

**THE EFFECT OF TAXATION ON THE GROWTH OF SMALL AND MEDIUM SIZED
ENTERPRISES; A CASE OF BUDUDA TOWN COUNCIL IN**

BUDUDA DISTRICT

BY

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DECLARATION

This project is my original work and has never been presented or submitted for a degree in any other academic institution.

SIGN 

WAPOWO BILALI

DATE.....9th/August/2017.....

APPROVAL

This is to certify that this research report has been conducted under my supervision and is now ready for submission to the Academic Board of Kampala International University.

Sign:.....

Date:

Ms. Aguti Magadaleni

Supervisor.

DEDICATION

This research project is dedicated to all who assisted me in making this proposal successful and particularly my loving parents, my supervisor and my friends for their encouragement and support throughout the study. May the almighty bless them all!

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LIST OF ACROYNMS

GDP.....	Gross Domestic Product
VAT.....	Value Added Tax
URA.....	Uganda Revenue Authority
FDI.....	Foreign Direct Investment.
SMEs	Small and Medium Sized Enterprises
EAC.....	East African Community
CET.....	Common External Tariff.
CTL.....	Commercial Transaction Levy.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter looks at the background to the study, statement of the problem, purpose of the Study, objectives of the study, research questions, and significance of the study, area and the Scope of the study.

1.1 Background to the Study

The early British colonial administrators through the system of compulsory public works such as road construction, building of administrative Headquarters and schools, as well as forest clearance and other similar works, introduced taxation as understood today in East Africa. The first formal tax, the hut tax, was introduced in 1900, (URA guide to taxation 2011). In 1925, the tax ordinance was amended with increasing problems in tax collection. These amendments allowed people to work for cash equivalent to communal work. In 1939, due to increased revenue demand after outbreak of world war two, income tax was introduced. Revenue was collected jointly with government of Tanganyika, Zanzibar, Kenya and Uganda under the commissioner in charge of income tax in Kenya, (Nsubuga, 1994). Uganda Revenue Authority was established in 1991 and it is currently the one in charge of collecting taxes in Uganda. In addition, by the time it was introduced between 1991 and 1996, the sales Tax and commercial Transaction Levy Legislation were abolished upon the introduction of VAT under the Value Added Tax statute of 1996. In 1997, the Income Tax Decree was repealed and replaced by the Income Tax Act 1997, while the Traffic and Road Safety Legislation was revised into the 1998 Act.

From a collection of the government policy statements issued in the budget speeches and background to the budgets, all the tax reforms have always been aimed at enhancing the countries tax base in order to minimize economic dependency on foreign resources (loans and grants) that tie Uganda government to perpetual debt-servicing and nation into servitude, (URA 2011). Taxes in Uganda have existed virtually as long as there have been organized governments. In middle Ages, individuals provided the services directly to their main lords. These were all taxes, only that they were not monitored, (Peggy, 1970). In Uganda, it is generally accepted that governments should collect taxes in order to accelerate the level of economic growth and development, redistribution of wealth, providing security, providing social services, providing employment opportunities. Uganda is dominated by small-scale enterprises with about 43% contribution to the Gross Domestic Product (GDP), which amounts to about 22% of all households that get involved in business activities. The major activities of small business include farming, market vending, shop keeping, handcraft, transport, herbal services, secretarial services and many others (Mpuga, 2012).

A small and medium scale enterprise tax payer for income tax purposes is defined as a resident tax payer whose gross turn over from all business owned by him in any year of income is more than 5 million but less than 50 million Uganda shillings (Income tax Act, 2015).

According to Murphy (2003), states that; small and medium enterprises have at least two of the following features.

- Management is independent since owners usually manage their business.
- Capital is provided by the owner of the business which is based on some proprietorship.
- The operation is primarily local although the market is not necessarily local.
- The business is small or medium in comparison with largest competitors in the industry.
- A small business can take the form of manufacturing general construction firms or service business (Holt, 2005).

However, these enterprises are liable to different types of taxes and these include income tax, corporation tax capital gain tax, sales tax and customs duties that are paid at different stages of the business. (Balunywa, 1988) for purposes of this study the emphasis is put on income tax which is levied on the incomes of all Ugandan residents. Small and medium enterprises play a very important role in the development of people around and in Bududa District more especially in Bududa Town council. Taxpayers in Bududa Town Council are exposed to a number of taxes for example ground licenses, VAT, PAYE, Income tax among others (Income tax Act 2015). It is therefore paramount to examine the effects of tax system on the growth of SMEs. Regulations and tax policies are reported to be one of the constraints to the expansion of small businesses in Bududa Town Council. However, these enterprises like any other business, are liable to different types of taxes and these include income tax, corporation tax, capital gain tax, sales tax and customs duties that are paid at different stages of the business.

For purposes of this study, the emphasis is put on income tax, which is levied on the incomes of all Ugandan residents. These different tax rates normally affect the profitability levels of small and medium scale enterprises. Besides their capital Investment is small and at the end hinder the survival of the SME's in Uganda. Taxation affects businesses on various levels, that is to say taxation affects cash flows, growth, profitability and general performance of small and medium scale businesses in Bududa Town Council accounting system. Constraints within this structure often relate to issues that taxes are too high, discriminate SMEs against other businesses or burden them with extensive and complicated tax filing and book keeping requirements, (Masato, 2009). This therefore has led to the closure and winding up of most SMEs in Bududa Town Council since they cannot withhold the prevailing state. It is against this background therefore that the researcher has been prompted to carry out a study to examine the effect of taxation on the growth of SMEs in Bududa Town Council.

1.2 Statement of the Problem

Taxes are raised by the government to generate public revenue for financing public utilities like health, education, telecommunication facilities and other social goods. Therefore these have helped to improve the performance of SMEs such as access to good roads and markets.

Despite the services provided by tax authorities, the performance and growth of SMEs in Bududa Town Council is still poor. It's believed that income tax rates that are charged on small and medium scale enterprises are not accurate since it's based on assumptions without assessing the actual turnover of the enterprise, yet at times these enterprises may be making losses. These rates seem to be taking an upward trend, (Gordon and Dawson, 1987) which has led to winding up of some SMEs in Bududa Town Council.

It's noted that income tax rates that are charged on small and medium enterprises are not accurate since it's based on assumptions without assessing the actual turnover of the enterprise, yet at times these enterprises may be making losses.

According to Bududa District abstract (2015), indicates a great decline of SMEs in Bududa Town Council for the past years. Therefore the abstract indicates that over 60% of SMEs cease business due to high taxes levied on the SMEs in Bududa Town Council. As alleged by Abid Alarm (2006) that high income tax rates affect the level of consumption and increase the unit cost of production.

It's not accurately estimated how income tax affects the profitability levels of SME's thus prompting the researcher to assess the impact of income tax on profitability levels of SME's.

1.3 Purpose of the study.

The general purpose of the study was to establish the effect of taxation on the growth of small and medium enterprises.

1.4 Specific Objectives.

The study was guided by the following objectives:

1. To establish the different classifications of taxes paid by people operating SMEs in Bududa Town Council.
2. To evaluate the effect of taxation on small and medium sized enterprises in Bududa Town Council.
3. To establish the relationship between taxes and growth of SMEs in Bududa Town Council.

1.5 Research Questions

1. What are the different classifications of taxes on people in Bududa Town Council?
2. What are the effects of taxation on growth of SMEs in Bududa Town Council?
3. What are the relationships between taxes and growth SMEs?

1.6 Scope of the Study

1.6.1 Geographical Scope

The study was carried out in Bududa Town Council in Bududa District looking at small businesses located there like Shop keepers, Market day like Monday and Thursday, hardware shops, Telephone services, cosmetics shops, Electronics, and many others.

1.6.2 Subject scope

The study shall involve looking at the effect of taxation on small business, how they affect savings, different taxes paid by people in Bududa Town Council and how they affect profits positively and negatively. The research was focused more on the effect of taxation on the above selected small business enterprises where analysis of data was done in order to make conclusions.

1.6.3 Time scope

The study was carried out in the period between April and July, 2017.

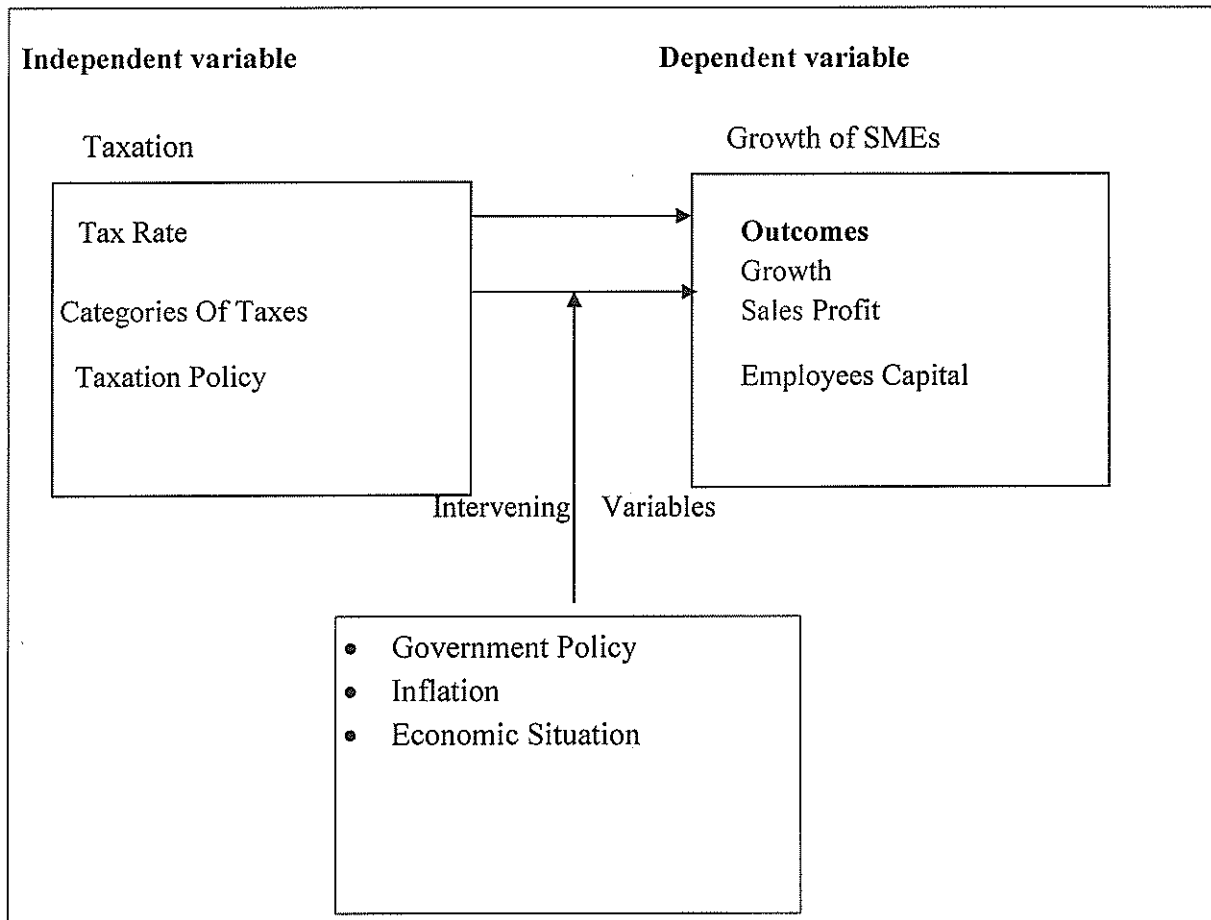
1.7 Significance of the study

1. The research will enable government agencies to be aware of the effects of taxation on small business for proper levying of taxes. The government and policy makers will make use of the research to revise tax policies on SMEs to make the policies more favorable to SMEs. If government policies are made favorable, SMEs savings from taxation can make important investments.
2. The information will help the researchers in making more advanced research decisions on taxation for future analysis as to enable proper formulation of policies and decision-making.
3. The study shall be significant to Uganda Revenue Authority in designing tax policies and rates favourable to small-scale enterprises to create a peaceful economy.
4. Uganda Revenue Authority (URA) will use appropriate trader friendly methods when collecting taxes. The Authority will get to know about corruption tendencies of its officials in the tax administration.
5. The study shall guide the government on how to control tax evasion in case it mainly concentrates on indirect taxes
6. The research will enable SMEs to learn that every business has to pay different forms of taxes. This is because a tax is a compulsory operational business expense. Even other researchers on this topic will use it as reference for future research.

1.8 Conceptual frame work

According to Kotler (2000), a conceptual framework is a basic structure that consists of certain abstract blocks, which represent the observational, experimental and the analytical aspects of a process or system being conceived.

Figure 1: Showing the conceptual frame work for the variables



Source: modified from Sanderson, 2001

The interconnection of these blocks completes the framework expected outcomes. For the purpose of this research, the independent variables are the indicators that accrue from taxation and hence influence the performance and growth of SMEs in Bududa Town Council (Sanderson, 2001). Taxation looks at the overall tax rates, political economy and tax policies, tax implementation and control, evaluation of tax execution performance which through other factors such as government policy, inflation and other economic situations greatly affects the growth of SMEs. Various policies such as monitoring and control and general audit are necessary to achieve growth of SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This part covers the existing literature on the relationships between taxation and profitability levels of small scale enterprises which is a theoretical frame work up on which this study was built. Secondary data was sourced from text books journals and periodicals. It also looks at ideas and studies that were carried out by different people in different capacities. Researchers have carried out studies and they have come up with writings, which are related to the problem that was studied in this research study.

2.1 Definition of Key terms

Taxes are defined as the enforced proportional contributions from persons and property levied by the State by virtue of its sovereignty for the support of government and for all public needs (Cooley, 2009).

Tayebwa and Mugisha (2011), defines taxation as the legally compulsory transfer of money from the public to the government mainly as the source of government revenue.

In addition, they defined a tax as a non-quid pro quo payment in the sense that the benefits received by the taxpayer from the government do not necessarily correspond to the amount of the tax paid.

Mugume 2006, defined a tax as a compulsory contribution imposed by a public authority for example URA, irrespective of the exact amount of services rendered to the taxpayer in return.

Seligman 2004 defined a tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit configured.

SMEs are defined in terms of their characteristics that include; their size of capital investment, their number of employees, their turnover, their management style, and their market share.

Therefore, in a developing country like Uganda SMEs would mean enterprises with about 2.5million workers, with a working capital of less than 50 million and with turnover between 10 and 50 million thought each year of operation (Hatega, 2007). Other than economic reasons, the government also imposes taxes on persons, firms and companies in order to finance public goods and services it provides to the general community such as Public roads, hospitals, education, health care, public utility services, which benefits majority of the people.

Sources of income for tax purposes.

The following are the sources of income for income tax purposes according to URA in Taxation handbook, (2011), and Income Tax Act 2015;

Business income.

This refers to income derived by a person in carrying on a business and includes the following amounts;

- The amount of any gain, as determined under Part VI of this Act, which deals with gains and losses on disposal of assets.
- Amount derived by a person on the disposal of a business asset, or on the satisfaction or cancellation of a business debt.
- Any amount derived by a person as consideration for accepting a restriction on the person's capacity to carry on business.
- The gross proceeds derived by a person from the disposal of trading stock.
- Any amount included in the business income of the person under another section of this Act.
- The value of any gifts derived by a person in the course of, or by virtue of a past, present, or prospective business relationship.
- The interest derived by a person in respect of trade receivables or by a person engaged in the business of banking or money lending; and rent derived by a person whose business is wholly or mainly the holding or letting of property.

Any amount included in business income under subsection (1) (f) or (g) retains its character as interest or rent for the purposes of any section of this Act referring to such income. Where, as a result of any concession granted by, or a compromise made with, a taxpayer's creditors in the course of an insolvency, the taxpayer derives a gain on the cancellation of a business debt, section 38(3) applies in lieu of including the gain in the business income of the taxpayer under subsection (1). In this section, "business asset" does not include trading stock or a depreciable asset, (Taxation handbook, (2011).

Employment Income.

This means any income derived by an employee from any employment, whether past, present or future. The value of any benefit, advantage or facility granted to an employee constitutes employment Income. An amount or benefit derived in respect of employment if it is provided in respect of past, present or prospective employment constitutes employment income, (Income tax Act 2015 Cap 340).

Property Income.

This is defined in the Income Tax Act as;

Any dividends, interest, natural resource payments, rents, royalties, the value of any gifts derived by a person in connection with the provision, use or exploitation of property, the total amount of any contribution made to a retirement fund during a year of income by a tax-exempt employer.

Property income can also mean any other income derived by a person but does not include an amount, which is business, employment, or exempt income, and any amount included in business income of the person under any other section of the Income Tax Act.

URA, 2011 explains a good tax as being one which possess the following principles; principle of ability to pay (that a tax payer should be taxed according to ability and not same amount), canon of equity, canon of convenience, canon of certainty, canon of economy, canon of productivity, canon of elasticity, canon of flexibility, and canon of simplicity.

Government finds it impossible to run its operations without taxes as taxation is a very important aspect or means by which it can achieve its objectives for economic development. Industries producing from home may be protected in that the government can levy high taxes on goods coming from abroad

Taxation can be used to reduce inequalities in wealth by imposing progressive taxes such that those who earn less pay less and those who earn more pay more. Progressive tax is structured in such a way that the tax rate increases as the income increases. Most income taxes are progressive so that higher income earning persons are taxed at a higher rate. A progressive tax is based on the principle of vertical equity, (Tustin & Venter 2006).

Table 1: An example of progressive tax system

Monthly incomes(Shs)	Tax payable at 10%
100,000	10,000
2,000,000	200,000
1000,000	100,000

Source: Primary Data, 2017

According to the income tax, taxes are charged according to the amount of revenue you earn from employment, business and property. Therefore, the tax for a resident individual would be as in the table 2 below.

A resident individual is a person who has a permanent home in Uganda; or is present in Uganda for a period of 183 days or more in any twelve (12) months period that commences or ends during the year of income.

Table 2: Taxes for residents according to Income Tax Act of Uganda Cap 340, 2015.

Monthly income (Shs)	Tax payable (Shs)
>410,000	$30\% * (\text{amount exceeding } 410,000) + 25,000$
>10,000,000	Above answer $+10\% * (\text{amount exceeding } 10,000,000)$

Source: Primary Data, 2017

From the above we see that someone with high income is taxed highly than someone with low Income, this is quoted in the income tax Act 2015.

Articles 152 (I) of the Uganda Constitution provides that “No tax was imposed except under the authority of an Act of Parliament”. Therefore, the Uganda Revenue Authority Act Cap 196 was put in place to provide the administrative framework in which taxes under various Acts are collected.

2.2 Different classifications of taxes according to URA

Uganda’s taxes are income tax on individuals and companies, VAT, customs, and the excise duty levied by the central government through URA, graduated tax and land rates, which are levied by local authorities.

Taxes are classified as either direct or indirect taxes and they all apply in Uganda.

2.1.1 Direct Taxes

Direct taxes are imposed on income arising from business, employment, property and the burden of the tax is borne by the individual or business entity.

Examples of direct taxes include;

Corporation tax.

The Income tax paid by companies is referred to as corporation tax. The current rate of tax (2010) applicable to companies is 30%. The chargeable income for both resident and non-resident companies is taxed at this rate.

Individual Income Tax

Income tax is charged on every person who has chargeable income for each year of income. Chargeable income is derived from three main types of income, namely; business, employment and property.

Income tax is administered under the Income Tax Act (2015) Cap 340.

Capital gains tax

This is the tax levied on gains realized from disposal of capital assets like motor vehicle, land, equipment and others.

Rental tax

Tax under this head applies to resident individual persons. The law provides that individual rental income is segregated and taxed separately as though it were the only source of income for the taxpayer.

Computation of rental tax – In computing the tax, the following are considered:

Gross income on all rentals earned during the year, deduct 20% statutory expenses on the gross rent, deduct tax-free allowance of Shs 2,820,000 to arrive at the chargeable rental income, apply a rate of 20% on the chargeable income to get the tax.

2.1.2 Indirect Taxes

Indirect taxes are taxes levied on consumption of goods and services collected by an Agent (Taxpayer). Notable indirect taxes include;

Value Added Taxes (VAT)

Value Added Tax (VAT) is an indirect tax that is paid by a person who consumes or imports goods and/or services in Uganda. The Tax is charged on the value added at different stages of production or supply of goods and services. VAT was introduced in Uganda in July 1996 to replace Sales Tax and

Commercial Transactions Levy (CTL). VAT is administered under the Value Added Tax (VAT) Act Cap 349, Laws of Uganda.

Excise duty

Excise duty is a tax on consumption of specified goods and services. It is imposed in respect of the supply of specified locally manufactured goods and provision of specified services in Uganda. It is also levied on specified imported goods.

Import duty.

This refers to the custom duties that are payable at importation.

$\text{Import duty} = \text{Customs value} \times \text{Import duty rate}$

Customs value = C + I + F which is cost, insurance and freight. However, for airfreight cargo, the value is based on only the cost and insurance (C&I) of the goods. It excludes the cost of freight. Determination of the tax payable using the tax rates is defined in the customs tariffs contained in the CET.

The CET stipulates three tax bands (rates) of; 0% for raw materials, 10% for intermediate goods or semi processed Goods, 25% for finished goods originating outside the EAC.

Furthermore, duty payable may be determined by considering origin and other existing trade agreements due to preferential rates for example COMESA rates.

Export Duty

This refers to any customs duty payable on exportation of goods.

For the EAC, there is a Common External Tariff (CET) where goods are categorized based on the international harmonized commodity description and coding system. However, export duty is computed based on the tax rate imposed by the exporting country. If WAPOWO sells bread to KUTOSI for Shs 2,000, on which VAT has been charged. The VAT on the bread is Shs 305 and is paid to the Government. Although KUTOSI has paid Shs 305 on bread that was priced at Shs 1,695, the tax is accounted to URA by WAPOWO and KUTOSI need to follow up the transaction with URA.

2.2 Importance of Taxes

Economic stability

Taxation is an important source of government revenue and an economic policy tool to attain economic stability and ensure justice. Taxes are imposed to maintain economic stability in the country during inflation. The government imposes more taxes in order to discourage unnecessary expenditure of individuals. Similarly, during deflation, taxes are reduced in order to enable the individuals to spend more money.

In this way, the increase or decrease in taxes helps to check the big fluctuations of prices and maintain the economic stability (Salemi, A.N (2001).

Optimum allocation of resources

According to Bakibinga (1996) he asserted that taxation is helpful in reallocation of resources from private to public sector. It's viewed as a saving tool in any economy which is partly re-invested in the basic and strategic industries as well as infrastructure development for public utilization and consumption.

Raising revenue

Taxes can be imposed to raise revenue. The government needs money to maintain peace and security in the country, increase social welfare to complete developmental projects like roads, dams, power stations and et al (Mueller, 1986).

Protection policy

Serwanga A. (2002), adds that taxes are used to protect local industries from unfair competitions that arises from imported products.

Higher income levels

Murphy (1989) stressed that taxes enable the state to complete some public works programs. It employs individuals to complete such programmes which imply that the government can solve the problem of unemployment by starting new projects. In this way, taxes help to create more employment opportunities.

Economic growth

However Balunywa (1988) argued that taxation is used to accelerate economic growth. Government is considered to be a key factor in influencing economic growth and development through formulating policies and implementing them. It can reduce taxes to increase marginal prosperity to consume set bans on imports and provision of subsidies to protect infant industries. Taxation is an important tool for controlling and checking inflation, the other reason of taxation is to raise revenue for meeting the needs of the public sector.

Fair Distribution of Income

Taxes are imposed to archive equality in the distribution of national income. Taxes are imposed at high rate on the rich persons or persons and these are spent to increase the welfare of the poor persons. In this way, taxes help to achieve the fair distribution of income in the country, adds Dalton, (1991).

Increase standards of living

According to justice Zake (1986), taxation reduces the extreme inequalities of wealth, income and consumption standards which undermine productive efficiency. The level of expenditure depends much heavily on the ability of the tax system in place, the required revenue at the disposal of the government.

2.3 The Effect of Taxation on the growth of SMEs

SMEs are defined in terms of their characteristics that include; their size of capital investment, their number of employees, their turnover, their management style, and their market share.

In a developing country like Uganda, SMEs would mean enterprises with about 2.5 million workers (Noriega 1998), with a working capital of less than 50 million and with turnover between 10 and 50 million thought each year of operation (Hatega, 2009).

Small and medium-sized enterprises (SMEs) operate mainly at national level, as relatively few SMEs are engaged in cross-border business within Uganda. SMEs contribute 25% of the country's gross domestic product (GDP) and employ about 60% of the workforce in the private sector. In agriculture, construction and retail sector, SMEs employ more than 75% of the total workforce.

The table below summarizes the trend between three years and the performance of SMEs in Bududa Town Council.

Table 3: Category of SME's in Bududa Town Council

Business category	2013	2014	2015
Retail and wholesale Shops	60	40	35
Restaurants	40	25	13
Market vendors	150	50	43
Electronic shops	20	10	3
Cosmetics shops	30	15	5
Drug shops	20	10	5
Total	320	150	104

Source: Primary Data, 2017

The tax rate affects the profitability levels as in the table shown below.

Table 4: Effects of tax rates on profitability

Year	2013	2014	2015
Profit before tax	28,310,264	55799099	80,650530
Tax liability	8,493,079.2	16,739,729.7	24,195,159
Profit after tax	19,817,184.8	3905309.3	56,455371

Source: Primary Data, 2017

2.3.1 Characteristics of SMEs.

The sector is characterized by free entry; small scale nature of the activities; self-employment with a high proportion of family workers and apprentices; little capital and equipment. Other characteristics include labour intensive technology, low skills, low level of organization with little access to organized markets, unregulated and competitive markets, less formal credit, low education and training or services and amenities and cheap provision of goods and services (Mung'awo 2011 approach to A 'level Economics).

Taxation can have an effect on business profitability in the following ways. It can have effect on dividends, stock valuation and others.

Business dividends

Dividends are usually paid to owners or shareholders of the business at specific periods. Therefore, if there are no profits made, dividends cannot be declared, but when profits are made, the business is obliged to pay tax including other statutory taxes to the government. The effects of a tax are repercussions of the tax on work efforts, investment, savings, profits and economic growth. Federal and effective government must carefully consider tax rates to find the sweet spot between securing adequate money from the trade of businesses and creating enough or conducive environment to enable them grow and thrive. Taxes are mostly levied as a percentage for example 12% of

100,000,000, so this is called a tax rate. An important distribution when talking about rate is looking at effective rate and marginal rate and we see that an individual would rather be charged an effective rate (tax/amount) than marginal rate 12% of amount. For example, if a tax is taxed on the formula of 10% from Shs.100, 000, 12% from shs.200000, 15% from 200000 and above. The taxpayer would pay 10,000 taxes on the income of 100,000.

Tax calculations

$$10\% \times 100,000 + 12\% \times 200,000 + 15\% \times 1,500,000 = \text{Shs.}259,000$$

The effective rate would be

$$259,000 / 1,800,000 = 14\%$$

Marginal rate would be 15%

Taxes affect the business profits so much in that any profit realized by the business is owed to the government. For example, if a business earns shs.10, 000,000 as profit and there is a 10% tax rate the payer will pay shs.100, 000 to the government, which greatly affect profits. Most businesses base on the tax rates for example direct taxes, which are charged directly from incomes to raise the prices of products and hence reducing demand, all this affect profits

Taxes also discourage people from working harder because they fear paying higher taxes in form of progressive tax so they work less to get less such that they are taxed less and this also affect profits because less income is realized from these businesses.

Taxes also adversely affect the level of savings in that when people know that the increase in income and wealth will lead to higher tax, they are reluctant to save and this affect their level of savings negatively in that they cannot meet their future demands. The taxes reduce income and wealth among families because of their progressiveness in nature, the rich are taxed highly and the poor are taxed less therefore these affect the level of savings to most business enterprises.

In competitive market, the price of a particular economic good adjusts to ensure that all trades that benefit both taxpayer and the seller of a good occur. The introduction of a tax causes the price received by the seller to be less than the cost to the buyer by the amount of a tax, this causes fewer traders to occur, which reduces the economic welfare in markets without externalities; the individuals or businesses, which are involved, are less well off than before the tax.

When Sales tax are deemed unfavorable for business growth, it may lead to business shifting to another location or another country and here costs are high hence low savings

Heavy and high progressive taxes discourage or reduce the ability and willingness to save and this may affect the level of economic growth. However, regressive taxes will encourage people to save much because they will realize that taxes are high when income of an individual is low.

2.4 The relationship between taxes and profits in SMEs

Tax rates have a large adverse effect on aggregate investment, FDI and entrepreneurial activity for example a 10% increase in the effective tax rate reduces aggregate investment to GDP ratio by 2% points. Taxes are also negatively correlated with growth and positively correlated with the size of the informal economy (Stein 2008).

The investment decision making process influence the enterprise affirmation in the business environment and increase its market share. Investment decision concerns the issue of capital allocation for fixed assets or financial assets; central returns to fixed assets, acquired because of capital investment.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives a background against which the data was collected and evaluated in light of their reliability and conclusions. It basically explains the approaches that were adopted by the researcher in undertaking the study. It comprises of the research design, study population, sample size, sampling technique, data collection and data analysis.

3.1 Research design.

Creswell (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Further Dooley (2007) notes that a research design is the structure of the research; it is the glue that holds all the elements in a research project together. The researcher shall adopted a descriptive cross-sectional research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs were found to be accurate in descriptive studies and generalization of results.

The study shall involve the analysis of complex issues into small components for better understanding of the effects of taxation on the growth of SMEs in Bududa Town council.

3.2 Study Population

The study involved a population of over 40 small scale enterprises, which include retail shops, hardware shops, groceries, general merchandise and URA tax administrators.

3.3 Sample Size

The researcher used a reasonable sample size of 20 out of 40 small scale enterprises like shops, pharmaceuticals, restaurants, hardware among others to represent the entire study population.

According to Mugenda (200, 42) suggests that for the descriptive study, 10 percent of the accessible population is enough.

Data was obtained using simple random sampling and stratified sampling which are the techniques, which gives equal chances to all members of the population by taking the second respondent in every two respondents.

Table 5: Category of respondents for the study.

Business category	Target number	Percentage
Restaurants	5	10
Market vendors	6	12
Cosmetics shops	2	4
Hard ware	5	10
Retail and whole sale shops	10	20
Electronics	2	4
Drug shops	11	22
Mobile Money outlet	9	18
Total	50	100

Source: Primary Data, 2017

3.4 Sampling Design and Procedure

The researcher shall use simple random sampling and purposive sampling techniques. Simple random sampling approach was used during the study because of its advantages like minimization of biased results. This implies that all participants in the study population shall have an equal chance of being selected. Purposive sampling shall also be used to select only those respondents with importance attached to their office. This means that data was obtained from the key informants about the subject matter. A combination of these two techniques shall give a wide range of response.

3.5 Data Sources

Data was obtained from both secondary and primary data sources.

3.5.1 Secondary data collection

Ruston (2001) defines secondary data as that kind of data that is available and already reported by some other scholars. Secondary data shall include policy documents and abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study was got from sources like libraries, archived records from Bududa Town Council and records of selected small-scale enterprises, government publications, online information, textbooks and unpublished research reports. This is because it is readily available and easier to comprehend, as it comprised of extensively researched work.

3.5.2 Primary data collection

Ruston (2001) defines primary data as kind of data that has been gathered for the first time and it has never been reported anywhere. Shortcomings of secondary data sources such as outdatedness and inadequacy in terms of coverage, necessitated the use of primary sources for first data. Self-administered questionnaire was used and this enabled the researcher to cover a large population quickly and at a reasonable cost.

3.6 Area of study.

The study was carried out in Bududa Town Council in Bududa District using selected small enterprises like shops, restaurants, pharmaceuticals located opposite Bududa hospital and electronics.

3.7 Data Collection Instruments and Tools.

The data was obtained from respondents by use of questionnaires.

3.7.1 Questionnaires

The major instruments used for the study was the questionnaires, which was reinforced by interviews and observations. Questionnaires were designed and issued during research study. They included both closed and open-ended questionnaires. Closed questionnaires are those that give alternatives to respondents to choose from. A questionnaire guide was used as an instrument for the study.

The researcher also read some documents such as reports from the Uganda Revenue Authority to get secondary information about the subject.

3.8 Procedure of data collection.

After approval and review of the proposal by the supervisor, the researcher obtained an introductory letter from the College of Economics and management, department of accounting and finance Kampala International University for smooth entry into these business enterprises. The letter was used to seek permission from directors of these small enterprises and questionnaires were presented to them for getting ready prior to the study.

3.9 Data Analysis.

Both Qualitative and Quantitative data was obtained, coded, categorized according to research objectives. To effectively obtain the effects of taxation on the growth of small scale businesses, objectives were probed using a 5 point Likert scale with A for Agree, SA strongly agree, D disagree, SD strongly disagree, and NS not sure.

Qualitative data was arranged, analyzed through establishing frequencies and percentages, cross-tab methods such as linear regression for easy interpretation.

3.10 Limitations of the study.

1. **Financial constraints:** Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal and research report.
2. **Limited time:** Inadequate period required for a detailed research study. Comprehensive research study involved a great deal of collecting, analyzing and processing that required a lot of time.
3. **Non-response:** Owners of businesses were too busy attending to their customers and rarely spared their time for the researcher.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents and interprets findings on income tax administration and profitability of small-scale businesses in Bududa Town Council. The findings were from both primary and secondary sources. The objectives of the study were; to establish the different classifications of taxes paid by people operating SMEs in Bududa Town Council, to evaluate the effect of taxation on small and medium sized enterprises and to establish the relationship between taxes and growth of SMEs in Bududa Town Council.

4.1 General characteristics of the respondents

The respondents were asked a series in relation to their demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondent. The respondents were classified according to gender, age and the level of education attained. The researcher aimed at establishing the general attributes of the respondents who filled the questionnaires and this section presented the findings. The findings are discussed below.

4.1.1 Gender of the respondents

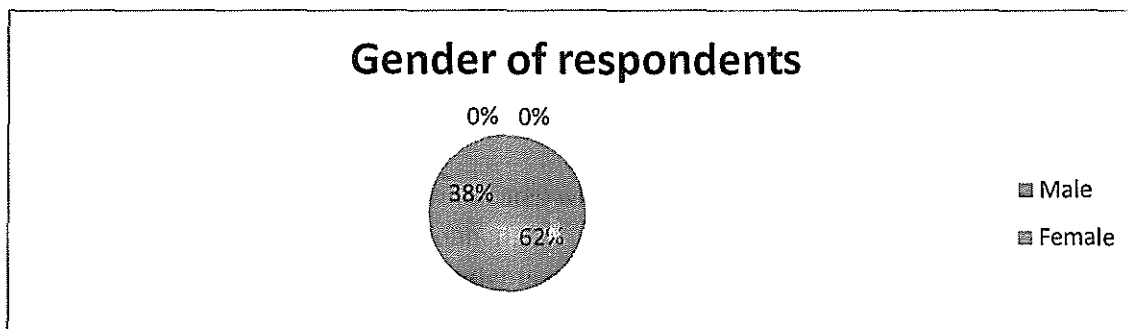
The table and graph below clearly indicates what the researcher found out concerning the gender of the respondents in Bududa Town Council.

Table 6: Showing Gender of Respondents

Gender	Respondents	Percentage
Male	31	62
Female	19	38
Total	50	100

Source: Primary Data, 2017

Figure 2: Showing gender of respondents



The study population was selected, and the results showed that 62% of the respondents were male while 38% were female. This indicated that shows that males had a great dominance in the operation of small scale businesses in Bududa town council over their female counterparts.

4.1.2 Age of respondents

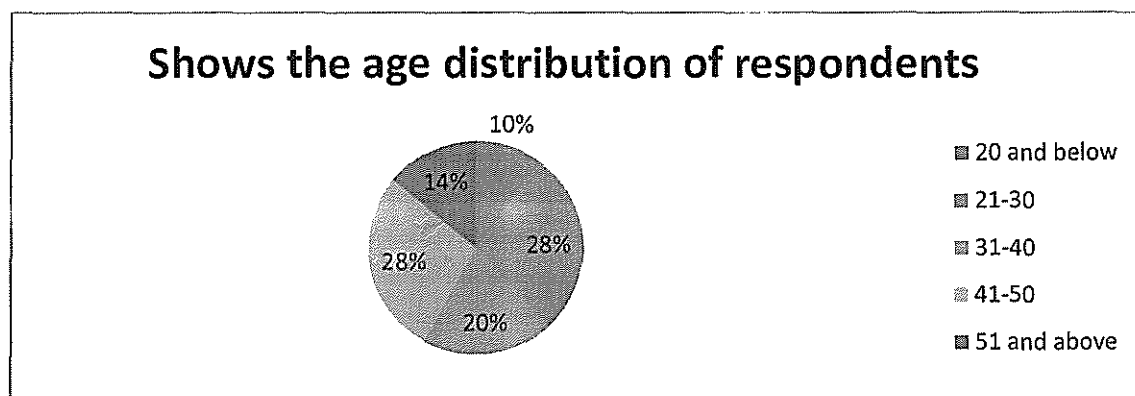
The respondents were asked to indicate their age bracket and the response showed the following results as in the table below.

Table 7: showing respondents' age

Age bracket (years)	Frequency	Percentage
20 and below	5	10
21-30	14	28
31-40	10	20
41-50	14	28
51 and above	7	14
Total	50	100

Source: Primary Data, 2017

Figure 3: Showing age of respondents



The table above showed that 10% of the respondents were in the age group of 20 years and below, 28% in the age group of 21-30, 20% between 31-40, 28% between 41-50 and 14% in the age group of 51 and above years. This indicates that the majority of the respondents were between 21-30 years and 41-50 years represented by 28% each class of age. This therefore concludes that most small scale businesses are operated by people of the highly working age group in Bududa town council.

4.1.6 Level of Education attained

This seeks to establish the level of education of the respondents. The respondents were asked to indicate their level of education and the response was as in the table below.

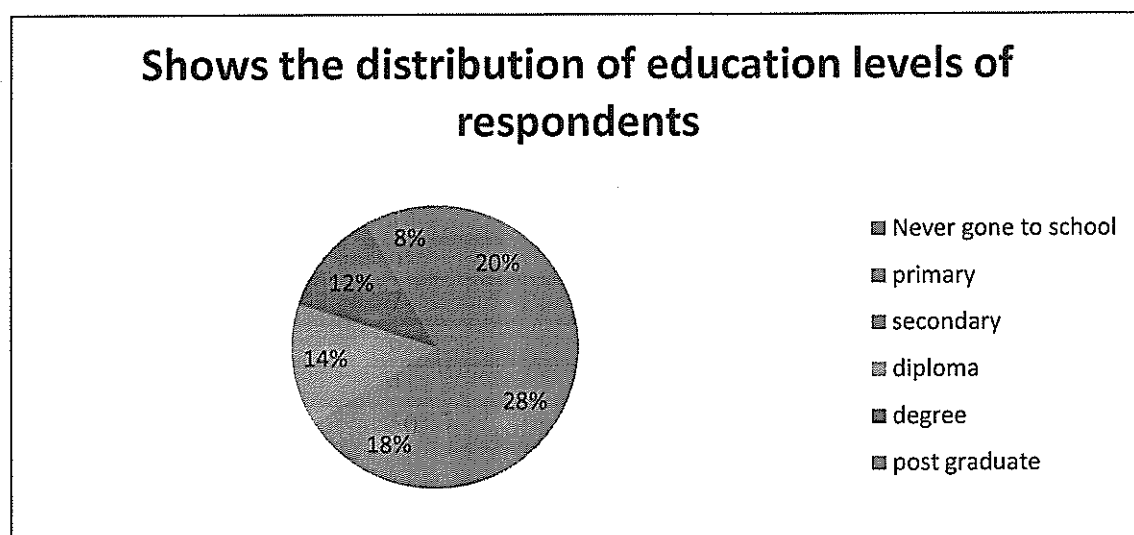
Table 8: showing the level of education of respondents

Level of Education	Frequency	Percentages
Never gone to school	10	20

Primary	14	28
Secondary	9	18
Diploma	7	14
Degree	6	12
Post graduate	4	8
Total	50	100

Source: Primary Data, 2017

Figure 4: Showing the distribution of education levels of respondents



The table above shows that all the respondents were competent enough with knowledge about taxation though a very big number of respondents were from primary level. Therefore there was need to carry out such study and educate entrepreneurs about the about taxes.

4.2 Classification of taxes

The respondents were asked about the class of tax and the products they deal in. Alongside interviewing, the researcher used observation method to identify the nature of products they deal in. variety of businesses were identified which include; retail and wholesale shops, restaurants, cosmetics shops, Electronics shops, Mobile money outlets, among others which are charged a trade license and operation permits. The respondents were asked to provide information on whether the taxes are direct or indirect

Table 9: showing the nature of business and products

Restaurants	5	10
Market vendors	6	12
Cosmetics shops	2	4
Hard ware	5	10

Retail and whole sale shops	10	20
Electronics	2	4
Drug shops	11	22
Mobile Money outlet	9	18
Total	50	100

Source: Primary Data, 2017

From the table above we observe that most of the respondents deal in drug shops with 22% of the products followed by those who deal in retail shops, restaurants, hardware, electronics and the rest in the different forms of business enterprises.

4.2.3 Taxes paid by SMEs

4.2.4 Direct taxes and indirect taxes.

Table 10: Responses on taxes if Direct or indirect taxes

Tax	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Ground taxes	50	100	0	-
Trading and operating licenses	50	100	0	-
Income tax	0	-	30	60
VAT	0	-	20	40
Corporate tax	0	-	0	-
Rental tax	0	-	0	-
Capital gains tax	0	-	0	-
Total	0	100		100

Source: Primary Data, 2017

Basing on the results in the table above, all the respondents acknowledge ground rates, trading, and operating licenses as the basic taxes paid to the tax authorities in Bududa town council.

4.2.5 Perception of the Current System

Table 11: Showing the results about how respondents perceive the current tax system

Variables	Responses	
	Frequency	Percentage
Very satisfied	00	00
Satisfied	15	30
Fairly satisfied	22	44
Not satisfied	13	26
Total	50	100

Source: Primary Data, 2017

According to the above table, none of the respondents is very satisfied with the current tax system, 30% are satisfied, 44% are fairly satisfied, and 26% are not satisfied at all with the current tax

system. Therefore, the results showed that respondents have fair attitudes about the current tax system with the majority being fairly satisfied which was represented by 44%. The above results showed that majority of the people operating small and medium enterprises have at times found challenges with the tax system and structure and thus this affects their day to day operations.

4.2.6 Perception of the mode of assessment and tax collection

Table 12: Showing the results about how respondents perceive the current mode of assessment

Variables	Responses	
	Frequency	Percentage
Very satisfied	00	00
Satisfied	25	50
Fairly satisfied	15	30
Not satisfied	10	20
Total	50	100

Source: Primary Data, 2017

According to the above table, none of the respondents is very satisfied, 50% are satisfied, 30% are fairly satisfied, and 10% are not satisfied at all with the mode of assessment of the tax to be paid. Therefore, the results showed that respondents have fair attitudes about the mode of assessment with the majority being fairly satisfied which was represented by 50%.

4.4 The effects of Taxation on business profitability

4.4.1 Trends in Profits with introduction of taxes

Table 13: Trends in profits with introduction of Taxes

TREND In Profits	SA		A		NS		D		SD		SA+A	
	Freq	P%	Freq	P%	Freq	P%	Freq	P%	Freq	P%	Freq	P%
Profits increases with the introduction of taxes increases.	-	-	-	-	5	25	10	50	5	25	-	-
Profits stabilize with the introduction of taxes.	-	-	-	-	5	25	10	50	5	25	-	-
Profits decreases with the introduction of taxes.	10	50	6	30	4	20	-	-	-	-	16	80
Profits do not change with the introduction of taxes.	-	-	-	-	10	50	10	50	-	-	-	-

Source: Primary Data, 2017

From the table above the results showed that 50% of the respondents strongly agree that profits reduce on introduction of taxes, 30% agreed and 20% are not sure. None of the respondents agreed

that profits stabilize with the introduction of taxes, 25% not sure, 50% disagreed and 25% strongly disagreed. Equally, none of the respondents agreed that profits do not change with the introduction of taxes, 50% were not sure and 50% disagreed.

4.4.2 Respondent's perception on the effect of taxation on business profitability

Table 14: Showing respondents' perception on business profitability

PERCEPTIONS	SA		A		NS		D		SD	
	Freq	P%	Freq	P%	Freq	P%	Freq	P%	Freq	P%
Taxation is a good incentive to profitability	-	-	-	-	10	50	6	30	4	20
Taxation reduces the amount of money for dividends	10	50	6	30	4	20	-	-	-	-
Taxation leads to higher profits for firms	-	-	-	-	5	25	11	55	4	20
Taxation lowers savings	12	60	6	30	1	5	1	5	-	-

Source: Primary Data, 2017

According to the results in the table above, 90% of the respondents agreed that taxation lowers savings, 5% not sure and 5% disagree. None of the respondents agreed that taxation is a good incentive to profitability, 50% not sure, 30% disagreed and 20% strongly disagreed. Equally, 80% of the respondents agreed that taxation reduces the amount of money for dividends, and 20% are not sure.

4.3 The relationships between taxation and profits of SMEs in Bududa Town Council.

The respondents were asked to tick favorably in the table

Table 15: Showing the extent of agreement with the relationship between taxation and profits

PERCEPTION	SA		A		NS		D		SD		SA+A	
	F	P	F	P	F	P	F	P	F	P	F	P
Taxation reduces on the level of profits.	15	75	4	20	1	5	-	-	-	-	19	95
Taxation encourages people to invest	-	-	-	-	5	25	10	50	5	25	-	-
Taxation reduces the amount of credit businesses extend to customers	10	50	5	25	5	25	-	-	-	-	15	75
Taxes levied on SMEs are beneficial to businesses.	-	-	5	25	5	25	5	25	5	25	5	25
The amount of tax levied on the small-scale business is too much.	5	25	5	25	8	40	2	10	-	-	10	50
The location of the	5	25	10	50	3	15	02	10	-	-	15	75

business determines tax to be paid and affects profits.													
Taxation fosters development	-	-	-	-	10	50	5	25	5	25	-	-	
Taxes reduce income inequality among enterprises.	5	25	10	50	5	25	-	-	-	-	15	75	
Taxes have positive effects on SMEs	-	-	5	25	5	25	10	50	-	-	5	25	
Taxes lower the standard of living of business owners	10	50	10	50	-	-	-	-	-	-	20	100	

Source: Primary Data, 2017

From the results in table 15 above, shows that majority of the respondents agreed that taxation lowers standards of living, reduces on savings, reduces income inequality because the rich pays higher than the poor, reduces on amount of credit given to customers and it is too much represented by 100%, 95%, 75% and 50% respectively.

4.5 Discussion of the Major Findings

This chapter is structured in accordance with the study objectives. In all, the findings showed that respondents pay ground taxes, trading and operating licenses, and VAT. Respondents recognized that taxation has significant effect on profitability. Majority recognized that taxes affect profits of the business.

4.5.1 Types of Taxes levied on SMEs

According to the results from the study almost all the businesses were licensed (95) in agreement. The results reflect effective adherence tax authorities by business as noted by (Juan, 2011). The respondents paid all ground rates, trading and operational licenses and development taxes. Only a few of the respondents noted that they pay VAT. On whether business pays all the taxes, almost all respondents agreed to have been paying ground rates and trading and operational licenses. This implies a high rate of tax compliance by the trader, which is good for the tax system as confirmed by (Kjeen, 2007). Almost all the respondents said that all the taxes were compulsory (95) with only a few (5) saying that they were not compulsory (income tax). Frequency of payment of taxes was average with an average number of respondents indicating to be paying taxes twice in a year. The results suggest that in terms of frequency of payment, the rate of tax payment is average. On whether respondents are satisfied with majority of respondents explained that they were fairly satisfied with the taxes levied on them (60 percent), 25 were satisfied and very few were not satisfied. The results indicated a high rate of dissatisfaction with the taxes, which call for revision in a tax system. Thus, the need for revising the taxes as suggested by farm & French, (2011).

4.5.3 The Relationship between Taxation and Firm's Profitability

The third study objective was to present the relationship between taxation and the firm's profitability. The assessment was done using the following items indicated in the questionnaire. The findings under this objective are relevant to miller (2007) views on business profitability. Majority of the respondents noted that taxes lower standard of living of business owners and reduce profits represented by 100 and 95 respectively. This implies that excessive taxes lower standard of living and discourage profit making and for businesses to improve on standard of living and realize profits, taxes should be cut down to reduce their effect on profits and enable firms survive in this competitive economy. These suggestions are in line with (Graham 2006). Respondents also revealed that taxation is not a good incentive to profitability; that taxation reduces the money available for dividends to shareholders, that taxation lowers savings. These suggestions are in line with (Mung'awo 2011). Table below shows the ANOVA results which explain the model fit through the F statistic and the probability of F-statistic.

Table 16: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	124.469	12	24.894	2.001	.018 ^b
Residual	220.189	15	11.009		
Total	344.657	37			

The results in Table above show that the F statistic was 2.001. At 5% level of confidence, the F statistic was significant. In this case, all the predictor variables (Tax Rate, government policies, inflation, economic situations and other independent variables) explain a variation in performance of SMEs and that the overall model is significant.

Table below shows the coefficient results for the model variables, the t-values of each of the independent variables as well as the significance (p-value).

Table 17: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.706	.229		.670	.018
Inflation	.556	.018	.441	.787	.007
Tax rate	.601	.025	.321	.801	.016
Performance Evaluation	.599	.044	.245	.591	.015

Economic situation	.679	.089	.361	.491	.000
Strategic Analysis	.654	.079	.355	.671	.004
Size	.434	.054	.371	.348	.020
Government policy	.409	.066	.381	.421	.034

a. Dependent Variable: Performance

Source primary data, 2017

From the findings in the above table the study found that holding Tax Rate, government policies, inflation, economic situations and other independent variables leverage constant performance of SMEs at 0.706, the study also found that a unit increase in interest rates and inflation practices will cause a .556 decrease in performance, further it was established that favorable government policies will improve performance by 0.601, it was also found that a unit increase in Performance Evaluation practices will lead to an increase in performance by a factor of 0.599.

The value in the Pearson's table was then used to establish the significant level, critical or rejection level. The significant level (α) of 0.05 was chosen because it is the most popular one for social scientists and business research studies. This is because if the test has a significant level of 0.05(5%) that you will get results at this extreme by chance alone. In other words, such a test has a 1 in 20 chance of rejecting the research hypothesis erroneously. This means that the hypothesis is prone to be accepted to the level of 95%. The degrees of freedom were reached at by subtracting two from the sample size, which is given by $(26-2=24)$. From the Pearson's table, the number nearest to 24 is 25 and at a α of 0.05, the critical value is 0.3809, since 0.454 is greater than 0.3809 we accept the hypothesis that there is a relationship between the role of internal audit in the management of financial resources in local government.

4.4 Inferential Statistics

The study further applied multiple regressions to determine the predictive power of the taxation practices on performance of SMEs in Bududa town council.

4.4.1 Regression Analysis

Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique is used to find the equation that represents the relationship between the variables. Multiple regressions provide an equation that predicts one variable from two or more independent variables. The researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the performance of SMEs in Bududa town council. The researcher applied the statistical package for social sciences (SPSS V 18.0) to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the

dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance of the performance of SMEs in Bududa town council) that is explained by all the five independent variables (Tax Rate, government policies, inflation, economic situations and other variables). The study adopted multiple regression guided by the following model: $F_{pt} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$. Table below shows the regression model summary results where R square, adjusted R square and standard error of estimate are presented.

Table 18: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.891 ^a	.794	.642	3.31805

The results in Table indicate that taxation has a joint significant effect on the performance of SMEs in Bududa town council as shown by r value of 0.891. The R squared of 0.794 shows that the independent variables accounted for 79.4% of the variance on performance of SMEs in Bududa town council.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, conclusions and recommendations based on the objectives of the study and the areas of further research are also highlighted in this chapter. The impact of taxation was the independent variable while the growth of small and medium scale enterprises was the dependent variable. It consists of four sections, first presenting the summary of findings, secondly conclusion, thirdly presenting the recommendations and lastly presenting the areas of further research.

5.1 Summary of the findings

The general objective of the study was to establish the effect of taxation on the growth of small and medium enterprises in Bududa town council. This study adopted a descriptive survey design. The target population for this study was the 50 small and medium enterprises in Bududa town council. From the study findings, more male respondents were questioned than female respondents. The study participants were mainly dealing in market vending, retail and wholesale shops, restaurant and the rest in different forms of business. The findings also revealed that all businesses were licensed and taxes paid were trading license, ground rates and the few pay VAT and Income tax.

The researcher found out that local government often plays a critical role in the tax administration of small operators. However, municipal levies inhibit the creation of formal enterprises. For example, it was found out that licensing costs and requirements are a key driver of continued informality. Coordination between government agencies is usually very poor with inconsistent local and central government policies and multiple non-transparent taxes, fees, and non-regulatory “licenses” at the local level. The findings of the study showed that the profit margins of the firms were too small to improve on the scale and size of the business. This is due to the high taxes imposed on these SMEs that they could hardly have enough capital to re-invest. Most of the respondents were unsatisfied with the tax rates based on the sales turn over and some of the respondents did not fully understand income tax and its computation. The findings of the study showed that the introduction of income tax has adversely affected the profitability of small-scale enterprises according to the responses; they

strongly agreed that income taxation greatly affects the profitability of their businesses and thus limiting the growth potentials.

5.2 Conclusions

The study concludes that Small businesses are not necessarily small earners; rates need to be high enough to encourage firms at the upper end of the threshold to join the general system and low enough to encourage informal entrepreneurs to comply. This process requires extensive survey-based analysis of small firm's profit margins to determine presumptive tax rates, which will not affect the small business earners. According to the findings, taxation was found to have a fair effect on business profitability in Bududa Town council since most of the respondents were fairly satisfied with the current tax system. However, Uganda revenue authority needs to intensify on the sensitization campaigns since the business communities do not take the education of tax compliance seriously.

5.2.1 Classification of taxes

According to the results from the study almost all the businesses were licensed (95) in agreement. The results reflect effective adherence tax authorities by business as noted by (Juan, 2011). The respondents paid all ground rates, trading and operational licenses and development taxes. Only a few of the respondents noted that they pay VAT. The results from the study shows that all respondents agreed to have been paying ground rates and trading and operational licenses. This implies a high rate of tax compliance by the trader, which is good for the tax system as confirmed by (Kjeen, 2007). Almost all the respondents said that all the taxes were compulsory (95) with only a few (5) saying that they were not compulsory (income tax). Frequency of payment of taxes was average with an average number of respondents indicating to be paying taxes twice in a year. The results suggest that in terms of frequency of payment, the rate of tax payment is average. On whether respondents are satisfied with majority of respondents explained that they were fairly satisfied with the taxes levied on them (60 percent), 25 were satisfied and very few were not satisfied. The results indicated a high rate of dissatisfaction with the taxes, which call for revision in a tax system. Thus, the need for revising the taxes as suggested by farm & French, (2011).

5.2.2 Effects of Taxation on SMEs

The findings from the study reveal that most respondents agreed that taxation lowers savings, 5% not sure and 5% disagree. None of the respondents agreed that taxation is a good incentive to

profitability, 50% not sure, 30% disagreed and 20% strongly disagreed. Equally, 80% of the respondents agreed that taxation reduces the amount of money for dividends, and 20% are not sure. From the findings of the study found that holding Tax Rate, government policies, inflation, economic situations and other independent variables leverage constant performance of SMEs at 0.706, the study also found that a unit increase in interest rates and inflation practices will cause a .556 decrease in performance, further it was established that favorable government policies will improve performance by 0.601, it was also found that a unit increase in Performance Evaluation practices will lead to an increase in performance by a factor of 0.599.

5.2.3 Relationship between taxation and profitability of the firm

Taxation has a significant influence on the performance of business operations in the local government. From the Pearson's value of ($r=0.454$, $p=0.01$). Anomalies in the taxation policies of a given economy affect the performance of the whole economy especially in the control of resources that can be useful to expand the capital needs of the firm, thus weakens the entire management function and bring about cases such as poor performance and leaving the business world. . The third study objective was to present the relationship between taxation and the firm's profitability. The assessment was done using the following items indicated in the questionnaire. The findings under this objective are relevant to miller (2007) views on business profitability.

Majority of the respondents noted that taxes lower standard of living of business owners and reduce profits represented by 100 and 95 respectively. This implies that excessive taxes lower standard of living and discourage profit making and for businesses to improve on standard of living and realize profits. taxes should be cut down to reduce their effect on profits and enable firms survive in this competitive economy. These suggestions are in line with (Graham 2006). Respondents also revealed that taxation is not a good incentive to profitability; that taxation reduces the money available for dividends to shareholders, that taxation lowers savings. These suggestions are in line with (Mung'awo 2011). The result from the study shows that the F statistic (independent variables) was 2.001. At 5% level of confidence, the F statistic was significant. In this case, all the predictor variables (Tax Rate, government policies, inflation, economic situations and other independent variables) explain a variation in performance of SMEs and that the overall model is significant. The value in the Pearson's table was used to establish the significant level, critical or rejection level. The significant level (α) of 0.05 was chosen because it is the most popular one for social scientists and business research studies. This is because if the test has a significant level of 0.05(5%) that you will

get results at this extreme by chance alone. In other words, such a test has a 1 in 20 chance of rejecting the research hypothesis erroneously. This means that the hypothesis is prone to be accepted to the level of 95%. The degrees of freedom were reached at by subtracting two from the sample size, which is given by $(26-2=24)$. From the Pearson's table, the number nearest to 24 is 25 and at a α of 0.05, the critical value is 0.3809, since 0.454 is greater than 0.3809 we accept the hypothesis that there is a relationship between the effect of taxation on the profitability of SMEs in Bududa town council.

5.3 Limitations of the Study

The study only concentrated on the effects of taxation on the performance of small and medium scale enterprises in Bududa Town Council and not all local governments in the country. These results are therefore only limited to the small and medium scale enterprises in Bududa Town Council and may be of little or no use to the SMEs in other parts of the country.

Due to the self-report nature of data which entailed the use of questionnaires, responses on the survey may not accurately convey their real involvement in the management accounting practices. Some of the respondent did not return the questionnaires therefore, resulting to lesser the targeted sample thus, influencing the nature of statistical reporting.

Further, some small and medium scale enterprises did not accurately disclose the ROA figures due to the nature of the sensitivity of financial information disclosure. Therefore, this affected proper statistical analysis of the data.

Finally, due to limited time available to carry out the research, the above areas were not comprehensively studied to provide a national wide picture. This would be an important area because policy makers and implementers argue that the effects of taxation on performance of small and medium scale enterprises can only be resolved by providing them with research action points based on empirical data.

5.4 Recommendations

This study examined effects of taxation on the growth of small and medium scale enterprises in Bududa Town Council. From the practice perspective, this study recommends the creation and enhancement of awareness among company s of the importance of information for decision making

practices as this is the most highly used management accounting practice amongst the Bududa Town Council.

Further research is important in other sectors with similar or almost same micro and macroeconomic environments for business operations. The findings of the study would enhance a cross-country comparison of the taxation policies and their impact on the performance of business enterprises.

In addition, future studies should examine specific factors as to why small and medium scale enterprises are not adopting newly developed taxation policies. The relatively limited benefits associated with new taxation policies and business management techniques raises the question of the conditions necessary to effectively implement these tools. Finally, the dependence between traditional and new taxation policies needs further investigation

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APPENDICES

APPENDIX I: STUDY QUESTIONNAIRE

Dear respondent,

I am called WAPOWO BILALI, a student of Kampala International University pursuing a Bachelors degree of Business Administration. The purpose of this questionnaire is to help me get your opinions on the effects of taxation on the growth of small and medium size enterprises in this area. The research is for academic purpose and will not be used anywhere other than for this purpose. You have been chosen because of the information that you have in regards to the topic. And the information provided shall be treated with confidentiality.

Thank you in advance

(Tick where appropriate)

SECTION A: BIOGRAPHIC DATA

1. Name (optional).....

2. Gender

Male ☐

Female ☐

3. Age in years

20- 29 years ☐

30- 39 years ☐

40- 49 ☐

50-59 ☐

60 years and above ☐

4. Marital Status

Single ☐

Married ☐

Divorced ☐

Widowed ☐

5. Education Level

'O' Level ☐

'A' Level ☐

University degree ☐

Master degree ☐

6. How long have you been employed here?

1-2years ☐

3-4years ☐

5-6years ☐

7 years above ☐

7. Religious affiliation

Anglicans ☐

Roman Catholic ☐

PentecostalMos ☐

☐

Others (specify)

SECTION B: Classification of taxes.

8. Do you pay taxes?

i) Yes ☐ ii) No ☐

9. If yes, which class of tax do you pay?

i) Direct ☐ ii) Indirect ☐ Both ☐

10. If Direct tax, which type(s) of direct tax(es) do you pay?

i) Corporate ☐ ii) Individual ☐ iii) Capital gain tax ☐ Rental tax ☐

11. If indirect tax, which type(s) of indirect taxes do you pay?

i) VAT ☐ ii) Excise duty ☐ iii) Impact duty ☐ Export duty ☐

Please use 1 Very satisfied. 2 satisfied. 3. Not satisfied. 4 Fairly satisfied

12. Considering all taxes paid, how satisfied are you with the current tax system?

i) Very satisfied ☐ ii) Satisfied ☐ iii) fairly satisfied ☐
iv) Not satisfied ☐

Please tick appropriately

Please use SA for Strongly Agree, A for Agree, NS for Not Sure, D for Disagree, and SD for strongly Disagree on comments in the table below.

1. Strongly agree 2. Agree 3. Not sure 4. Disagree 5. Strongly Disagree

SECTION C: Effects of taxation on business profitability

13. What is the average amount of tax paid per year?

i) Zero ☐ ii) 100,000 – 190,000 ☐ iii) 200,000 – 290,000 ☐
iv) 300,000 – 390,000 ☐ v) 400,000 – 490,000 ☐ 500,000 + ☐

14. Do you have any problem with?

i) The tax collectors YES ☐ ☐

- ii) The mode of tax collection YES ☐ NO ☐
- iii) The mode of assistance YES ☐ NO ☐

15. Does the tax authorities influence the overall profitability of the business?

i) YES ☐

ii) NO ☐

Perception on the effect of taxation on business profitability.

NO.	Perception	1	2	3	4	5
16.	Taxation lowers savings.					
17.	Taxation leads to higher profits for firms					
18.	Taxation reduces the amount of dividends					

19. What are the specific effects of taxes on your business?

i)

ii)

iii)

20. Give any suggestions about the effects that may have been encountered while complying with tax obligations.

i)

ii)

iii)

SECTION D: The relationship between taxation and growth of SMEs.

NO	Perception	1	2	3	4	5
21.	Taxation reduces on the level of profits.					
22.	Taxation encourages people to invest					
23.	Taxation reduces the amount of credit businesses extend to customers.					
24.	Taxes levied on SMEs are beneficial to businesses.					
25.	The amount of tax levied on the small-scale business is too much.					

26.	The location of the business determines tax to be paid and affects profits.					
27.	Taxation fosters development					
28.	Taxes lower the standard of living of business owners					

Thank You Very Much!

APPENDIX II: PROJECTED BUDGET

The researcher expects the research to cost him between 300, 000 to 400,000 Shillings. The estimated budget can be detailed as in the table below.

The estimated budget for the research

No.	ITEM	UNIT COST (Shs)	AMOUNT (Shs)
1	Transport	2 jouneys@30,000	60,000
2	Stationary	70,000	70,000
3	Airtime	20,000	20,000
4	Facilitation to respondents	100,000	100,000
5	Miscellaneous	50,000	50,000
6	Feeding	50,000	50,000
	Total		350,000

APPENDIX III: RESEARCH WORK PLAN

Activity	Months								Person responsible
	2017			2017					
	F	M	A	M	J	J	A	S	
Development of synopsis									Researcher
Review of synopsis									Researcher and supervisor
Proposal Development									Researcher
Review of proposal									Researcher and supervisor
Formulation of questionnaires									Researcher
Review of questionnaires									Researcher and supervisor
Data Collection									Researcher
Data Analysis									Researcher
Final Report									Researcher
Review of Report									Researcher and supervisor
Report Submission									Researcher and supervisor