

EFFECTS OF TAXATION ON THE PERFORMANCE OF SMALL BUSINESSES
(A CASE STUDY OF YAMBIO MARKET, WESTERN EQUATORIA STATE SOUTH
SUDAN)

BY

JACKSON MARTIN ARAMA.


BBA/43622/101/DF

A RESEARCH DISSERTATION SUBMITTED TO COLLEGE OF ECONOMICS AND
MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS
ADMINSTRATION OF KAMPALA INTERNATIONAL
UNIVERSITY

JUNE, 2013

DECLARATION

JACKSON MARTIN ARAMA REG. NO: BBA/43622/101/DF declare that this research report was as a result of my own efforts. To the best of my knowledge it has never been submitted to any university or institution or any academic award.

SIGNATURE.....

NAME...JACKSON MARTIN ARAMA

DATE...07/06/2013

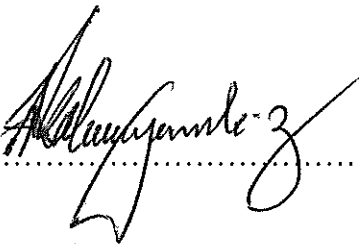
APPROVAL

This Research proposal by MR JACKSON MARTIN ARAMA was been done under my supervision and is being submitted to school of business and management for Examination with my approval.

Name of supervisor;

MR.KABABAMBE.JESSE.DAVID.....

Signature of supervisor


16/06/2013

Date

DEDICATION

his work is dedicated to my family, my beloved sisters and brothers, my supervisor ABAGAMBE JESSE DAVID and friends who toiled day and night without self Satisfaction but seek to share the little of their knowledge to empower me to accomplish this journey.

ACKNOWLEDGEMENT

I am greatly indebted to a number of people who helped me in various ways and enabled this booklet to see the light of the day.

In the first place I thank *my sister* **Miss Mary Nawai martin** and my mum **Nome Amugima** who sacrificed up to their last penny to make me what I am.

I am particularly indebted to my supervisor **KABAGAMBE JESSE DAVID** who not only gave me adequate instructions during the study but also went an extra mile to offer valuable suggestions, comments and criticisms which expedited the production of this work. For his tireless endeavors at the hour of need, I greatly appreciate

TABLE OF CONTENTS

DECLARATION	i
APPROVAL	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
ABSTRACT.....	vi
HAPTER ONE	1
INTRODUCTION	1
1 Background of the Study	1
2 Statement of the Problem.....	2
3 purpose of the Study	3
4 Specific Objectives	3
5 Research Questions.....	3
6 Significance of the Study.....	3
7 Scope of the Study.....	4
8 Conceptual Frame work.....	4
HAPTER TWO	5
LITERATURE REVIEW	5
1. Introduction.....	5
2. Types of taxation.	7
3. Purposes of taxes	8
4. Importance of small business.....	8
5. Demerits of taxation	8
6. Taxation of small businesses.	10
7. Taxes on owners of small businesses.	10
8 Effects of taxes and inflation on investment returns	11
9. The effects of taxation on the small. business sector	12
10. Increases in tax duty.	13

CHAPTER THREE	14
RESEARCH METHODOLOGY	14
0. Introduction.....	14
1. Research Design	14
2 Research Population	14
3. Data Collection Method and Procedures.	14
4. Data Analysis.....	16
CHAPTER FOUR	17
FINDINGS INTERPRETATIONS AND ANALYSIS	17
0 INTRODUCTION,	17
1 The effects of taxation on the performance of small, businesses	17
2 The relationship between taxation and the performance of small, businesses.	25
3 The consequences of taxation on the performance of small, businesses.	27
CHAPTER FIVE	31
CONCLUSIONS AND RECOMMENDATIONS	31
0 Introduction.....	31
1 Summary	31
2 Conclusion	32
3 Recommendations.....	32
REFERENCES	35
APPENDICES	37
APPENDIX I: Questionnaire.....	37
SECTION A.....	38
SECTION B.....	39
INTERVIEW GUIDE.....	40
APPENDIX II.....	41

TIME SCHEDULE.....41

APPENDIX III.....42

BUDGET42

ABSTRACT

This study was carried out on the effects of taxation on the performance of small businesses in Yambio market, Western Equatoria state south Sudan. The purpose of the study was to find out whether the amount of tax paid could affect the profits and performance of small businesses.

In order to establish the relationship; the researcher assumed that other rated factors made significant effect on profit and performance of small businesses. The cause of concern was contraction in views held by the other hand. While tax has been embraced and described by the government as “taxes made easy”, the business community believed it has undesirable effect on their businesses like higher prices, poor sales and low profits.

The business owners in Yambio market in the questionnaires filled registered complaints. Interviews and observation also helped the researcher to collect the necessary data. The data was mainly collected using questionnaires and interviews methods and analyzed using relationship.

From the data analysis, it was found out that there is significant relationship between the amount of tax paid and the performance of the small businesses in Yambio market, such as high tax rate results in increase in prices of commodities as such price sales and low profit, hence poor quality provision due to high tax payment by the business.

It was therefore, concluded that taxation has a role to play towards the performance of small businesses especially in form of profit, sale and quality provision of goods and services of small businesses are concerned, due to high taxes as evident by low profit, low sale and poor quality provision.

It was then recommended that there must be low or moderate rate of tax for efficiency and effectiveness of the businesses, the assessment of taxes should be on the ability of a taxpayer to pay it, for the benefit principles and the ability to pay, therefore extra effort and emphasis should be put on tax payers education and a awareness to fully understand tax and provide them with skills for systematic book keeping.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Taxation is a legally compulsory transfer of money from the public to the government mainly as a source of government revenue. A tax is *a non quid pro-quo* payment in the sense that the benefit received by the tax payers from the government does not necessarily correspond to the amount of tax paid. (Can be equal, greater or less than the tax paid)

Performance is the ability to operate efficiently, survival, growth and reaction to opportunities and threats (Stoner, 1996) Small business, an organization definition of small businesses is that, where a person running the business thought it was small and there is a considerable element of truth in this view. Small business may include the following manufacturing companies, wholesalers. Retailers *and* services providers like saloon.

South Sudan tax is either direct or indirect; Direct tax is when the impact and the incidence of taxes are on the same person who is the tax-payer. Examples include; income tax, corporation tax and capital gains tax. And indirect tax is where the impact and the incidence of tax is on a different person examples include excise duty, customs duty, export duty and VAT (Value Added Tax) .

Since taxation is the major source of government revenue, that brings substantial revenue to the government which revenue helps the government to achieve its objective such as provision for services, like education health and other remedies like water, defense , keeping laws and orders, control or fighting inflation and deflation among other. Therefore, this does not mean the government should tax people, business enterprises and companies heavily, because high tax rate on individuals, small businesses and companies over 50% could drop efficiency, increases costs of advertising, increases the prices of commodities resulting to high price of commodities, less sale due to high tax rate which would adversely affect the performance of the businesses, such effort reduces the productivity of the business because of low profit.. This affects the performance of small businesses in economy, since the major objective of the

business is profit making. According to Adam Smith, the first economist who also laid down the canons of taxation which are rules applied when devising a system of taxation, these canons include; Economy or Cheapness, Simplicity or Certainty, Convenience, Equity, Ability to pay, Elasticity, and Productivity.

2 STATEMENT OF THE PROBLEM

Despite the fact that there is no Government which exist without imposing tax on its citizen to finance its activities like provision of streetlight, cleaning of the street, collection of cabbages building of schools, provision of health service to the public and construction of airport, and stadiums. The business community of Yambio county still complain of the high taxes imposed on them by the State Authority and the National tax authority at the border with Uganda which is fuelled by high level of corruption by the State tax Authority.

Despite the effort by the businessmen and women to talk to State tax Authority to reduce on the tax rate charged on the items and the outcry of the citizen from high prices, the State government seems to be keeping a deaf hear. This concerns the high number of tax collection tables at border crossing points. There are up to 11 different tables, manned by the staff of separate government agencies – including the police, SPLA, and customs – each levying their own tax at the Nimule, Juba and Bazungua checkpoint, the main entry point from Uganda. Members of the business community report being overtaxed.

This is evidenced by current introduction of new high tax rate on commodities by the State Tax authority which is believed to be higher than before and the introduction of property tax which used not to be there before, this has worsen the situation coupling with shortages for foreign currency like dollar. Its upon the above premises that the researcher was motivated to conduct this research.

.3 PURPOSE OF THE STUDY

The study sought to investigate the effects of taxation on the performance of small businesses in Yambio market, Western Equatoria State.

.4 SPECIFIC OBJECTIVES

- 1. To examine the effects of taxation on the performance of small businesses in Yambio market Western Equatoria state Yambio.
- 2. To establish the relationship between taxation and the performance of small businesses
- 3. To examine the consequences of taxation on the performance of small businesses.

1.5 RESEARCH QUESTIONS

- 1. What are the impacts of taxation on the performance of small businesses?
- 2. What are the relationship between taxation and the performance of the small businesses?
- 3. What are the consequences of taxation on the performance of small businesses?

6 SIGNIFICANCE OF THE STUDY

The study was a fulfillment of the requirement for the award of a degree in business administration. The researcher also believed that the study would benefit the following people; the general *public* was enlightened on merits and demerits of taxation. More so the government can acquire knowledge on conducting proper assessment before taxes were levied, and in addition, businesses used the policy recommendations in their strategic planning for their better business performance. Other beneficiaries, academicians and students used this study as a stepping ground for further study and knowledge building.

.7 SCOPE OF THE STUDY

The study was limited to the effects of taxation on the performance of small businesses in Jambio Market Western Equatoria state South Sudan The independent variable is taxation and dependent variables is performance

8 CONCEPTUAL FRAME WORK

This shows relationship between the independent variables and dependent variables of the study for the research topic which is expressed diagrammatically

INDEPENDENT VARIABLE

TAXATION

- High taxes
- High prices.
- Low productivity

DEPENDENT VARIABLE

PERFORMANCE

- Low profit.
- Less sales -
- Poor quality and services

IMPACT

- Less investment
- Less revenue
- Collapse of small businesses

CHAPTER TWO

LITERATURE REVIEW

1.0. INTRODUCTION.

The chapter focused on the effects of taxation on the performance of small businesses in a semi-arid market Western Equatoria State, South Sudan. The chapter gives a framework upon which the research was based. It analyzes the existing literature on taxation as discovered by other researchers.

Taxation is the method by which a government gains revenue to spend on things like public services and welfare benefits. There are many methods by which tax revenue can be gained, and different definitions and structures to taxation which are outlined below. Also, conflicts in choosing methods and forms of taxation occur, pitting priorities such as reducing inequity of income against maximizing incentive for economic growth.

The word 'tax' first appeared in the English language only in the 14th century. It derives from the Latin *taxare* which means 'to assess'. Before that, English used the related word 'task', derived from Old French. For a while, 'task' and 'tax' were both in common use, the first requiring labor, the second money. 'Tax' then developed its meaning to imply something onerous or challenging. So words like 'duty' were used to suggest a more appealing purpose. Although taxation has a long history it played a relative minor role in the ancient world than it does today.

The first historical record of 'avoidance'. The 'Book of Genesis' in The Bible suggests that a fifth of all crops should be given to the Pharaoh. The city states of Ancient Greece imposed *phoroi* to pay for wars, which were numerous; but once a war was over any surplus had to be funded. Athens imposed a monthly poll tax on foreigners. Imperial Rome used tribute extracted from colonized peoples to multiply the bounty of empire. Julius Caesar imposed a one-per-cent sales tax; Augustus instituted an inheritance tax to provide retirement funds for the military. However, human bondage remained the most lucrative form of tribute for both Greece and Rome. With the decline of Rome in Europe, 'spiritual' and 'temporal' powers were not

always easy to distinguish. Religious institutions rivaled – and sometimes surpassed – political ones in their material power. To secure this, they imposed forms of taxation. For Christians it was a ‘tithe’, or a tenth of what the faithful produced, usually paid to the Church in kind. Tithe barns for the receipt and storage of such payments were lesser in size only to churches in villages and towns.

The expansion of Islam was accompanied by the ‘Islamic Tax’, the *khums*, or ‘one twentieth’ – more modest by half than the tithe. There are direct references to it in the Qur’an, which requires its use for specified purposes, such as the relief of the poor. In India, Islamic rulers imposed a tax called *jizya* in the 11th century. In Latin America the Aztec, Olmec, Maya and Inca cultures all seem to have raised forms of taxation, usually in association with ritual observance. Both Hindus and Buddhists sustained their temples and monasteries with contributions of time, skill and resources from the faithful.

Land was the basic commodity of feudal Europe and service (military or labor) its currency. Aspiring monarchs had little access to revenues in cash, though ‘scutage’ was sometimes accepted in lieu of military service. Then the Vikings, sailing from Scandinavia, started demanding protection money. In 845 they extorted six tons of silver in return for not sacking Paris; in 994 a similar amount from London. Though the Viking threat subsided, ‘Danel’ (re-styled ‘carucage’ in England) was still collected by rulers. After the invasion of England in 1066 by the Normans (themselves descended from Vikings), William the Conqueror commissioned the Domesday Book, a land survey to assess his new kingdom’s tax potential.

In Britain, a disagreement on the rights of taxation between Parliament and King Charles I in 1629 led to civil war. Resentment of tax fuelled the French Revolution between 1789 and 1799. Hereafter, Napoleon centralized the tax system and employed private collectors who could keep a proportion of their takings.

Taxes have been a major subject of political controversy throughout history, even before they constituted a sizable share of the national income. A famous instance is the rebellion of the American colonies against Great Britain, when the colonists refused to pay taxes imposed by a Parliament in which they had no voice—hence the slogan, “No taxation without representation.”

Another instance is the French Revolution of 1789, in which the inequitable distribution of the tax burden was a major factor.

Principles of taxation, by Kalist Okello (2006) defines Tax as a compulsory levy imposed by the government upon assesses of various categories. A tax is a compulsory non-refundable non-quid pro quo payment made to a tax authority by a taxpayer. According to Plank and 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 tax assesses have income of a minimum amount and from certain specified sources, or that they own certain tangible and intangible property, or that they carry on certain economic activities which have been chosen for taxation.

1. COMMON CONCEPTS

Tax is the most important source of government revenue. It is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. According to Dr Dalton According to Professor Seligman, 'a tax is a compulsory contribution from a person to the Government to meet the expenses incurred in the common interest of all without reference to special benefit conferred.

Small businesses, an organizational definition of small business is that one where a person running the business thought it was is a considerable element of truth in this view. Small businesses may include the following; manufacturing companies, whole sellers, retailers and services providers.

2. TYPES OF TAXATION.

Tax is either direct or indirect, direct tax, is where the impact and the incidence of tax is on the same person, who is the tax payers Examples include; income tax, estate duty, corporate tax, and capital gains tax. And indirect tax is where the impact and the incidence of tax on different persons Example include: excise duty, custom duty, export duty and VAT (Value Added Tax)

3. PURPOSES OF TAXES

Taxes are mostly levied with the objective of raising revenue, also checking people from consuming some harmful article like opium. Besides these, certain taxes may be of nature of protective duties, and then are levied in order to protect some home industries against foreign competition. Sometimes a tax has another motive in view. It aims at removing the inequalities in the distribution of wealth in a society. Well or poor people may be taxed to provide services like free schooling and free medical aid for *poor*. Thus raising revenue is not the only purpose for which taxes are levied, there are others.

4. IMPORTANCE OF SMALL BUSINESS

Small businesses regardless of the types create jobs, too many jobs seekers and also, it is that business which is innovative in terms of creating new ideas or business venture. , provide revenue to Government which contributes to Economic growth and development of the country. Which gives independence to the owners and reap the rewards for themselves?

5. DEMERITS OF TAXATION

Taxes discourage saving and investment, when people know that with the increase in the income and wealth, they will have to pay a large portion in the form of taxes, they are reluctant to save and invest, Consequently employment opportunities will be limited.

Heavy and highly progressive taxes reduce the ability and willingness to save and invest as a result, this affects the rate of economic growth as a side effect the banking activities will be adversely affected.

Very heavy taxes on company profit might cause a disincentive to investment. They discourage

he undertaking a risky profit. (According to John Ddumba Ssentamn, Basic Economics for East Africa concepts, analysis and application)

Taxes inconvenience business people because, they are paid before goods are sold, and also they are uncertain in yield in case of goods with elastic demand, the tax may bring in less revenue since people would reduce purchasing of such items (According to Tayebwa B Mugisha Bernard, Basic economic, 4th Edition, 2007, Chapter eight Pg. 215).

Progressive taxation, this is when the rate of tax goes on increasing as the tax base keeps on going up to a certain maximum limit. This tax discourages risk taking because a highly progressive taxation discourages private investment in risky enterprises. And this may retard capital formation.

Progressive taxation also discourages private savings and hard work since only the rich have the ability to save they are unable to save if their incomes are taxed heavily. A higher tax rate discourages willingness to save and discourages luxury consumption. Therefore progressive taxation discourages both ability to save and willingness to save. And also due to progressive taxation it is said that people may prefer leisure to work. According to late Professor VG. Manikar and Professor L. Suseela Sarma. Public Finance Theory and Practice, fifth revised edition, Chapter 2 Pg. 29,41 and 43) Taxes have micro and macro economics effects in modern economy. The economic effects of taxation may be good as well as bad due to heavy imposition of tax, the ability of the tax payers to work may be affected adversely or he or she may be reluctant to work more since the additional income or profit is taxed. This in turn may affect production adversely.

There are also direct and indirect effects of taxation on the distribution of incomes. Taxation also affects the allocation of resources and may change the composition and direction of production and income of the community. Such changes caused by different taxes have effects on the economic welfare of the society. (According to Public Finance and Tax Planning by Alka Gupta. First Edition 2001, Chapter 6 Pg. 83)

Benjamin Franklin had it right; taxes are a fact of life. They are also quite costly in terms of collections by the federal state and local government. The level of taxation affects the amount of money individuals and business firms spend or invest. When government increases taxes, individuals and business firms have less to save, spend or invest conversely, when government lowers taxes, individuals and business firms have more money to save, spend or invest in other business activities.

1.6. TAXATION OF SMALL BUSINESSES.

The tax code provides that small businesses that meet certain restrictions as spelled out in the code that may be set up as corporations and this receives the benefits of the corporate form of organizational especially limiting liability yet the tax as proportion or partnership rather than as corporations.

1.7. TAXES ON OWNERS OF SMALL BUSINESSES.

Business income (revenue less expenses) earned by a proprietorship or partnership is for tax purposes as the personal income of its owners. If a small business is incorporated, the owners may have to be taxed either as a partnership or as a corporation. If they must be paid, any salaries and dividends paid to the owners will be tax as their personal income, however the salaries would be deductible in determining the corporation's taxable income but the dividends would not be deducted it would appear that there is little benefit in being taxed as a corporation since the same business income is being taxed twice. Once as corporate income and *again*, when the owners receive income in form of dividends. However suppose the owners wish to retain some or all of the profits in the business in order to invest in additional assets to expand the firm. The funds retained would not be taxed on dividends until dividends are paid. Therefore dividends taxes on corporate income can be postponed.

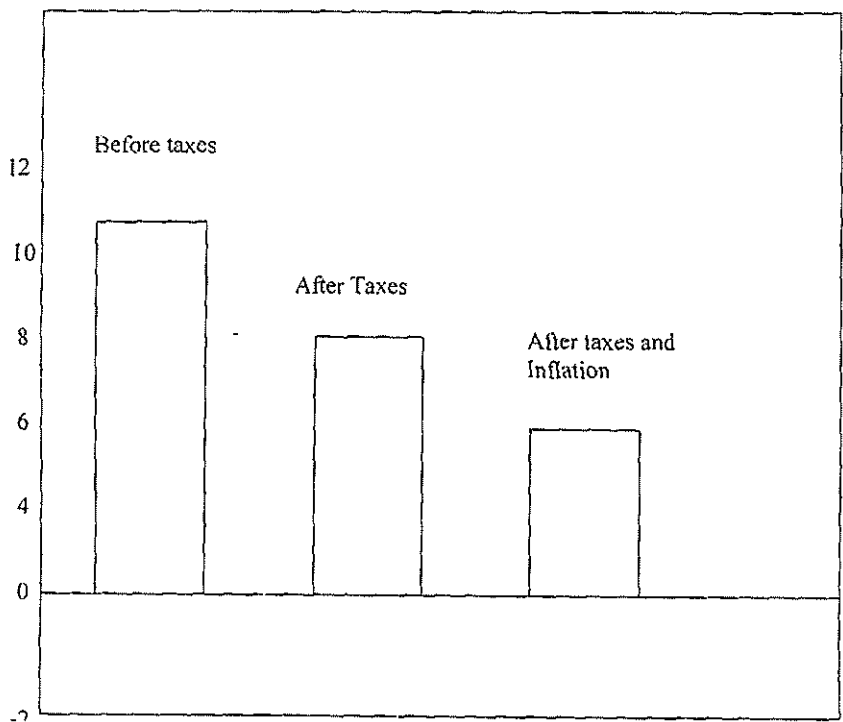
Taxes can have a negative effect on investment performance, each year when you receive dividends, interest income and short term capital gains, you pay a portion of that income as a tax at high rate, long term capital gains are also taxed at rates higher than normal, therefore, tax

payments greatly decrease the after-tax returns on investments, IF they are held in a taxable account.

Taxes and inflation are also enemies as shown in the diagram below the long-term effects of taxes and inflation on investment returns for common stocks. The results are dramatic common stocks provided a 5.0% compounded annual return after taxes and inflation. However taxes and inflation wiped out the returns, given their exemption from income taxes .5% positive return after inflation.

8 EFFECTS OF TAXES AND INFLATION ON INVESTMENT RETURNS

926- 2000.



Source:
extracted from new corporate finance, Capital markets and Evaluation, an introductory text,
Exhibit I 1 — 3 Page 11-11

Taxes can be one of the largest cash out flow that a firm or business or small businesses experiences, The size of the tax bill is determined through the tax code an often amended set of

rules. Taxes for partnerships and proprietorship are computed using the personal income tax schedules and the procedures are the same as for corporate taxes. Therefore tax code is the result of political not economic forces; as a result, there is no reason why it has made economic senses.

Sales tax payment on asset purchases reduces earnings through increase in cost of goods sold (if the taxes were paid on inventory purchases), depreciation expense (if the taxes were paid on depreciable asset purchases) and possible other expenses if expenditures with no future benefit are subject to sales tax. Sales tax payments on purchases of inventory and long-lived assets are reported on the statement of cash flow as operating activities (for example, purchase of inventory), and investing activities (for example, purchase of equipment) respectively, but are not segregated from the amount paid for these assets.

Taxes change behavior, and change in behavior can affect supply and demand in markets causing prices to change, when price change input markets or in output markets, some people may be made better off and other worse off. These final changes, determine the ultimate burden of a tax.

Owners of corporations, proprietorships, and partnerships all bear the burden of the corporate tax in rough proportion to profits, even though it is directly levied only on corporations. Taxes on income, goods and services; They reduce private income, thereby reducing private expenditures (on automobiles or restaurant food) and providing resources for public expenditure on tanks and school lunches). The tax system also serves to discourage certain activities which are taxed more heavily (such as smoking cigarettes). While encouraging lightly taxed sectors such as owner occupied housing).

A tax on sellers raises the cost of selling goods or providing of the service and leads to supply a smaller quantity at every price therefore taxes discourage market activities.

When goods are taxed, the quantity of the good sold is smaller in the market.

9. THE EFFECTS OF TAXATION ON THE SMALL BUSINESS SECTOR

In tax models, the impact of taxation on the small business sector because it is known that small number of growth businesses provide most of the new wealth and additional

employment, created by small firms sector. Consideration is given to the combine effect of the different elements of the tax regime on small firms, with particular reference to the implications of business growth. There are three important areas in which the growth and development of small business is restrained by the tax regulation currently in force, are; sales growth, employment generation and investment for the future.

Therefore, the fiscal barriers in these areas could be reduced by raising the value added tax registration limit, by compensating small businesses for the costs of collecting tax on behalf of government and by reducing the level of taxation on profits reinvested in Small Businesses.

.10. INCREASES IN TAX DUTY.

Certain businesses should be aware of an expected increase in duty on products such as fuel and alcohol, with petrol prices pushing up S 1.10 per liter on diesel in some parts of the country small businesses that rely on their commercial vehicles in order to trade, will already be feeling the squeeze the increase in duty on fuel may therefore have a seriously negative effect on small and growing businesses, despite it being in line with inflation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. INTRODUCTION

This section includes various techniques and procedures the researcher will employ such as the proposed research design, population and sample, data procedures, data analysis procedures and measurements of variables.

3.1. RESEARCH DESIGN

For a good research project the researcher used survey as the chosen design appropriate for the proposed study. Because survey would examine carefully the effects of taxation as well as giving the general view of the study.

3.2 RESEARCH POPULATION

Research population target was 100 which comprised of; whole sellers, retailers, services providers like saloon and lastly restaurant on which the research was based among the population target.

Sample size of the research on the effects of taxation on performance of small businesses was a random size of 30 as sample size.

3.3. DATA COLLECTION METHOD AND PROCEDURES.

Data is raw fact which is collected but not yet processed into meaningful information. And data is of two types there are;

• **Primary data**

This was original data that was collected from the sources *example* through observation, questionnaires, and interviews among others.

Secondary data

This was the already existing data which had been filed or documented by other researchers.

This section described data collection procedures where the data collection instruments were identified for easy researcher employed questionnaires and interviews as the collection methods, or collection of specific data for the question under investigation.

QUESTIONNAIRE

There were thirty people which was the sample size in order to get information from them at their own time to administer questionnaire it was simple and straight forward for the respondents since it contained a set of questions both close and open ended questions where close ended questions given options were given to respondents to select the answers for example ticking or put a tick on the correct answer and the open ended questions, which allowed the respondents to express their views or opinions on the matter concern. Hence questionnaire led to provision of accurate, reliable and in-depth information of the study.

INTERVIEW

This involved face-to-face conversation between the interviewer and interviewee, it attended to provide in-depth information and also in case of problem in the questions the interviewer changed the questions, hence interview were flexible, and it was both structural and non structural interview. Structural interview, involved formulating questions regarding the study,

imposed to respondents and they were expected from the respondents and non structural interview, included imposes questions to the respondents at random.

The data collection procedures, since the researcher employed questionnaire and interviews as the data collection methods. The researcher formulated a set of questions that were sent or given to the respondents in order to obtain the necessary information about the study and these sets of questions were of two phases that is; close and open ended question, for questionnaires and structural interview.

4.4. DATA ANALYSIS

The researcher employed descriptive and inferential statistics as the technique of data analysis. This was because descriptive statistics summarizes data and describes the sample and inferential statistics enabled the researcher to infer the sample results to the population. For example correlation, tables, graphs. And regression pie charts were used as descriptive tools to analyze the data. This data analysis technique was chosen in order to show the direction and magnitude of the relationship between given variables.

CHAPTER FOUR

FINDINGS INTERPRETATIONS AND ANALYSIS

4.0 INTRODUCTION,

This chapter analyses data collected from the field based on the questions proposed in the objectives in the first chapter. The research involves presentations, interpretations and analysis of the collected primary data. The presentation is done in tables with illustrations to make sure that research biases are eliminated

It continues in presenting the findings of the study by use of responses, frequencies, percentages, pie charts and graphs in order to reach at the true findings.

4.1 The effects of taxation on the performance of small, businesses

Many small businesses have not fully accepted the concept of taxation, only a few businesses considered the concept of taxation. However, during the study the researcher found out that small businesses pay taxes because it is a compulsory payment and failure to pay it is punishable by law, hence all the respondents agreed that taxation affects the performance of small businesses in Yambio market. More so the researcher further discovered that the impact of taxation on the performance of small businesses in Yambio market were high as illustrated in the table below.

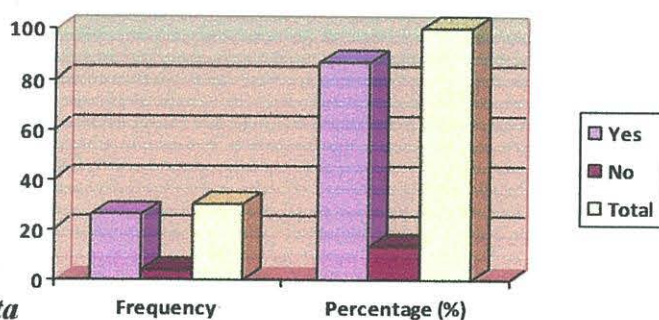
Table 1: Responses on whether the tax payment affects the performance of small businesses in Yambio market,

Table 1: Response on whether the tax payment affects the performance of small businesses in Yambio market

Responses category	Frequency	Percentage (%)
Yes	26	86.68
No	04	13.33
Total	30	100.00

Source: Primary data

The information in the table 1 above can further be presented in the bar graph below,
Bar Graph 1(a)



Source: Primary data

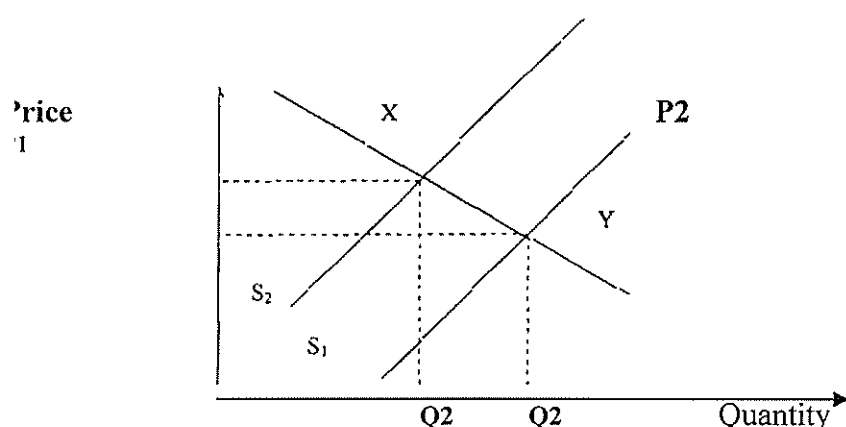
From the bar graph above 26 of the respondents, representing 86.67% agreed that the tax payment affects the performance of small businesses in Yambio market are immense while 4 of the respondents, representing 13.33% believed that, tax payment has no negative effects towards the small business performance. *This* is due to the fact that tax increases prices especially indirect taxes which are shifted to consumers in form of high prices on commodities, subsequently consumers reduce their demand by consuming less of the commodities and this affects the business performance by making less sales, low stock turnover, hence low profits.

It also inconveniences businesses, because tax is paid in lump sum and before goods are sold. This has a greater effect on commodities with the elastic demand where by an increase in the price of such commodities, Leads to reduced quantity demanded. . And also it is uncertain in field for goods with elastic demand; the tax may bring in less revenue since people would reduce purchasing of such items.

Further more, the researcher went a head to illustrate these effects using demand and supply curves showing what happens when the prices of commodities increase as a result of taxes imposed to such commodities which affects the business performance at the end of the period.

These effects can be illustrated as below.

Graph 1(h)



Source: Certificate **Economic Chapter 22.** figure 22.12

This illustration explains that at point V where demand D meets supply S1 at price P1 the business supplies quantity Qi and sells at price P1 where by consumers buy quantity Qi because the price was cheap When the price was increased from Price P1 to price P2 due to the tax levied the business supply also increased from supply S1 to supply S2 at point Xi where quantity Q2 is demanded from Qi to Q2 was due to increase in prices as a result of taxes Although the prices increased from P1 to P2 this changes in turn affects or have effects on the performance of small businesses in Yambio market.

The researcher went further to find out whether small businesses in the market are encouraged for further investment with tax payment and the results were presented in the table below.

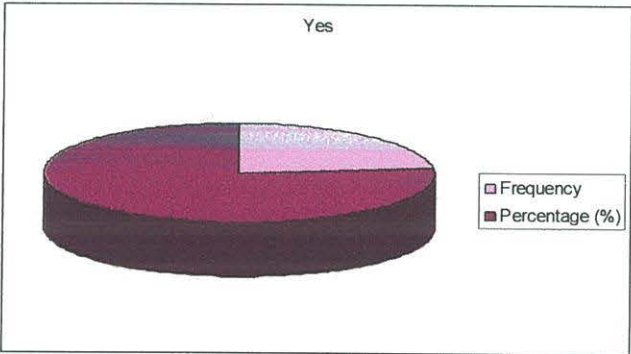
Table 2: Responses on whether tax payments by small businesses encourage further investment in the market

Responses category	Frequency	Percentage (%)
Yes	06	20
No	24	80
Total	30	100

Source: Primary Data

The information in the table2 above can be represented on the chart as shown below

Pie chart 1



Source: Primary data,

From the pie chart 20% of respondents agreed that the tax payment encourages higher investment, if the tax rate is low resulting to high sale, high profit then more revenue' hence there is possibility of future and further investment which is positive impact of taxation on the performance of small businesses, while 80% believed the tax payment has negative impact

towards the small business performance, due to high tax rate, which results in low sales, low profit then less revenue and problem of expansion of the business in the future. The researcher further continued to find out whether after payment of tax the small business owners continue with business in the market and the results were obtained as shown

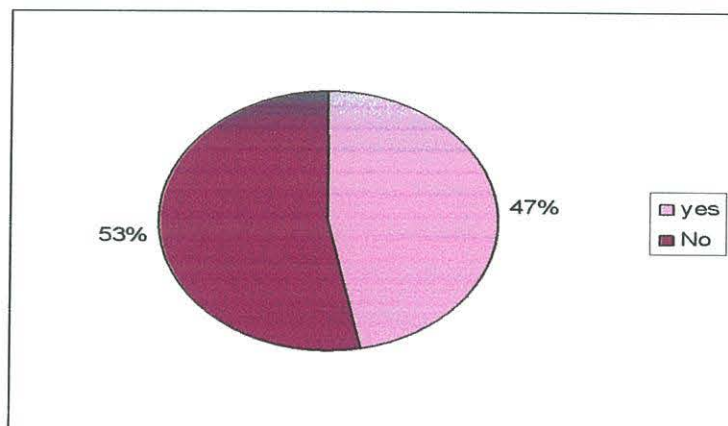
Table 3: Responses on whether after payments of tax do small and medium scale business owners continue with the business in the market

Response Category	Frequency	Percentage (%)
Yes	14	47%
No	16	53%
Total	30	100

Source: Primary data

The data in the table three above can also be shown as below

Pie chart 2



From the above pie chart 46.67% of the respondents, answered yes on the small business continue with the business in Yambio market after payment of the tax, while 53.33% of the respondents answered no on the statement that after payment of tax, Small business owners continue with the business in the market because tax “kills” the incentive to work when taxes take a big percentage of income, creativity of the business as a result of (taxable items) narrows-
 -111gb taxation “kills” the incentive to invest and leads to inflation.

It also reduces savings by reducing disposable income (AY) change in income since change in income (AY) minus taxes equal disposable income hence savings. This in turn reduces investment especially if tax revenue is not channel to investment which results in to re-allocation of resources from taxed to non-taxed goods or activities, this can cause unemployment in the taxed sectors

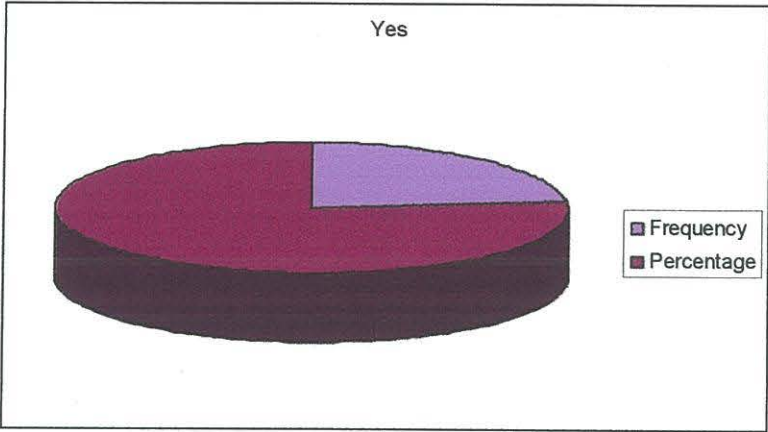
In addition, taxes on wealth discourage the accumulation of wealth for capital formation for further investment. Furthermore the researcher went on to find whether a tax can be defaulted or avoided by business owners and what happens for the evaders of the taxes and the results obtained were as follows:

Table 4: Responses on whether a tax can be defaulted or avoided by the business owners and what happens when tax s evaded by the business owners

Response category	Frequency	Percentage
Yes	06	20
No	24	80
Total	30	100

Source: Primary Data

The information in the table above can be further presented in a pie chart as below Pie chart 3



Source: Primary data

From the above pie chart, 56, 67% of the respondents responded yes, while, 43.33% of the respondents responded no for the statement that tax can be defaulted or avoided by the business owners and what happen when tax is evaded by the business owners, due to a tax the most important source of government revenue. And also a compulsory

Contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payers in return since it is a compulsory payment failure to pay the tax by small business is punishable court of laws. Therefore, owing to compulsory then business owners **attempt** to default or avoid which is witnessed by researcher not only small business but also large enterprises1 This encouraged the researcher to go a bit further and find out how much taxes are paid by small businesses. And the following were results obtained as shown below

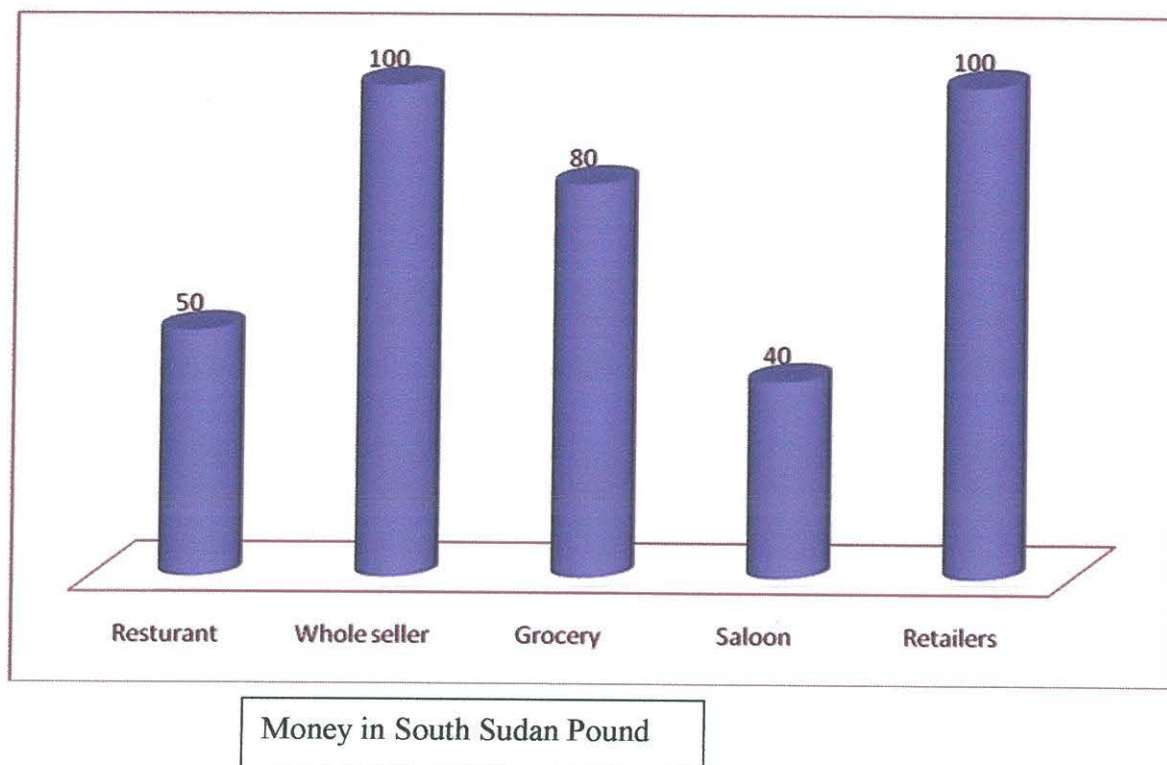
Table 5: Responses on how much taxes are paid by small and medium businesses on the amount of taxes paid by small business depend on the type of the business. From the study, the researcher discovered the Following types of small businesses and the amount paid as tax.

Type of the business	Frequency	Percentage	Amount in SSP
Restaurant	06	20.00	50
Whole sellers	05	16.67	100
Grocery	05	16.67	80
Saloon	04	13.33	40
Retailers	10	33.33	100
Total	30	100,00	

Source: Primary Data

From the table above; restaurants operators paid. 50 I as a tax which a 20%, whole seller paid 100 ssp tax which 16.7%. grocery operators paid 80 South Sudanese pound as a tax which At 16.67% saloon operators paid 40 ssp as a tax which is- 13.33% and lastly retailers paid 100 /- shillings as a tax which can well be illustrated using the graph as below

Graph 5: Amount paid by small scale businesses as tax in Yambio market



Source: Primary Data

The above bar graph illustrates the amount in shillings paid as taxes by different type of small businesses, from the figure the lowest amount is paid by the saloon operators which is 40 / and the highest amount is paid by the retailers which is 100 /= while other businesses are average owing to the nature of the business in Yambio market. These figures are big or high for such businesses to pay as tax due to consumers' needs, and wants and their level of income hence impacting heavily on to the performance of such businesses.

4.2 The relationship between taxation and the performance of small, businesses.

Much as taxation is the major source government revenue, that brings substantial revenue to the government, therefore government should not tax individuals, business enterprises and companies heavily, because high tax rates on individual small businesses and companies over 50% could drop efficiency, increases costs of running the businesses, and increases the prices of

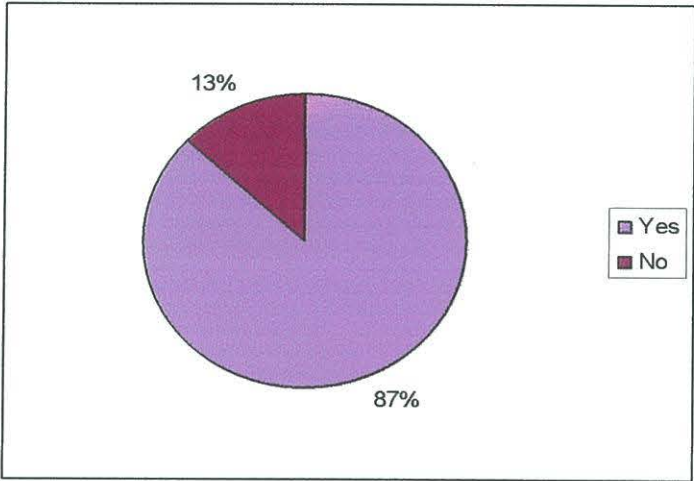
commodities less sales, reduces the productivity of the business and low profit. The results obtained in the *study* show how taxation affects the relationship between performances of small businesses. These responses are summarized in the table below.

Table 6: Responses on whether high tax to small, business results in low profit in Yambio market.

Response Category	Frequency	Percentage (%)
Yes	26	86%
No	04	13%
Total	30	100

Source: Primary Data

The data in the table 6 above is also presented in a pie chart as shown below Pie chart 4



Source: Primary data

From the pie chart above, 86.67% of the respondents answered yes for high tax to small business results to low profit, while 13.33% answered no to the statement that, high tax to small business results in low profit in Yambio market. Due to the high tax result in the increase in the prices of commodities and later shifted to the consumers in form of high prices on commodities and owing to high prices consumers reduce their demand for such commodities to *less* sales by the business

and many unsold commodities hence low profit at the end of financial year or period, with this in mind the researcher further continued to find out the relationship between taxation and the performance of small business and the results are presented in the table below. This also reduces the productivity of the business subsequently it leads to poor quality and services provision to the Consumers.

4.3 The consequences of taxation on the performance of small, businesses.

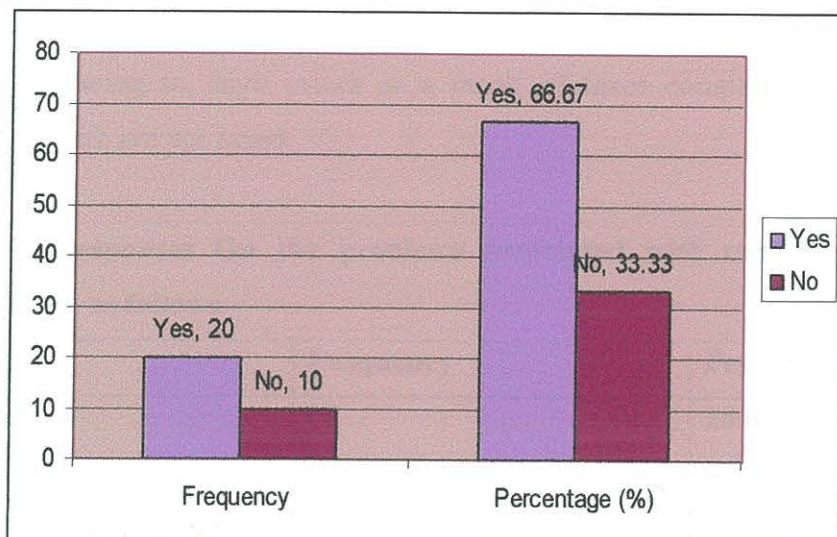
The result of taxation on the performance of small businesses, high taxes result into low profit, due to high price, low or less sales, hence less or low investment or expansion of the business owing to less or low revenue. Here the researcher went ahead to find out the result of progressive tax rate for small businesses. The results were obtained as shown in the table.

Table 7 Responses on whether tax is progressive tax for a small business
Response Category Frequency Percentage (%)

Response category	Frequency	Percentage (%)
Yes	20	66.67
No	10	33.33
Total	30	100.00

Source: Primary Data

The information in the table above can also be presented in the bar graph as below0
Graph 7



Source: Primary Data

From the above bar graph, 66.67% respondents said yes that tax rate is progressive for a small business, while, 33.33% of respondents said no to the statement that, tax is progressive for small business owners

Tax rate is progressive for a small business, when the tax rate goes on increasing as the tax base keeps on rising up to a certain maximum limits. This tax rate discourages risk taking because a highly progressive tax discourages private investment in risky enterprises and this retards capital formation.

It also discourages private savings and hard work among the small business operators since only the medium and large businesses have the ability to save and the small businesses are unable to save, if their incomes are taxed heavily, a higher tax rate discourages willingness to save and luxury consumption is encouraged. Therefore progressive taxation discourages both ability to save willingness to save; Hence people prefer leisure to work, savings and investment. All these are impacts of taxation. In addition to high taxes results in low profit due to; high prices, less sales, lastly less or low investment or expansion of the business owing to less revenue, low productivity as a result of high taxes, high price, low profit, less sales, poor quality and services

All these were the problems associated with taxes in Yambio market because of high tax rate on business men or women, the burdens are shifted to the consumers in form of high prices as retaliation consumers 'spoi4by reducing their consumption for the commodities since they cannot afford high prices as a result of high taxes. Hence this affects the performance of small business in Yambio market by businesses making performance of the business in the market low, subsequently leading to closure or collapse of the business. As it has already happened and also dodging tax payment by business owners in the market.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction.

This chapter presents summary and conclusion derived and drawn from the study after having presented, analyzed, discussed, the findings and recommendations that can be adopted and implemented to overcome the problems highlighted.

5.1 Summary

Taxation is often a problem to the business irrespective of the size of the business and individual who pay the tax, because high tax increases prices of commodities especially indirect taxes which are later shifted to the consumer in form of high prices on commodities, subsequently, consumers reduce their demand for such commodities by consuming less of the commodities and this affects the business performance by making low sales, Low stock turn over, then Low profit. Due to this, the productivity event of the business is also lowered owing to high taxes which increase the cost of production and the cost of running the business Taxes in certain cases also inconveniences to business because they are paid in lump sum and before goods are sold This has a greater effect on commodities with elastic demand, where by consumers reduce their demand and the quantity of the commodities to consume because consumers can no longer afford to purchase the commodities due to higher prices as a result of taxation.

In the relationship between the taxation and small businesses performance, owing to high Lax, high prices and low productivity, this results in, low profit, less or low sale and poor quality and services provision to the consumers and this relationship affects the business performance in terms of profit, sale and quality provision to the consumers. Consequently the highly progressive taxes result in less investment, because people intend to re-allocate resources to non-tax activities less revenue due to low profit and less sale, then collapse of small businesses in the market as evident by some businesses are not in operation. Business which tries to evade taxes faces serious consequences which may include closure of these firms.

5.2 Conclusion

It has been observed that taxation has a role to play towards the performance of small businesses especially in terms of profit, sale and quality provision of goods and services. For the purposes of encouraging competitive business environment where by small businesses need to have good taxation policies, systems and right time for payment so as to meet the changing demands of consumers. the main objective of the study was to examine the impact of taxation on the performance of small businesses in Yambio market. It was therefore observed that taxation is of great effect as far as performance of small business is concerned since the level of performance of small businesses were low or keeps reducing as evident by low profit, low sale and poor quality provision among others, as a result of high taxation. And also poor performance was evident by inefficiency and ineffectiveness in low capability to utilize the available business climate as a result of low profit and high cost of running the business due to high taxation. It was further noted that the impact of taxation on the small businesses performance ranges from high tax, high prices of commodities, low productivity among others and also the amount paid as tax depends on the type of small business ranges from: restaurants paying 50/=, 6ers paying 100 &.groceries paying 80 &, saloons paying 40/= and retailers paying 100 /= the findings also reveal that taxes are charged differently which show some favoring in certain types of business in the market, since some loopholes are involved in process of tax collection like corruption and bribing among others

More so, a lot of problems that small businesses faced like; when to pay, where to pay and how much to pay, the tax and also the elements of corruption with the tax authority or authorities who do not follow their code of conduct.

5.3 Recommendations.

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

More so, taxes should be assessed on basis of principles of certainty where the nature, base and amount of the tax must be known to the tax payer without doubt because unpredictable taxes discourage investment and reduce work effort and also convenience, that is, the place, periods and season in which tax dues are collected should be convenient to tax payers for example, the convenient time for business people is when profits are made and for farmers, it is after the sales of farm produces. There should be a fair tax base on the benefit principle, that is a tax should be a proportion of what a tax payer benefits from government programmes, in addition tax should be assessed on the basis of ability to pay, the tax payer should be able to pay the tax assessed on him/her and this ability to pay is determined by;

- a) Earned income and incomes from all firms of wealth possession of the tax payer
- b) The disposable income should be able to sustain the tax payer's life style and the business
- c) Expenditure and domestic obligation of the tax payers and business

In the same note the taxable capacity of small businesses should be determined by assessing the capacity of small businesses so as the tax levy will not be high and also allows small businesses continue in operation due to enough disposable income left and this assessment and the collection of taxes should be done by the qualified personnel in order to avoid over charging of taxes for self interest of the tax collectors and the administrators.

Finally, it is recommended that panics involved, such as tax authority, government should not only keep the revenue consideration in mind but also the economic effects of taxation should

also be considered. Small businesses, individuals, companies and other business organizations have the obligation of paying taxes¹ therefore taxes should be paid for benefit of the all and also to facilitate the government efforts for provision of other services such as health, education, infrastructure such as road among others.

REFERENCES

- Alka Gupta. Public *Finance and Tax Planning*, First Edition, 2001, Chapter 6, Page; 83
- Eugene F Brigham, Josel F. Houston *Fundamentals Of Financial Management*, Ninth Edition, Chapter 2, Page; 71
- Garson Antell And Walter Hanis. *Economics Institutions and Analysis*, Third Edition, Copy Right © Chapter 12, Page; 276
- Gideon Akampuria Certificate Economics, Form 4 Nairobi 1991, Chapters; 21 and 22. Page; 217-232.
- John Ddumba Ssentamn. *Basic Economics, For East Africa Concepts, Analysis and Application*
- Journal of 201 1-1997*, In Revised From 16-A8-I998, Article from Internet
- J. Randall Wooldridge, PhD and Gary Gray PhD the New Corporate Finance, Capital Markets, and Valuation *An Introductory Text*, Copy Right © 2003 chapter, 11, Page; 10-II, II-II
- Karl E. Case and Ray ©. Fair, 2002- 2003 Updated Edition, *Principles of Economics*, Sixth Edition Chapter L5page; 373-374
- Late Professor V. G Mankar And Professor, L Suseela Sarma *Public Finance Theory And Practice*, Fifth Revised Edition, 2001, Chapter 2. Pages; 29, 41 And 43.
- Lawrence U. Schell and Charles W. Haley, *Introduction to Financial Management*, Third Edition, Chapter 3, Page; 46
- N. Gregory Mankiw *Essentials Of Economics*, second Edition, Copy right ©. 2001. Chapter 6, page 130
- Paul A Samuelson and William D. Nordhaus, *ECONOMICS*, sixteenth Edition; chapter, 16, page; 282

S.A. Butt *Essentials Of Commerce in East Africa*, 5th, Edition Reprinted 1997 Chapter, 21, pages; 247-251

Stephen A. Ross, Randolph W. Werterfield and Bradford D. Jordan. *Essentials of Corporate Finance*, third Edition copy right © 2001, 1999, 1996, by the MCGRAW-Hill companies Inc. Chapter, 1 Page; 31

Stephen P. Baginski and John Pd. Hassel, *Intermediate Accounting Management Decision and Financial Accounting Reports*, copy right © 2001 by south-western publishing.

Tayebwa B Mugisha Bernard. *Basic Economics*, 4th Edition, 2007, chapter Eight page; 215

APPENDICES

APPENDIX I: Questionnaire

This is to certify that **Jackson martin Arama** is a student of Kampala international university I am carrying out research on the topic, “**Effects Of Taxation On The Performance Of Small Business In YambioMarket**”. This is Partial fulfillment in the award of bachelors’ degree in Business Administration of Kampala International University. My aim and objective of undertaking this research is to help me disclose and bring out the effects of taxation on the performance of small businesses in the State Therefore your participation in filling this questionnaire will be of great importance to this research.. Any information given will be treated confidential and only for academic purpose.

A) Questionnaires to business traders

Pick the most appropriate by putting the symbol

1. AGE IN YEAR

- i. 18-24 ☐
- ii. 25 - 30 ☐
- iii. 31 - 36 ☐
- iv. 37 – 42 ☐
- v. Above 42 ☐

2) Sex

- i. Male ☐
- ii. Female ☐

3) Marital status

- i. Single ☐
- ii. Married
- iii. Divorced

4) Level of education

- i. Diploma ☐
- ii. Professional course (C PA , ACCA) ☐
- iii. Bachelor degree in accounting field ☐

SECTION A

1. Is tax a compulsory payment for Business owners?

Yes ☐ No ☐

2. Is taxation affecting the performance of small businesses?

Yes ☐ No ☐

3. Is there a relationship between taxation and performance of small businesses?

Yes ☐ No ☐

4. Is there any effect of taxation on performance of small businesses?

Yes ☐ No ☐

5. Is there any positive effect of taxation on performance of small businesses?

Yes ☐ No ☐

6. Is there any consequence of taxation on the performance of small businesses?

Yes ☐ No ☐

SECTION B

1) What is the effect of taxation on performance of small businesses in Yambio market?

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

2) What is the relationship between taxation and performance of small businesses?

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

3) What is the consequence of taxation on performance of small businesses?

.....
.....

INTERVIEW GUIDE

a) In your own view briefly explain the meaning of taxation?

.....

.....

.....

b) Is there any relationship between taxation and performance of small businesses?

.....

.....

.....

c) If yes briefly describe the relation and if no, give reason or comment?

.....

.....

.....

d) What are the key factors that might lead to inefficiency and ineffectiveness of performance of small businesses?

.....

.....

.....

APPENDIX II

TIME SCHEDULE

A time *schedules* involves how long the research will take to finish it since research is expensive in terms of time therefore the researcher should give a deadline to stop funding a study and such a deadline should be adhered to.

The time schedule is expressed in the table below that spells out what the researcher would do and when to do them.

S/NO	STAGES IN RESEARCH	TIME NEEDED IN %
1	The research topic	10%
2	The research problem	10%
3	How to carry research data	10%
4	Collection of research data	20%
5	Analyzing data	25%
6	Writing the research report	25%
	TOTAL	100%

Source: From the researcher.

APPENDIX III

BUDGET

A budget is a list of items that will be required to carry out the research and the approximate costs. The budget should be well thought out to avoid asking too little or too much. The prices of items should be well researched to avoid over pricing or under pricing them since, this research is non-funding by any organization, the source of funding is the researcher and the relatives.

The budget is shown in the table below.

S/NO	ITEMS	AMOUNT ssp
1	The cost of stationary, pens, ream papers, sets rulers files	40 /-
2	The cost of computer	150 /-
3	Communication expenses	20 /-
4	Subsistence allowance breast fast, lunch	70 /-
5	Contingent	50/-
	TOTAL	330 /=