
5.2 Summary of the main finding of the study.....	41
5.3 Conclusion.....	41
5.4 Recommendations.....	42
5.5 Suggested areas of the study.....	43.
i-Questionnaire.....	44
ii- References .....	45



## **LIST OF TABLES**

Table 1: showing the age of the respondents

Table 2: showing the gender distribution of respondents

Table 3: showing the marital status of respondents

Table 4: showing the level of education of respondents

Table 5: showing the taxation systems

Table 6: showing how tax assessment forms have being delivered to the traders

Table 7: showing how long the respondents respond after receiving tax assessment forms

Table 8: showing how respondents always understand taxation

Table 9: showing how the taxation affects the business performance

Table 10: showing some of the obstacles to taxation

Table 11: showing measures to improve on taxes affecting business performance in Arua

## **ABSTRACT**

Much of businesses have been recognized as engines of economic growth, there has been poor performance of these businesses because of the high taxes imposed upon them. They pay 1% of their turn over in Income Taxes without allowances for any deductions. This undermines their growth and performance. This therefore made the researcher to carry out a research on the impact of Taxation on business performance. The research will be carried out in Arua district.

In order to do this, the researcher had used the available literature from Uganda Revenue Authority, the questionnaires' and interview guide in order to gather the relevant data from the concerned parties.

The researcher basically laid emphasis on how businesses fund their operation, responses of the businesses to Taxation, effects of Taxation on business performance and the various forms of Taxation

The research findings indicated that some of the problems businesses are facing are high Taxes as result of use of illegal means of tax collections, lack of information and failure to offer incentives like tax holidays and payments in installment basis. Businesses will continue to perform poorly as taxation is seen as the main cornerstone to growth and performance of businesses. However the degree of relationship between taxation and performance of business could no be determined quantitatively. Though it can be determined qualitatively that profits internally generated are main source of businesses, Taxation therefore greatly affects their business performance.

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

This chapter basically looks at the background of the study, statement of the problem, purpose of the study, research objectives and research questions, scope of the study, and significances.

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

According to Dorra Hancock (1998/1999), Taxes have existed virtually as long as there have been organized governments. In the middle ages, individuals provided services directly to their lords. These were all taxes although they were not monitored.

In modern communities, it is generally accepted that government has to collect taxes in order to pay for the collective services to be rendered to the public. In this context, Taxation is considered to be the transfer of monetary resources from the private sector to the public sector. However, unlike most transfers, it is not entered into voluntarily. Taxation is compulsory. The argument for Taxation to be compulsory rotates around the need for public services. (According to Jotham Gruber (2005), Public Finance and Public policy, Worth Publishers)

The forced transfer may appear to be violation of human freedom but transfers through the government are the mantle of legality and respectability conferred upon them by the political process. Problems only arise in distinguishing legitimate collections from illegitimate uses of powers of Taxation.

According to Income Tax Act 1997, Tax is a major source of government revenue. This can be subdivided in to the following:

Taxes on income and expenditure i.e. Corporation tax, income tax, Expenditure tax, Interest tax and similar other taxes if any.

Taxes on property and capital transactions i.e. Taxes on specific forms of wealth and its transfers such as estate duty, Wealth tax, land revenue, stamp and Registration fees.

Taxes on commodities and services i.e. Taxes on production, sales, purchase, Transport, storage and consumption of goods and services.

**Non tax revenue of the government can be divided in to three sections.**

Currency, coinage and profits.

Interest receipts, dividends and profits.

**Taxes collected by central government**

These include; Income Tax, Corporation Tax, Capital gains Tax, value added tax (VAT), excise duty and import duty etc

According to Dan Schisler (2004), the federal government enacted the first federal income tax in 1861 as a method to finance the civil war. Prior to that time; federal tax revenue came primary from excise taxes and duties on imported goods. Once the war was over, the congress repeated the income tax, congress again passed a federal income tax in the late 1800's in order to broaden the types of taxes and to increase federal revenue.

According to the Bible, the King Solomon of Old Testament pointed the need for taxes to be applied for civil purposes (Kings 4:7;9:15;12:4) and these amounts were increased during times of foreign occupation.

The early Christians of the New Testament including Jesus supported the payment of taxes."Render unto Caesar the things that are Ceasar's".it is even recognized as a duty whether as a "Telos" on merchandise or travelers (Matt.17:12), an annual "pharos" on property tax (Luke 20:20; 23:2), a "kensos"or poll tax (Matt.22:17; Mark12:14 or the tribute money of a temple-tax (Matt.17:24-27).

Aura district was created and started operating formally in the financial year 2001/2002 after approval by parliament in November 2001. It is bordered by the South Sudan in the north, Mayo district in the east, in the south by Aura and the Nile and in the west by Koboko. The main businesses therefore carried out in Aura are management of small Hotels, cattle trade, trade of various items and so on.

However, some of these businesses have not been stable and some of them have broken down completely. Businesses have been affected by a number of factors which among them include

taxation. It's for this reason that the researcher sought to examine the impact of taxation on business performance.

In a bid to widen the tax base so as to raise revenue to finance its recurrent expenditure and the implementation of Structural Adjustment Programs (SAP) especially the tax reforms and particularly aggressive taxation on businesses, government came up with different methods of collecting taxes from all sources of income mainly business, employment and property income (income Tax Act). This widening of the tax base and aggressive taxation has affected the performance of businesses since taxes consume 1% on sales hence reducing their profits.

Through proper taxation, local governments are able to produce more out put than would have been where taxation flow is only limited to specific sections of businesses.

However, lack of proper taxation in Aura has led to poor budgeting, ineffectiveness in the implementation of different projects and sectors.

## **1.2 STATEMENT OF THE PROBLEM**

In Uganda emphasis has been put to improve on taxation as a formality but most local governments have failed to perform to the public expectations. The taxation in Aura has resulted in to poor relationship, lack of trust, poor coordination between traders and tax authorities in Aura and also increases the rate of conflict between the traders and the tax authorities. This in turn affects performance of the services offered to the public including poor budgeting and planning.

**Other non tax revenue include;** Administrative services, public services commission, police, Agriculture Allied services, industries and minerals.

### **Taxes collected by local government;**

These include; Graduated poll Tax though was suspended by the finance minister in Uganda effective on 1<sup>st</sup> July 2005

Land rates, fees and licenses

### **1.3 PURPOSE OF THE STUDY**

The purpose of the study was to examine the relationship between taxation and business performance in Arua Districts.

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

The following were be the objectives under which the research will be carried out.

- To examine the relationship between taxation and performance of business in Arua District.
- To find out how taxation affects the performance of business in Arua District.
- To examine the forms of taxation used in Arua District.

### **1.5 RESAERCH QUESTIONS**

- What was the relationship between taxation and business performance in Arua?
- How does taxation affect business performance in Arua?
- What were the forms of taxation used in Arua?

### **1.6 SCOPE OF THE STUDY**

The study was carried in northern Uganda in the District of Arua in West Nile. The researcher had chosen Arua due to its nearness to the researcher's residence and easy access to required information and this cover all those administrators and traders that are based in the town council operating different types of businesses.

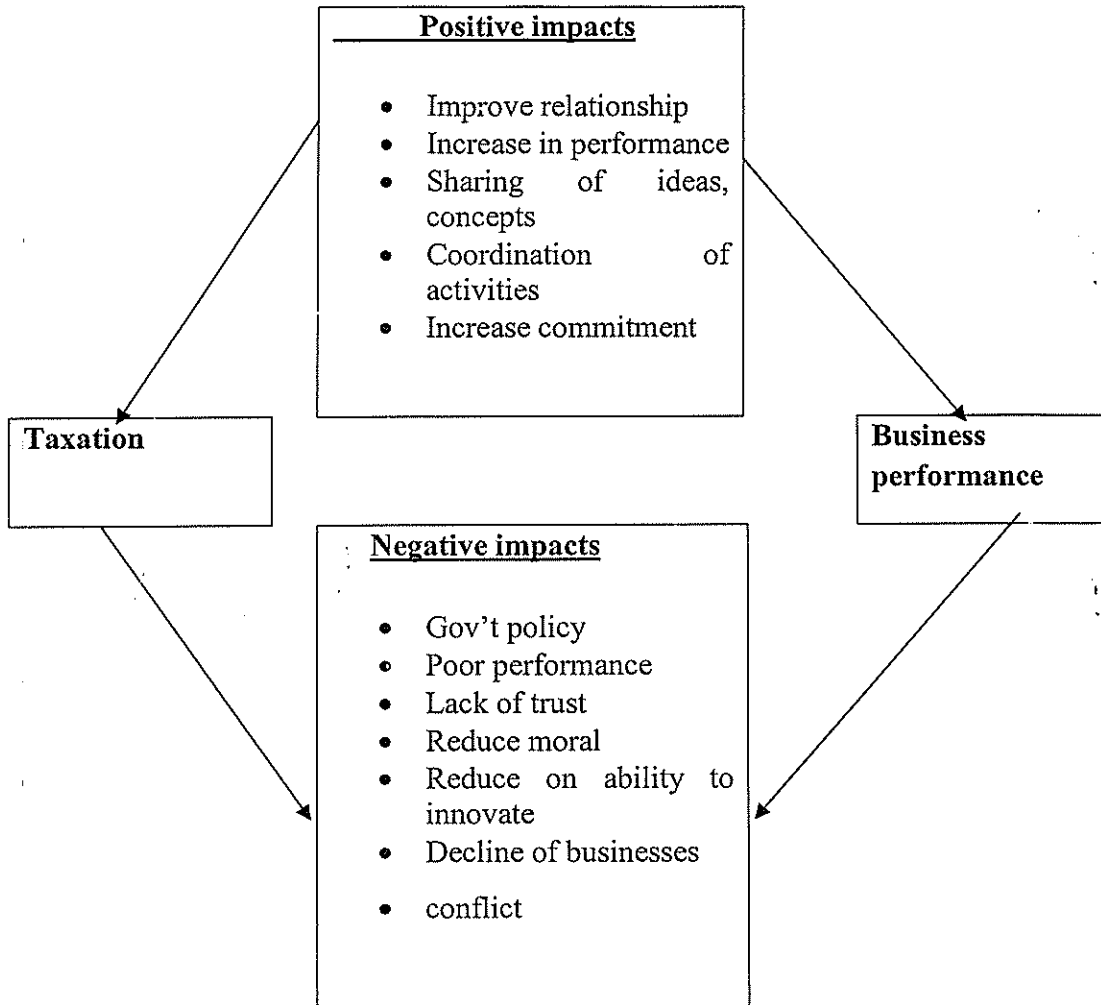
### **1.7 SIGNIFICANCE OF THE STUDY**

- This study was useful in finding out how best the management of tax authorities in Arua can effectively tax for better performance of business in town council.
- To provide up to date literatures for academicians and managers in the department of tax and findings may be used for future literature review
- The study was also useful to the policy makers of Arua District in providing effective taxation system for better performance on the business.
- It can be used by other researchers, students of Kampala international University, lecturers and Administrators for further reference.

## 1.8 CONCEPTUAL FRAME WORK

Independent

dependent



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

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

According to Dora Hancock (1998/1999), taxation is a compulsory payment made to a physical authority as a cost of administering certain services to the public i.e. the compulsory payment made to the government by the public to enable it carry out its functions such as construction of roads and hospitals,

Performance; Byars (2000 pg2010) defined performance as the way in which an activity is done/accomplished in a particular level of standards to which a task is accomplished schools .

Manasseh Tumuhimise (2002) defined Taxation as a compulsory and non refundable contribution exacted by government for public purposes. This payment is not followed by concurrent benefit in return. The charge or levy is instituted by law.

##### **2.2 RELATION SHIP BETWEEN TAXATION AND BUSINESS PERFORMANCE**

The high level of taxes dropped from being the leading constraint in 1994 to the second leading constraint in 1998 (Reininkka and senson, 1998). Taxation poses a risk to a firm's operations in terms of extra costs such as bribes to acquire certain exemptions. The major source of unfairness creates growth of certain firms while others remain small and even run out of business as they are being suppressed with the heavy burden.

Glens Fekins and Rup Kwandha (2000) argues that presumptive tax creates both administrative and collection inconvenience. They further say that because the general practice is to apply a fixed rate without really looking at the profits go, this t may result in under or over taxation. On many occasions, firms that are just at break even pay taxes out of their capital investment at the same rate like those that have made profits. As a result, this erodes the available capital and over time may lead to collapsing of a firm.



Presumptive tax if well assessed is payable out of profits. But the dilemma is how to determine profits if a firm does not keep its records and is not allowed deductions while operating. As a result of lack of skill, this tax on many occasions is paid by firms that are not making profits. Since this comes out of capital; the growth of these firms is curtailed. Actually presumptive tax reduces the profits of firms hence their growth.

In essence, the higher the tax, the poorer the performance of the firm (Pervaiz, 2000). Businesses are therefore affected in two ways by paying presumption tax on one hand; this reduces profits to be reinvested since most of the businesses raise funds out of private savings. This therefore affects growth. Also as prices are raised to contain the tax effects, the sales volume reduces hence an effect on the business performance.

### **2.3 CLASSIFICATION OF TAXES**

According to Okello Kalist (2006) Taxes have been classified in to two types as Direct and in direct tax.

**Direct taxes:** refers to those taxes that affect the individual or firm directly by way of a charge on their earnings.

**Indirect taxes:** are those that are paid to the government by an intermediary then passed on to the customer by including the tax in the final price. They are taxes on outlays or consumption as opposed to taxes on incomes or earnings. Indirect taxes can be avoided by an entity. The cost of indirect taxes is borne by someone other than the person responsible for paying them. For example, taxes on liquor and cigarettes are often included in the price of the items, even though the seller sends the payments to the government, the buyer is the real payer hence indirect taxes are sometimes described as hidden taxes because the purchaser of goods or services may not be aware that a proportion of the price is going to the government. (J.C. Rocket-2001).

Below are some of the examples of Direct and Indirect tax

No	DIRECT TAXES	INDIRECT TAXES
1	Individual income tax	General sales, turn over or VAT
2	Corporate tax	Excise on local productions
3	Withholding taxes	Profits on fiscal monopolies
4	Taxes on pay roll and labor	Taxes on specific services
5	Taxes on net wealth	Import duties
6	Estate ,inheritance and gift tax	Export duties
7	Poll tax/graduated tax	Profits on foreign exchange

In law, the terms may have different meanings. In US constitutional law, for instance, Direct taxes refer to poll taxes and property taxes, which are based on simple existence or ownership.

Indirect taxes are imposed on rights, privileges and activities. Thus, a tax on the sale of property would be considered an indirect tax whereas the tax on simply owning the property itself would be a direct tax.

J .Mirrlees (1971), emphasize that the distinction can be subtle, but it is important under US law, since the United States constitution requires that direct taxes be apportioned according to population. That is, if one state has twice the population of another state, then the direct tax revenue from that state must be exactly twice that from the other state.

## 2.4 TAX RATE STRUCTURES

According to Niswander Frederick (2004), the study of taxation must begin with a basic understanding of the tax rate structure at the tax system. Taxes are most often levied as a percentage called the **Tax rate** at certain value.

According to J.E. Stiglitz (1976), the tax base is the legal description of the object on which a tax is imposed, such as how much income and assets one has, earns, spends, and inherits. According to Sally M. Jones (2004), an “**Advalorem tax**” is one where the tax base is the value of a good, service, or property. Sales taxes or tariffs, property taxes, inheritance taxes and value added taxes are different types of advalorem tax. An advalorem tax is typically imposed at the time of

transaction (sales tax or value added tax (VAT)) but it may be imposed on an annual basis (property tax) or in connection with another significant event (inheritance tax). The alternative to advalorem taxation is a fixed rate tax, where the tax base is the quantity of something, regardless of its price. For example, in the United Kingdom a tax is collected on the sale of alcoholic drinks. Therefore there are different types of tax rate structures.

### **Progressive tax**

J.E. Stiglitz (1976) describes progressive tax as tax where tax rate increases on the tax base, here the rich are charged a high amount compared to the poor who pay less. Progressive taxes are used to re-distribute the income between the rich and the poor hence leading to equitable distribution of wealth. This reduces the tax burden for people with smaller incomes, since tax takes larger percentage of their incomes.

### **Proportional tax**

According to Atkinson, A.B (1976), proportional tax is where tax percentage does not depend on the base, hence the tax is proportional to how much you earn, have or spend. This is where the tax payer pays the same proportion of the tax regardless of their different incomes i.e. the tax paid at the same percentage by every tax payer. Hence this form of tax is fair on one hand and on another, it's unfair for the poor people because they would have more burden compared to the rich.

### **Regressive tax**

J.E. Stiglitz (1976) emphasized that here the rich people are charged less than the poor people because as one's income increases, the percentage of tax paid reduces. Hence this type of tax promotes income inequality.

### **Degressive tax**

According to Atkinson, A.B (1976), this is a tax where the rate increases as one's income increases up to the level where the tax rates become constant.

## 2.5 TYPES OF COMMON TAXES

**Income tax.** According to Hellwig M.F. (2004), income tax is a tax levied on individual economies which is earned during a certain period; it varies with sources and size of tax payer's income and various other characteristics as laid down by law. Income tax is also known as a progressive tax because the tax rate increases with increasing in ones income. Some critics characterize this tax as a form of punishment for economic productivity. Other critics says that income taxation is inherently socially intrusive because enforcement requires the government to collect large amounts of information about business and personal affairs, much of which could be considered proprietary. The crucial invention permitting the reliable collection of high income taxes was direct withholding of taxes from payrolls by employers. This reduces the percieved burden of the tax, because employees never handle the money.

### **Corporation tax:**

According to Mugume Christine,(2006), this is a tax that is leveid on net incomes of a company and business. Hence it will be charged on the profits from sales, interest and dividents received, rents and royalties', receipts from services and capital gains and losses.

### **Capital gains tax:**

According to Okello Kalist (2006), Capital gains tax is a tax levied on transactions which produce profit, but not in the form of income. For example capital gains on transfer of property or taxes on gains made by an investor on the sale of shares he bought and sold on a stock exchange. This tax is also not developed in Uganda because of the low level of such transactions. In the developed countries, this tax has been assumed of importance largely because of the development of financial markets and the need to control the transactions there.

**Sales tax:** Manasseh Tumuhimise (2006), said sales tax is a form of excise duty levied when a commodity is sold to its final consumer, it is usually applied to only one stage of business activity. They are generally held to discourage retail sales. The question of whether they are generally progressive or regressive is a subject of much current debate. People with higher incomes spend a lower portion of them, so a flat rate sales tax will tend to be regressive. It is therefore common to exempt food, heating and lighting costs from sales taxes, since poor people

spend a higher portion of their incomes on these commodities, so exempting them should make the tax more progressive. It can be argued that sales tax directly discourages improvements in the efficiency of production because it taxes the purchase of factory equipment.

#### **Value Added Tax:**

According to Guesnerie, R-(1995), A Value Added Tax is a tax that is imposed on the value of a commodity at each level of production during the production process. Hence it is also refers to goods and services tax, it applies to every operation that creates value. Economic theorist argued that this minimizes the market distortion resulting from the tax. A VAT was historically used when a sales tax or excise tax was uncontrollable. For example, a 30% sales tax is so often cheated that most of the retail economy will go off the books. VAT distributes such a tax in small enough increments that it becomes more trouble to cheat than to pay the tax. However, VAT punishes production, which is considered a bad effect.

#### **Property tax:**

Manasseh Tumuhimise (2002) emphasized that property tax is usually levied on the value of property owned, usually real estate. Property taxes may be charged on a recurrent basis or upon a certain event, the common type of event that drive property taxes are the stamp duty charged upon change of ownership and inheritance tax which is imposed in many countries on the estates of the deceased. Some believe that inheritance taxes do not have any harmful effect on the economy and may even be beneficial as they encourage consumer spending by the elderly. However, they are also believed to discourage productivity and to disrupt the continuity of family-owned businesses.

#### **Customs duty:**

According to Okello Kalist (2006) Customs duty is a tax that is imposed on imported goods. This tax is to discourage more imports in the country than exports.

## **2.6 PRINCIPLES OR CANONS OF TAXATION**

According to Frederick Niswander (2004), the principles of taxation are concepts that provide guidelines towards a good tax system or tax payer can contribute to government revenue with

maximum compliance in order for government to optimize its tax revenue. Some of the canons include:

### **Equity**

Manasseh Tumuhimise (2002) emphasizes that tax liability should match with tax payer's income, consumption or transactions levels which will be an important criterion of levying taxes. Hence Equity has two dimensions, horizontal and vertical.

Horizontal equity refers to the taxing of all persons at the same level of income or consumption uniformly.

Vertical equity refers to treatment of people with different income levels and vice versa. The canon implies equity of sacrifice or ability to pay the tax in proportion to the income of the tax payer.

### **Simplicity**

According to Sally M .Jones (2004), a good tax should be the one that is easy to understand i.e. the tax payer must be able to know the exact the amount to pay and when and how much to pay without any difficult. If the tax legislation is so complex to understand by the taxable person, this increases the level of resentment paving the way to tax evasion, it will also require a lot of manpower and facilities to implement.

### **Certainty**

According to Frederick Niswander (2004), the tax each individual is bound to pay ought to be certain and not arbitrary, in order to avoid corruption. The time of payment, the manner of payment and the quantum to be paid ought all to be clear and plain to every tax payer. In other words, nothing should be left to the discretion of the tax body. In addition, the government should be fairly certain about the amount of tax revenue and the time when it is expected to flow in the consolidated account.

### **Convenience**

According to Sally M .Jones (2004), every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the tax payer to pay. The payment of Value Added Tax (VAT) is convenient because the consumer pays this tax when he buys commodities and at the time when he has the means to buy (Frederick Niswander, 2004). The tax authority has tried to open offices as close to the tax payers as possible and to direct them to pay at the specified banks nearest to the tax districts.

### **Flexibility**

According to Diamond, P.A (1971), there should be no rigidity in taxation. The tax system can be changed to meet the revenue requirements of government and at the same time help the tax payers to develop their businesses. The tax system ought to be able to respond easily to changed economic circumstances.

### **Productivity**

A tax should produce sufficient and stable revenue i.e. bring constant revenue

### **Neutrality**

According to Manasseh Tumuhimise (2002), a good tax should not distort the way a community would otherwise use its resources, unless it is very clear that a change is socially desirable.

### **Diversity**

According to Diamond, P.A (1971), there should be variety in taxation. A single or few taxes would neither meet the revenue requirements of the government nor satisfy the canon of equity. There should be a variety of direct and indirect taxes but again not too many to administer. For example Uganda Revenue Authority (URA) is trying to increase the tax base through introduction of presumptive tax on small business that are below a turnover of 5,000,000 per annum or the recent introduced "local government service tax"

## **Efficiency and Effectiveness**

Dora Hancock (1998/1999), emphasis that a good tax should have three basic objectives of tax systems such as; to supply enough revenue to pay government expenses, redistribute wealth, secure economic stability, when a tax structure realizes these three objectives, it can be regarded as effective

## **2.7 OBJECTIVES OF TAXATION**

Hellwig, M.F. (2004), has viewed that the provision of revenue is the primary objectives of levying taxes. Government has to play its traditional role of policing and protecting its citizens and requires money to finance such activities. Governments have assumed more roles with time and require more money for the purpose. Through taxation government today provide infrastructure in form of roads, schools, public buildings, hospitals, bridges, etc. To be able to finance these actives, it requires finances and these are received through taxation.

According to Dora Hancock (1998/1999), Taxation encourages saving in the economy and provides money for investment. Thus helps in allocation of resources from private to public sector. In poverty stricken countries, government has a role of stimulating growth so as to increase the standard of living of the people. Since these countries are capital deficient and lack managerial skills and the enterprising spirit necessary for economic growth, government has to come in and establish basic and strategic industries to pioneer growth. (Kath Nightingale, 1997),

According to Jotham Gruber (2005), taxation refers to as the distribution of income and wealth. He noted that uncontrolled capitalism resulted into unprecedented miseries on the populaces, Child labor, long working hours, poor working conditions and other economic hardships which were the consequences of the free market economy. Government through taxation has invariably intervened in economy specifically in various forms.

Harvey S. Rosen (1995) said that taxation is used to reduce concentration of wealth and means of production. This is through consolidation of means of production through government ownership of business and also through regulatory measures which control contentious expenditure of the rich.



Pius K Bahemuka (2006) has view that Government through minimum wages legislation and ceilings on salaries, attempts to reduce disparities in incomes. Taxation is used here either through establishing industries owned by government where salaries will be controlled or tax heavily in higher incomes groups than those in lower income groups.

According to Dan Schisler (2004), in many countries especially the third world where poverty is rampant, large sections of the society cannot afford to facilities the public services such as education, health and an number of social amenities. Government assists such classes with the provisions of such services and amenities with funds raised through taxation.

According to Bierbrauer, F. (2005), development of backward regions, the private sector tends to concentrate to industries hence the development in certain areas which may have special factors attracting in such industry. Consequently, region without a factors to attract industry tend to lag behind. Government has to encourage balanced regional development and it can assist to develop backward areas by either providing necessary fund through taxation or creating increasing incentives like tax rebates.

Dora Hancock (1998/1999), has identified that market economy tends to have recurring trade cycle of rising and falling incomes, output, employment and price. According to Kath Nightingale 1997, taxation has been used to neutralize such flotation in the economy. This was emphasized more as the great depression of the 1930's which led to philosopher like Keynes to develop prescription for the economy in such condition. Reduction of taxes during recession stimulates production as more money is availed to investor.

2.8 EFFECTS OF TAXATION ON THE BUSINESS PERFORMANCE

According to Dora Hancock (1998/1999), some economists view taxes as factors that create inefficiencies in the economy. Hence the graphs describe how taxes have impacts on the business.

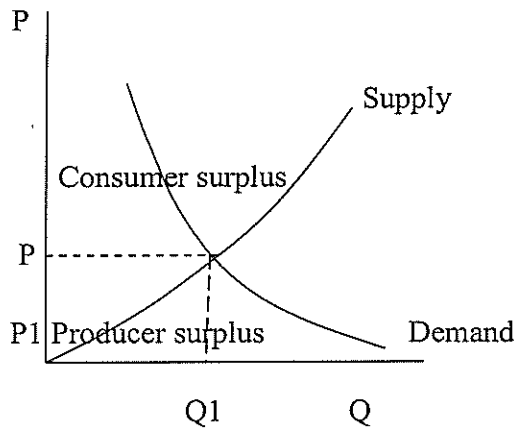


Figure 1: Equilibrium

Figure 1 indicates a good without any government interference. This good could represent anything from televisions to labor. At this equilibrium, quantity  $Q_1$  of the good are sold at price  $P_1$ . The consumer and producer surplus are both high.

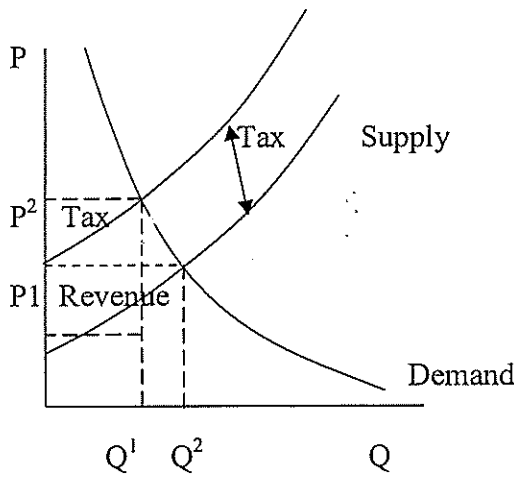


Figure 2: With a tax

Figure 2 shows the introduction of a very simple tax. The tax charges a flat fee whenever a consumer wishes to purchase the good. The price thus rises to  $P_2$ , and since fewer consumers wish to purchase the good at the higher price, the quantity produced falls to  $Q_2$ . The government receives the amount of the tax for each unit sold, and this amounts to the region shown. This is the amount of revenue the government receives for this tax.

Note that in this situation the price of the good to consumers' only increases by half the amount of the tax, the other half of the tax is borne by the producer. Thus both consumer and producer surpluses shrink by equal amounts. For many goods this is not the case. Who bears the cost of the tax is determined by the elasticity of the good. For inelastic goods like cigarettes, and gasoline almost all of the tax is paid by the consumer.

Also note that this flat tax is extremely simplistic. Almost all taxes are a percentage of the cost of the good, many are also progressive. This is especially true with income taxes.

The tax does not only change who gets the surplus, it also shrinks the entire amount of surplus available in the society by the amount shown with figures  $Q_2$  and  $Q_1$ . This is the inefficiency which causes economists to dislike taxes.

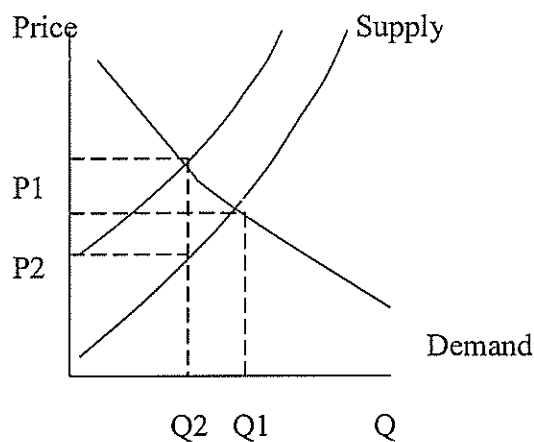


Figure 3: Net Societal Loss

This model does not take into account what the government uses the tax money for, however, a tax can be justified if it removes other greater inefficiencies in the economy, such as monopolies, or if it is invested in the society and causes the economy to grow enough that it makes up for the loss in inefficiency

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter presents and describes the methods and techniques that were used to collect and analyze data. It included the study population, data collection instruments, processing and analysis and limitations of data.

#### **3.1 RESEARCH DESIGN**

The researcher used both qualitative and quantitative methods of data collection analysis.

#### **3.2 AREA OF STUDY**

The study was carried out in Arua District. Most of the respondents will be got from traders in different sectors of business in Arua.

#### **3.3 STUDY POPULATION**

The population under study will comprises of 50 respondents and this sample were selected from different sectors of the business.

#### **3.4 SAMPLING DESIGN**

The researcher used simple random sampling techniques in a sense that whether one is on probation or confirmed was put into consideration. Respondents will be identified depending on their willingness and availability to take part in the exercise or study. The various sectors of business will form samples where respondents were selected at random.

#### **3.5 DATA COLLECTION INSTRUMENT**

The data collection instruments was basically self administered questionnaire, which will comprise of open and closed ended questions that will require respondents to answer all the questions to the best of his or her knowledge. Interviews were also used in data collection from which the researcher had to ask questions and respondents answer from selected sectors of business

## **Interviews**

An interview guide was used especially with the secretariats coordinator, town clerk, tax officer, law enforcement and the traders. The researcher carried out face to face interviews with the respondents. The researcher also explained to the respondent why the study was carried out. The research will be preferred because of the fact that the researcher had to face interaction with the respondent and to be able to ask probing questions relevant to the study.

## **Questionnaires**

These are pre-formulated written set of questions to which the respondents were record their answers. It is an efficient data collection mechanism when the researcher knows exactly what required and how to measure the variables of interest. Questionnaires can be administered personally or mailed to respondents. For this case study, the questionnaire was self administered to the targeted respondents. The questionnaire were preferred because they save time especially when the group were big and geographically scattered, they can be stored for future reference, they give straightforward answers and therefore easy to evaluate.

## **Observation**

Well as interviews and questionnaire elicit responses from the respondent; it is possible to gather without asking question by observing people in their natural work environment and recording their behaviors. The researcher played one or two roles, none participant observer. As a non-participant observer, the researcher will collect data in the role of pure researcher without trying to become an integral part of the business. Here the researcher become part of work team and in the process observes traders behaviors and the business performance.

## **3.6 RESEARCH PROCEDURE**

The researcher obtained an introduction letter from Kampala international university, school of business and management to Arua District, permission was sent from the town council authorities to allow the researcher conduct this study, participants willing to provide information will be guided in the questionnaire filling process and questions will be asked by the researcher for clarification.

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

After collection of data, only correctly filled questionnaires were coded, edited and analyzed. Analyses will be carried out by use of frequencies; percentages and true finding are presented using tables.

### **3.8 RESEARCH LIMITATION**

The researcher is likely to face the following problems;

- a) Most of the Arua traders were busy people therefore too limited time is likely to pose on the researcher. The researcher solved this by socializing with few for them to link him with more of them.
- b) Some of the people were not willing to give out information due to lack of trust on the researcher.
- c) Arrogance on the research since the research was not beneficial to them in any way.
- d) Some traders asked for payments in order to reveal the information on their business for instance, the business profiles and the names of the work

## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION AND ANALYSIS.

#### 4.0 Introduction.

This chapter presents the main findings of the research and interactions. These have been presented in relation to the specific objectives of the study and collaborated by the reviewed literature. Similarities and differences between the findings of the study are compared and contrasted with those on the ground using simple percentages and frequencies to present it. Reviewed literature is then used to support and argue the findings of the study.

#### 4.1 Respondent's Characteristics.

A preliminary findings about the respondents covered variables such as age, sex, marital status, level of education and sectors in the town council and in the business. The findings are presented in the tables 1 to 14.

**Table 1: Findings on the age of the respondents.**

Age range	Frequency	Percentage
20-26	5	20
26-30	25	50
31- 48	20	30
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

Table 1 shows that many of the traders are in the medium age (between 26-30), when the researcher directly interviewed the traders why majority of them lie in that range, they said this is where one has to work hard to support the family and realise a better standard of living.

According to the research, there are few respondents in the ages of 20-26 and this is where the youths lie who do not have viable capital to start up a business.

Findings in table one attest to the fact that all the respondents were mature and adults who could comprehend the questions put to them and thus revealed that the data provided is factual and reliable.

**Table 2: Findings on the sex of the respondents.**

Sex	Frequency	Percentage
Males	39	65
Females	11	35
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

This finding shows that the researcher was gender sensitive. Findings on table 2 show that there were more male traders than females with the percentages of 65% and 35% respectively. This is due to domestic work assigned to the females. One of the respondents revealed that females have higher chances of breaking the glass ceiling if involved in business. Glass ceiling is the artificial barrier created by their husbands for them to have access to acquire funds from financial institution.

**Table 3: Findings on the marital status of the respondents**

Gender category	Frequency	Percentage
Married	45	90
Single	5	10
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**



The table 3 above shows that the majority of the traders are married with 90% compared to the single ones with 10%. According to one of the respondents that most of the traders are married because they carry out business in order to support their families when interviewed directly by the researcher.

Another reason is that most men think that their role on this earth is to take care of their families and see that business is the only option to earn income to provide these basic needs for their families.

**Table 4: Findings on the education level of the respondents.**

Level of Education	No. of Respondents	Percentage
Primary	05	13
Secondary	20	40
Diploma	10	30
Graduate	15	17
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

Findings in table four shows that most of the respondents were literate with percentages 13% for primary leavers, 40% for secondary, 30% diploma and 17% for graduates when interviewed directly. This implied that the respondents were able to read and comprehend the questions, thus the responses from them can be regarded valid and reliable.

**Table 5: Findings on the opinions of the respondents on the taxation system in Arua.**

Understanding Tax system	Frequency	Percentage
Clear	15	30
Not clear	30	60
Non	5	10
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

Table 6 shows that 15 traders representing 30% told the researcher that most of the traders do not understand the taxation systems that are used in Arua, meaning that they have knowledge about Taxation.

30 respondents represented by 60% told the researcher that most of the traders do not understand the Tax systems used in Arua. This is because government imposes different types of taxes such as property Tax, Income Tax and Value Added Tax (VAT) that made it difficult for traders to understand since most of them are not educated about these various types of taxes and yet they are important for the economic development of the country.

5 respondents represented by 10% did not respond to the questionnaire meaning that they were ignorant about government tax systems that is why they did not respond to the questions asked by the researcher.

**Table 6: Findings on how tax assessment forms have been delivered to the traders.**

Mode of tax assessment form delivery	Frequency	Percentage
Verbal	2	4
Written	48	96
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

According to table 8, 48 respondents representing 96% revealed that tax assessment forms are delivered to the traders in form of letters, where the letters contain classes under which your business belongs and how much you are supposed to pay and also the period for traders to respond to the Tax office. According to 2 respondents, the tax assessment forms are not delivered but the tax authorities go door to door collecting the tax without being informed and at the end have been cheated and exploited.

**Table 7: Findings on the response of traders after receiving the Tax assessment forms**

Response of traders after receiving the tax assessment forms	Frequency	Percentage
Instant	0	0
A day	0	0
A week	10	20
A month	30	60
Non	10	20
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: secondary data**

According to table 7, most of the traders respond after a month which is presented with 60% that it is because they have small form of business with low turnover where by making it difficult for them to respond in time and instantly after receiving the tax assessment forms.

According to the research carried out by the researcher, there are few traders that respond in a week and that do not even respond totally though they receive the assessment forms, their main aim is to evade taxes levied on them and enjoy the little profits got from the business.

**Table 8: Findings on whether respondents understand Taxation.**

	Frequency	Percentage
Yes	5	10
No	45	90
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

According to table 9, 45 respondents represented by 90% told the researcher that most of the traders do not understand Taxation that is used because government impose different taxes such as property tax, Income Tax and Value Added Tax(VAT) that makes more of cash outflow inform of taxes . According to 5 respondents represented by 10% said that they understand

taxation, according to research findings, those who had knowledge about taxation are those who have been educated about taxation and its importance to the economic development.

**Table 9: Findings on the effects of Taxation on the performance of business in Arua**

Category response	Frequency	Percentage
Yes	40	80
No	10	20
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

According to the findings, 40 traders said that taxation really affects them much more negatively than positively because little is gained as profits out of the sales but much of the operations are in a loss. This is especially with the Income Tax and Sales tax charged on the incomes and sales made by the business. However 10 respondents claimed that they don't feel the impacts of taxation on the performance of their businesses since they have knowledge about when to tax, how much to tax and the importance of taxation on the economic development of the economy.

**Table 10: Findings on the obstacles of taxation in Arua.**

Obstacles to Taxation	Frequency	Percentage
Low tax base	25	45
Corruption	20	30
Ignorance	5	25
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: primary data**

Findings in table 13 show that the major obstacle to taxation in Arua is low tax base. 25 of the respondents represented by 45% said that this is due to the small businesses that people are operating otherwise the volume and the tax base would be larger. While 30% of the respondents said that corruption is another obstacle to taxation where by most of the revenue collected is used for personal needs than to reward the tax payers. 5 respondents with 25% argued that it is the

ignorance of the traders on taxation otherwise taxation is one of the engines of economic development when understood well and paid accordingly.

**Table 11: Suggested measures to improve on taxes affecting business performance in Arua.**

Suggestions	frequency	Percentage
Local taxes assessed by local tax authorities	25	58
A serious examination of the magnitude of each enterprise	15	25
Tax administrators should have human face in assessment of taxes and their collections.	10	17
<b>Total</b>	<b>50</b>	<b>100</b>

In view of the mitigation measures for the above listed effects, respondents expressed the following; that the local taxes contributed by the enterprises should be assessed by local tax authorities, in addition, they called for a serious examination of the magnitude of each business before such an entity is assessed and levied tax. Lastly, they also expressed that the tax administrators should have human face in the assessment of taxes and their collection.

**CHAPTER FIVE.**  
**DISCUSSION OF THE FINDINGS, CONCLUSIONS AND**  
**RECOMMENDATIONS.**

**5.0 Introduction.**

This chapter mainly dealt with the discussions of the findings, conclusion and recommendations related to the impacts of Taxation on business performance. The researcher was specifically interested in analysis, taxation methods and its systems used, from the findings and analysis made after conducting the study revealed that there was so much correlation between business performance and Taxation as summarized below.

**5.1 Personal data**

In regards to the level of maturity of the participating respondents, findings in table one clearly showed that the respondents were above the age of 20 years. Such a level of maturity definitely, given a sane mental condition, enables a respondent to provide plausible and credible data as requested.

In terms of gender, careful attention was taken to ensure fair balance. As shown in table two, 65% of the respondents were males while 35% were females. This consideration was vital since women were increasingly becoming involved in productive enterprises. Therefore it was equally important that their views on the variables studies were taken into account also.

Findings in table four in relation to the education status of the respondents reveals that all the participating respondents were literate. This suggests that they were able to read and understand the questionnaire and therefore believed to have responded sincerely and appropriately to the items in the questionnaire.

**5.2 Summary of the main findings of the study.**

The summary of the findings were presented in accordance with the research objectives of the study.

The first objective was to determine the relationship between taxation and business performance in Arua. The study found out that Taxation acted as a cornerstone as far as performance was

concerned in Arua District. The record revealed that those traders who had the opportunity to discuss about their taxes before they were sent to Uganda Revenue Authority (URA) were doing well compared to their counterparts. Despite the fact that tax authority carried periodic Tax assessment whenever they send Tax assessment forms to the traders, the study also revealed that the tax assessment was not comprehensive.

The second objective of the study was to examine the effects of Taxation on the business performance in Arua, the researcher found out that poor taxation system really affects business performance because most of the traders in Arua operate on a small scale, have low turnover and less demand for their products where by the goods would stay over (3) months without being sold because the prices fixed on the goods contains tax charges which makes them expensive.

The last objective was to find out which common forms of Taxes are being used in Arua, the researcher found out that trading licenses and property taxes are being imposed by the government. This had been due to the small scale operation of businesses operated by the traders yielding low incomes and could not involve in international trade hence other forms of taxes became hard to implement.

### **5.3. CONCLUSIONS; -**

In view of the study objectives, findings and discussions, the following conclusions have been arrived at; -

The enterprises and or activities that attract taxes are still few in the area of study. The only few that appear to draw the attention of tax authorities being market vending, produce business, commodity retail and public services. The taxes which the mentioned activities attract clearly are impacting negatively in terms of expansion of the individual enterprises and the overall expansion in numbers of the enterprises in Arua.

Tax contributions directly and or indirectly are not favoring business performance. Neither the scrapping of the G/tax nor the institution of the local service tax is inspiring people to work

harder. Besides the enterprises find it difficult to hire labor as this may cause over assessment by tax authorities and or impact negatively on business profits.

Prices of essential commodities in the area of study have all increased. This increase is widely being attributed to the high taxes especially on petroleum fuel which is central in determining transport costs and thus commodity prices.

Findings show that tax contributions by individuals and enterprises lower the income and or profits accrued from the activities/enterprises. This overall reduces the take-home income and impairs the households to provide for their basic needs at household level.

#### **5.4 RECOMMENDATIONS;-**

In reference to the conclusions, the researcher wishes to make the following recommendations.

In assessing taxpaying on the enterprises, the assessors should examine closely the magnitude of a given enterprise in terms of the magnitude of investment cost of operation and actual profits before finally levying a tax or taxes on an enterprise.

New enterprises that the people establish to provide self employment should be encouraged and tax exemption or holiday should be given for such new enterprises. Produce inputs should have taxes on them lowered so that cost of production is lowered to allow enterprises buoyancy in trade.

Taxes on petroleum products (petrol and diesel) should be kept low to reduce on the transportation cost. Taxes on essential commodities such as food items, groceries imported or locally produced should also be kept as low as possible to discourage escalation of prices of commodities.

Enterprise owners should equip themselves with skills that enable increased production of goods/services so that they are able to make more income. Better ways of enterprise management



will also go a long way to reduce waste and unnecessary losses. Good book keeping coupled with better decisions will go a long way in determining profits and help in easy tax contributions.

#### **5.5 SUGGESTED AREAS OF FURTHER RESEARCH;-**

The effectiveness of local government revenue in providing public services in a town council/ sub counties.

The impact of Central Government tax revenue collection on the performance of cross boarder trade, a case study of Arua District.

## QUESTIONNAIRE

I am called KONGA LILIAN FELIX, a bachelor student of Kampala International University conducting research on the “impacts of taxation on business performance” a case study of Arua . The purpose of this study is to fulfill my academic requirements. Therefore I kindly request you to answer for me the following questions.

### SECTION A

Please tick in the most appropriate box.

1. Age

- a) 20-25 ☐ b) 26-30 ☐ c) 31-36 ☐ d) 41-48 ☐

2. Sex

- a) Male ☐ b) Female ☐

2. Marital status

- a) Married ☐ b) single ☐

4. Level of education

- a) Primary ☐ b) secondary ☐  
c) Diploma ☐ d) Degree ☐

### SECTION B

1. How do you find the taxation system in Arua?

- a) strong ☐ b) Not strong ☐ c) Non ☐  
a) Others (specify).....

2. How is tax assessment form being delivered to the traders?

- b) a) Verbal ☐ b) written ☐ (Others Specify

3. After how long do the traders respond after receiving the tax assessment form?

- a) Instant ☐ A day ☐ c) A week ☐  
d) A month ☐ e) None ☐ f) others (specify).....

4. Do the traders understand what taxation is?

- a) Yes ☐ b) No ☐ c) Others (specify).....

If know do the tax authorities educate them?.....

5. Does taxation really affect the performance of business in Arua District?

- a) Yes ☐ b) No ☐ c) Others (specify).....

if yes explain how?.....

☐☐

8. What are some of the obstacles to taxation in Arua District?

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

9. What are some of the solutions to the problem identified above?

.....  
.....

THANKS.

## APPENDIX

### THE TIME FRAME WORK OF THE STUDY

Data collection	August	2011
Proposal	September	2011
Dissertation writing	Oct	2011
Submitting	Nov	2011

### BUDGET FOR THE STUDY

Item	Amount in Ugandan shillings
Typing and printing	200,000
Literature collection	100,000
Data collection	200,000
Miscellaneous	50,000
<b>Total</b>	550,000

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