UGANDA MANAGEMENT INSTITUTE

TAXATION AND THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAKAWA DIVISION, KAMPALA, UGANDA

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DECLARATION

I, **John Barungi Amooti,** hereby declare that the contents of this researchis my original work and have not been presented by any previous researcher at any university or any other institution and the research has been submitted withauthorization from the Institute supervisors.

Signature…………………………   Date……………………

APPROVAL

This dissertation was done under our supervision and has been submitted for examination with our approval.

Signature……………………… Date………………………

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Signature……………………… Date………………………

Mr. Paddy Mugambe

DEDICATION

I dedicate this work to my family for the enormous support and understanding during the times I was not available for them while undertaking this course.

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LIST OF ABBREVIATIONS

BDS   Business Development Services

DV   Dependent Variable

EAC-CMA East African Community Customs Management Act

FSD   Financial Sector Deepening

FY   Financial Year

IMF   International Monetary Fund

IV   Independent Variable

KACITA   Kampala City Traders Association

MFPED   Ministry of Finance, Planning, and Economic Development

OECD   Organization for Economic Cooperation Development

RPED   Regional Program on Enterprise Development

SEATINI   Southern and Eastern African Trade Information and Negotiations Institute

SMEs   Small and Medium Enterprises

UIA   Uganda Investment Authority

URA   Uganda Revenue Authority

UMA   Uganda Manufacturers Association

UMI   Uganda Management Institute

ABSTRACT

This study aimed at examining "the effect of the taxation on the performance of Small and Medium Enterprises in Uganda." To achieve this purpose, specific objectives of the study were developed to: determine the extent to which tax compliance influences the performance of SMEs; establish the influence of tax rates on the performance of SMEs; and determine the effect of tax incentives affect the performance of SMEs. The study adopted the descriptive study design based on the quantitative and qualitative approaches. The study population of 17,573 registered SMEs in Nakawa was used to select a sample size of 391 SMEs using simple random sampling. Data were collected using the self-administered questionnaire and interview guide.The Statistical Package for Social Sciences (SPSS), was used to analyze quantitative data while qualitative data were analyzed using thematic analysis. The study findings showed that tax compliance has a statistically significantlymoderate positive effect on the performance of SMEs since p - value (.000) is less that the significance level and the correlation coefficient (0.689). Tax rates have a statistically significant strong positive effect on the performance of SMEs since p – value (.000) is less that the significance level andthe correlation coefficient (0.689). Tax incentives have a significant strong positive effect on the performance of SMEs, since the p – value (.000) is less than the significance level and the correlation coefficient (0.776).The study concluded that tax compliance, tax rates, and tax incentives have a statistically significant positive influence on the performance of SMEs. The study recommended that; strengthening the system of taxation through having a simplified system of taxation that can support SME tax payers to meet their tax duties; designing effective tax rates that are not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base; strengthening tax incentives to support infant small and medium firms so as to stimulate the performance of SMEs in the economy.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Globally, taxes have greatly affected the way economies perform regardless of the political and social difference among countries worldwide (Oboh et al., 2012).According to OECD, "taxes are defined as a compulsory, unrequited payments to a general government." These taxes are unreciprocated whereby the welfares received from the government as a result of paying taxes is notusually commensurate to payments tax payers pay (OECD, 1996). Economists believe that smaller companies usually have small resources so they usually direct these limited resources towards tax compliance which would have been used for reinvestment and facilitating future growth. Therefore, such a tax system puts a lot of pressure on the small tax payers whereby both small and large companies face the same tax rates as well as compliance costs (Tomlin, 2008).

Tomlin, (2008) asserts that the finances used by small and medium enterprises in the form of tax submissions are finances that may possibly be used for reinvestment and fostering imminent growth. Thus, taxes exert unequal pressure on small and medium enterprises (SMEs) which means that trivial taxpayers meet similar tax requirements as the large firms. SMEs are important for the growth of societies.These enterprises have enhanced economic growth and development through; "offering job opportunities which can help lower the unemployment rate, addressing the demographic challenges posed by growing populations, contributing to the generation of domestic income among others" (FSD Uganda, 2015). Ayyagariet al., (2007) report that countries with more SME employment tend to experience higher growth since these enterprises use "more labor-intensive production processes" compared to the large counterparts and thus employ more people.

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This research examined "the effect of taxation on the performance of Small and Medium Enterprises (SMEs)." For purposes of this research, taxation is the independent variable (IV) and the performance of Small and Medium Enterprises (SMEs) the dependent variable (DV) in Kampala, using a case study of SMEs in Nakawa division.

This chapter covered "the background to the study, the statement of the problem, the general objective of the study, the specific objectives of the study, the research questions, the hypotheses, the significance of the study, justification of the study, the scope of the study, and operational definitions."

1.1 Background to the study

This unit provides the "historical, theoretical, conceptual and contextual background" as indicated in the sub-sections below.

1.1.1 Historical background

The genesis of taxation dates way back in Egypt in the early 2000 BC portrayed by the tomb paintings where the Pharaohs imposed a tax on cooking oil as the tax collectors (scribes) ensured that the people were not using substitutes for the taxed oil. Furthermore, the ancient Greeks had a well-defined tax system where taxes like; "sales taxes, inheritance taxes, land taxes, poll taxes, and taxes on imports and exports" were imposed on citizens to pay for wartime expenditures (www.taxworld.org).

In Uganda, the history of taxation can be traced in times of the initial British colonial administrators which involved "compulsory public works such as road construction, the building of administrative headquarters and schools" among other works. The hut tax opened the genesis of formal taxation in the early 1900s. Conversely, the first common tariff was introduced that

involved a 5% import tax rate for the goods going to Uganda via the port of Mombasa, Kenya (Jamal, 1978).

Gradually, taxation in Uganda has evolved over the years, which involved the East AfricanCommunity (EAC) administering the income tax and customs duty through its departments until the EAC collapsed. This prompted the transfer of tax administration to the Ministry of Finance that was later transferred to Uganda Revenue Authority in 1991 through an Act of Parliament. In 1999, the EAC was re-established which later endorsed"the East African Community Customs Management Act 2004 (EAC-CMA)" to administer EA customs which involved operations, administrative and legal requirements (SEATINI-UGANDA, 2012).

Taxation in Uganda has beenalso influenced by World Bank policies with the aim of nurturing economic growth and development (World Bank, 2007). The Uganda government has transformed a number of tax policies to foster the growth of small and medium enterprises through harmonization of tax rates and formulating new tax incentives among others to avoid double taxation and tax evasion. However, with all these tax reforms Uganda still does not have well known clear national taxation policy for the small and medium enterprises. The recent taxation policy only focuses on the legal requirements surrounding the administration of the tax regime instead of yielding strategies to foster the performance of SMEs in Uganda (Ddumba-Ssentamu, 2004).

Over the years, various scholars have developed a number of performance measurement methods like the balanced scorecard, ineffectiveness method, goal oriented method, stakeholder method, time frame method among others (Pfeffer and Salancik, 1978; Daft, 1995; Jean-Francois, 2004).

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Camaron, (1984) argues that during the evaluation of the performance of an organisation, it is important to focus on the inhibiting factors of performance such as the problems, retarding factors, etc. In the assessment of the performance of the SMEs,Pfeffer, and Salancik, (1978) highlight, the goal approach/method provides excellent results in the evaluations of SMEs due to its straightforwardness.Based on this historical background the study examined"the effect of taxation on the performance of Small and Medium Enterprises in Uganda."

1.1.2 Theoretical background

The research was steeredby "the ability to pay theory of taxationadvanced by Swiss philosopher Jean (1712-1778), the Frenchpolitical economist Say (1767-1832) and the English economist Mill,(1806-1873)."Theoretically, the role of "taxation and the performance of Small and Medium Enterprises in Uganda"representsthe ability to pay theory of taxation as recommended by Jones et al, (2011) which holds that taxes should be imposedon an individual/ firm in relation to one's income or ability to pay which provides the origin of a progressive tax system whereby the tax rates increase with increase in one's taxable capacity.

This theory demands an equitable tax system which is very popular in industrial economies where individuals/ firms having more revenue/wealth with the ability to pay more income taxes ought to be levied higher tax rates than individuals/ firms with less revenue/wealth (Chigbu, Eze, and Ebimobowei, 2012).

The principle of equity during taxation, therefore, comes in handy in reducing the intrinsic risks associated with taxation for improved performance of firms. The ability to pay theory of taxation further postulates that an individual/business relies upon the tax administration, taxation rates, and taxation incentives to enhance the performance of the people/firms.

According to "the ability to pay theory of taxation," the study identified that the tax burden needs to be distributed among individuals/ firms based on their comparative ability to pay while maintaining the principles of justice and equity within the taxation system. These principlesare widely used in many economies worldwide including Uganda.

In the case of this research, the theory emphasizes that "the burden of taxation should be shared by themembers of society on the principles of justice and equity and that this principles necessitate that the tax burden is apportioned according to their relative ability to pay." The theory further postulates the need for equity in the tax system through having a simplified tax administration system, fair tax rates and provision of tax incentives so as to promote performance among individuals/firms. Thus the theory espouses the concepts of taxationand the performance of SMEs which are the fundamental variables used in this study.

1.1.3 Conceptual background

Globally, taxation is a field that has gone through continuous advancement which has influencedmany aspects of the economy, which has also forced businesses to react to these changes in taxation (Vintila, 2013).The study wasguided by two concepts namely taxation and the performance of SMEs. The concepts are described based on scholarly definitions, for instance, Omagor & Mubiru, (2008) define taxation as"alegally compulsory transfer of money from the public to the government mainly as a source of government revenue."Balunywa et al. (2011)further argue that payment of taxes is obligatory and "quid pro-quo"whereby the taxpayer does not expect direct gain for the taxes paid.

The system of taxation used in any country determines the performance of businesses whereby countries with auspicious and progressive tax rates have propagated successful businesses. The

scholar further asserts that successful businesses have influenced the growth of economies by ensuring equitable distribution of income and investments in the country.In essence, businesses and taxation are interdependent for survival in that when the performance of businesses is affected, also the growth of the economy is equally affected (Ocheni, 2015).

Ibrahim & Muritala, (2015)argue that taxes levied from individuals/ business organisations that are not proportionate to the income/wealth of the business organisations can be a demotivating factor that forces business people to transfer their capital to another sector. Equally, tax incentives enacted in favour of a given sector attracts more investments since the business people find it favourable and profitable. This means that the ability of government to develop and implement appropriate tax policies does not only improve the performance of SMEs but also promotes economic growth in Uganda.

According to the "Ministry of Finance, Planning and Economic Development,"(MFPED), describes Small and Medium Enterprisesas a "Small Enterprise as an enterprise employing between 5 and 50 people, with an annual sales/revenue turnover total asset of up to Uganda Shillings (USH.) 360 million, and a 'Medium Enterprise' as an enterprise that employs more than 50 people with an annual sales turnover or assets of between (USH.) 360 million and 30 billion"(FSD, 2015).

However, there is no globally adopted definition for SMEs since these enterprises vary from country to country for instance the European Union refers to Small enterprises as "enterprises that employ 10 to 50 employees, and annual turnover and/or balance sheet total of less than EUR 10m while medium enterprises as enterprises that employ 20-250 employees and turnover and/or annual balance sheet of EUR 10-50m"(IMF, 2007).

Several scholars have studied performance using various measures which can be abridged intofinancial and nonfinancial performance measures (Amran, 2011;Dele, 2012; Radipere and Dhliwayo, 2014). For purposes of this study, the financial performance methods adopted for this study consisted of;"cash flow, return on assets, and return on equity"used to determine the progress of SMEs. Similarly, the non-financial performance methods to be used comprise of traits such as "marketing effectiveness, human capital, strategy achievement, innovation, employee satisfaction, and corporate culture" (Dele, 2012).

Audretsch and Klepper, (2000) affirm that academicians and business managers have used non-financial data to evaluate performance since this data can be used to generate proxy indicators of the business's imperceptible assets.

Dele (2012), recommends the use of non-financial measures during the evaluation of performance especially among small firms due to limitations of financial data. This is supported by Rooks et al. (2009)where they pointed out that small businesses have poor financial records, while others are hesitant to share financial information because of their motives to evade taxes.

1.1.4 Contextual background

SMEs are important for the growth of societies. These enterprises have enhanced economic growth and development through; offering jobsthat have reduced unemployment, addressing the demographic problems associated with high populations, contributing to the generation of domestic income among others(FSD Uganda, 2015).

SMEs account for about 90% of the private sector production which has greatly supported the economy in Uganda. The SMEs have supported the economy through creating new jobs, income

generation among others. However, SMEs are facing challenges ranging from limited size and resources which have affected their operations. This is currently being mitigated through;"provision of Business Development Services(BDS) to build capacity and enhance their performance in areas of business planning,technology, communicationsand other services"(Uganda Investment Authority, 2008).

Over 80% of the SMEs in Uganda are established in urban areas, and thus, this study contextually examined the SMEs located in Nakawa division, one of the divisions that form Kampala capital city of Uganda (Hatega, 2007). Various categories of SMEs were considered for this study and these included: "Retail and wholesale Trade, Hotel and Restaurant, Computer and Electronics Repairs, Entertainments joints and bars, Metal fabrication, Manufacturing, and Food Processing" as adopted from (Ntayi et al., (2013). According to the views of different authors on taxation and business performance, it should be noted that high taxes and poor tax policies have negatively affected the performance of small businesses (Bruce & Mohsin, 2006). This is complemented by (Sebikari, 2014) who reported that taxation does not only reduce the capital of small firms but also hampers their performance which makes tax incentives paramount to the survival of the small firms. These, among other factors, are upsetting the growth of SMEsalthough this study is interested in "the effect of taxation on the performance of SMEs in Uganda."

1.2 Statement of the problem

According to "the Regional Program on Enterprise Development (RPED, 2003) survey on Investment Climate in Uganda",taxation was highlighted as a key impediment to the performance of SMEs. The survey also revealed that high tax rates were a major feature that

influenced the performance of SMEs in Uganda. This was further affirmed by Sebikari, (2014)who noted that thepoor taxation policies and high taxes leviedhave generally affected the financial and non-financial performance ofSMEs in Uganda.

Balunywa et al.,(2010) highlighted that the Uganda government, through its efforts to promote the small and medium businesses, enacted a tax policy to support and promote the performance of SMEs. This tax policy focused on harmonizing tax rates and establishing new tax incentives to promote the small businesses (Ddumba-Ssentamu, 2004).

Despite efforts bythe government of Uganda to enhance the growth and performance of SMEs, taxation still remains a major obstacle to the growth of SMEs in Uganda since it has continuously affected the performance of SMEs(FSD Uganda, 2015). In addition, most SMEs in Uganda do not survive past their fifth year birthday after inauguration which shows poor performance in the SME sector(Sebikari, 2014;MFPED 2012).The deficiencies in the performance of SMEs associated with the poor tax policies in Uganda may affect the ability of these enterprises to mobilize the required financial and non-financial resources. In addition, the poor performance of SMEs if not immediately addressed may affect the economic growth and development of Uganda since these enterprises contribute to 90% of the "private sector production" in the economy.This, therefore, prompted the researcher to examine the effectof the taxation on the performance of SMEs in Uganda.

1.3 Purpose of the study

The purpose of this study was to examine the effectof the taxationon the performance of Small and Medium Enterprises in Nakawa Division, Kampala.

1.4 Specific objectives of the study

1) To determine the extent to which tax compliance influences the performance of SMEs in Nakawa Division, Kampala.

2) To establish the influence of tax rates on the performance of SMEs in Nakawa Division, Kampala.

3) To determine the influence of tax incentives on the performance of SMEs in Nakawa Division, Kampala.

1.5 Research questions

The research questions below were answerednamely:

1) How doestax complianceinfluence the performance of SMEsin Nakawa Division, Kampala?

2) How do tax ratesinfluence the performance of SMEsin Nakawa Division, Kampala?

3) What is the effect of tax incentiveson the performance of SMEsin Nakawa Division, Kampala?

1.6 Hypotheses of the study

The hypothesis statements below were answered namely:

1) Tax compliance significantly affects the performance of SMEsin Nakawa Division, Kampala.

2) Tax ratessignificantly affect the performance of SMEsin Nakawa Division, Kampala.

3) Tax incentives significantly affect the performance of SMEsin Nakawa Division, Kampala.

1.7 Conceptual frame work

Figure 1 below depicts the relationship between;"taxation and the performance of Small and Medium Enterprises" in Uganda.

TAXATION (IV)

Tax compliance
- Simplified system of taxation
- Tax planning and functional expertise
- Interpretation of tax laws and regulations

Tax rates
- Clarity of taxation rates
- Correct level of taxation
- Fair taxation rates

Tax incentives
- Investment deductions and allowances
- Tax holidays
- Special tax regimes

PERFORMANCE OF SMEs (DV)

Financial measures
- Return on Investment
- Return on assets
- Operating profit margin & Asset turnover ratio
- Return on equity

Non-financial measures
- Growth
- Marketing effectiveness
- Employee satisfaction

Source: *Adopted from(Tusubira & Nkote, 2013;Vicari, 2015; Miller, Boehlje & Dobbins 2001)and modified by the researcher*

Figure 2:The Relationship between taxation and the performance of Small and Medium Enterprises.

Taxation as an independent variable was categorized using three dimensions namely tax compliance which comprises of "the simplified system of taxation, tax planning and functional expertise, interpretation of tax laws and regulations," since this combination is believed to have a bearing on the performance of SMEs.

Secondly, tax rates were conceptualized as the clarity of taxation rates, correct level of taxation and fair taxation rates, which if effectively considered by the tax authority, SMEs realizeimproved performance. Furthermore, tax incentives formed the third variable and

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constituted the investment deductions and allowances, tax holidays, special tax regimes, as these are also believed to have a bearing on the expected performance of SMEs.These directly affect the (DV) which is the performance of SMEs that comprises of "financial measures; Return on Investment, Return on assets, Operating profit margin & Asset turnover ratio, and Return on equity while non-financial measures; Growth, Marketing effectiveness, and Employee satisfaction."

1.8 Significance of the Study

First, thestudy intends to contribute to the academic world in such a way that it providesbaseline information for further research on issues of state building in Uganda since there is no much data on the study variables hence adding to the body of knowledge. The study willcontribute towards improving the taxation policies by providing useful material and resources that draw the realistic implications of applying particular options to different situations.

Thirdly, the study will contribute to policy making in Uganda because it helps the leadership to clearly conceptualize importance of having an effective and operational tax policy to improve the performance of SMEs.

In addition, the study will help the SME owners to understand the dynamics, challenges, and strategies as the study findings revealed how important it is for them to tightly observe the tax policies in order to realise better performance.

1.9 Justification of the Study

The SME sector in Uganda contributes about 90% of the private sector production in Uganda which makes SMEs the main avenue for jobs creation and income in the economy.

However, meager finances of these small firms make them extremely reliant on BDS to offer capability as well as sustenance for progress in fields like; "training, advice, information,

business planning, marketing, technology, communications and other services"(Uganda Investment Authority, 2008).

Different authorshave come up with various views on taxation and business performance; it should be noted that high taxes and poor taxation policies largely have affected small business performance (Bruce & Mohsin, 2006).In addition, taxes hinder the performance of small and entrepreneurial enterprises thus more tax relief measures are imperative. It is therefore important to establish howtaxation is the influencing the performance of SMEs in Kampala. Hence the studyestablished reasons why such tax policies still remain a concern and come up with remedies or recommendations for strengthening the SMEs in Kampala.

1.10 Scope of the Study

1.10.1 Geographical scope

The research was done inNakawa division, one of the divisions that form Kampala capital city of Uganda since the majority of the SMEs are located in urban areas. In addition, Nakawa division has a proportionate size of industrial areas compared to other areas within Kampala. Uganda is a country located in;"Eastern Africa, west of Kenya, south of South Sudan, east of the Democratic Republic of the Congo, and north of Rwanda and Tanzania. It is in the heart of the Great Lakes region, and is surrounded by three of them; Lake Edward, Lake Albert, and Lake Victoria."

1.10.2 Content Scope

This scope covered information on taxation (independent variable) and specifically tax compliance, tax rates and tax incentives on one side, while on the other hand, the performance of SMEs(dependent variable) was considered.Key tax compliance processes that drive the performance of SMEs were considered, namely; a simplified system of taxation, tax planning, and functional expertise as well as interpretation of tax laws and regulations, while tax rates

involved in SME performance, including clarity of taxation rates, correct level of taxation and fair taxation rates were included. Factors concerning tax incentives that support SME performance include investment deductions and allowances, tax holidays and special tax regimesSME performanceconstitutes "financial and non-financial measures."Financial performance includes;"cash flow, return on assets, and return on equity"while non-financial performance includes aspects such as "customer service, marketing effectiveness, human capital, strategy achievement, innovation, employee satisfaction, financial practice, processes, and corporate culture"were also be highlighted by the study.

1.10.3 Time Scope

The research was conducted considering three Financial Years (FYs) namely "FY 2014/15, FY 2015/16, & FY 2016/17." The reason for this study period isthe turmoil in the SMEs where the government has continuously revised tax policies and fees that guide their operation(MFPED, 2015).

1.11 Operational definition of terms

The definitions appliedin the study include:

Small and Medium Enterprises: This concept refers to a "Small Enterprise as an enterprise employing between 5 and 50 people, with an annual sales/revenue turnover total asset of up to Uganda Shillings (USH.) 360 million, and a 'Medium Enterprise' as an enterprise that employs more than 50 people with an annual sales turnover or assets of between (USH.) 360 million and 30 billion"(FSD Uganda, 2015).

SME Performance: This concept refers to the reviewing of the overall enterprise performance and determining how the enterprise can better reach its goals and objectives (Bruce & Mohsin, 2006).

Tax: "This concept refers to a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state, or the functional equivalent of a state, such that failure to pay is punishable by law"(Ddumba-Ssentamu, 2004).

Tax compliance:"This refers to the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities"(Sophia Naroog Kuug, 2016).

Tax Holiday:"A temporary reduction or elimination of a tax (a tax expenditure)"(Chuenjit, 2014).

Tax incentives: "This refers to thespecial provisions of the tax code granting preferential treatment to certain activities, investments or taxpayers"(Mayende, 2013).

Tax Refund: "A tax refund or tax rebate is a refund of taxes when the tax liability is less than the taxes paid. Taxpayers can often get a tax refund on their income tax if the tax they owe is less than the sum of the total amount of the withholding taxes and estimated taxes that they paid, plus the refundable tax credits that they claim. (Tax refunds are money given back at the end of the financial year.)"(Barr, 2005).

Tax Shelter: "Any method of reducing taxable income resulting in a reduction of the payments to tax collecting entities, including state and federal governments"(Elliott & Elliott, 2012).

Taxation:"This concept refers to apayment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo ispromised by the government to the tax payer"(Mclellan, 2012).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This part highlights literature on taxation and performance of SMEs. The section is based on a documentary review of literature related to the study variables aimed at enlightening the readers about the current gaps and how to close the gaps. The section is organized as an introduction, the literature on study objectives and the summary of the literature.

2.1 Theoretical Review

With the increasing attention on taxation as a key factor influencing the performance of SMEs, it's argued that taxation is normally identified as a major obstacle to the growth of SMEs (FSD Uganda, 2015). Consequently, the ability to pay theory of taxationsteered this study."The ability to pay theory of taxation was advanced by Swiss philosopher Jean (1712-1778), the French political economist Say (1767-1832) and the English economist Mill, (1806-1873)." Theoretically, the role of taxation and the performance of SMEs represents the ability to pay theory of taxation as recommended by Jones et al, (2011) which holds that taxes should be imposed on an individual/ firm in relation to one's income or ability to pay which provides the origin of a progressive tax system whereby the tax rates increase with increase on one's taxable capacity.

This theory demands an equitable tax system which is very popular in industrial economies where individuals/ firms having more revenue/wealth with the ability to pay more income taxes ought to be levied higher tax rates than individuals/ firms with less revenue/wealth (Chigbu, Eze, and Ebimobowei, 2012).

The principle of equity during taxation, therefore, comes in handy in reducing the intrinsic risks associated with taxation for improved performance of firms. The ability to pay theory of taxation further postulates that an individual/business relies upon the tax administration, taxation rates, and taxation incentives to enhance the growth of the people/firms.

According to the theory, the study identified that the tax burden needs to be distributed among individuals/ firms based on their comparative ability to pay while maintaining the principles of justice and equity within the taxation system. This principle is widely used in many economies worldwide including Uganda.

In the case of this research, the theory emphasizes that;"the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay." The theory further postulates the need for equity in the tax system through having a simplified tax administration system, fair tax rates and provision of tax incentives so as to promote performance among individuals/firms. Thus the theory espouses the concepts of taxation and the performance of SMEs which are the fundamental variables used in this study.

2.2 Tax compliance and performance of SMEs

Tax compliance is a complex term to be explicitly defined (Marti, 2010). Otherwise, it can be construed "as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities" (James and Alley, 2002)

Pope & Abdul-Jabbar, (2008) pointed out that SMEs are facing tax burdens due to the nature and size of these enterprises which has inhibited the performance of SMEs.Tax compliance costs among SMEs in developing countries, are high due to the narrow resource envelope of these

small and medium enterprises to fully meet their tax obligations; in addition to the limited expertise in taxation to conform per the complex tax laws(Boadi, Opoku, Firm, & Wy, 2016).

Similarly, Kiwanuka, (2004) reports that the majority of the small and medium business proprietors in Uganda have insufficient tax knowledge where most proprietors have resorted to hiring unqualified relatives to manage their financial data. This has increased the operational costs of SMEs to meet their tax obligations and thus affecting the SMEs' performance.

Related to the above position, Bozdoğanoğlu, (2016) observed that on top of the direct costs incurred by tax payers especially the SMEs towards meeting their tax compliance costs, they face an extra tax burden associated to the diverse and complicated tax system. The scholar further maintains that tax compliance costs have continuously become a fixed cost element that has imposed a relatively higher burden on the small and medium enterprises compared to the large enterprises that accrue benefits from returns to scale due to prompt compliance. These high tax compliance costs inhibit the financial prosperity of both the proprietor and the employees in the SMEs (Bozdoğanoğlu, 2016)

Terkper, (2003) equally found out that some tax methods used on SMEs have put small firms under extreme "liquidity pressure"which has endlessly narrowed the small capital base of these firms coercing them to the informal sector. The issue of tax compliance as noted by Bozdoğanoğlu, (2016)although well explored its influence, it fell short of providing empirical evidence on how considerations of tax compliance affect the performance of SMEs. This research, therefore, attempts to cover this literature gap by determining the extent to which tax compliance is affecting the performance of SMEs and to help cover the literature gaps.

In complement, Oberholzer, (2008) also believes that tax compliance is still a challenge in developing countries due to the complex systems of taxation usedyet there are only a few tax experts who can comprehend them. This has resulted in additional costs incurred by the tax payers including SMEs to hire tax professionals that can file tax returns on their behalf.

Bozdoğanoğlu, (2016) noted that a simplified system of taxation could support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance among SMEs. He further emphasizes that such a system can only be achieved if tax administrators can ease compliance by providing tax education. A streamlined tax administration strategy is fundamental in addressing the tax compliance costs faced by SMEs (Bozdoğanoğlu, 2016).

Caroline, (2015) in her study concluded that small businesses should employ the services of tax experts to aid them in tax planning and compliance in order to reduce the net tax payment involved in fulfilling their tax duties and thus increase their financial performance.

Jousten, (2007) also concludes by emphasizing the importance of having fixed costs relating to tax compliance and administration where he recommends the mandate of having a simplified tax structure to accommodate all tax payers including the SME sector so as to lower the presence and magnitude associated to these fixed costs.

Furthermore, a study on Uganda's Taxation Policy recommended that in order to have an effective tax system, the following elements should be taken into consideration: "Taxpayers can easily calculate their liabilities; taxpayers can easily follow instructions and tax rate tables in order to determine their tax base, their marginal tax rate, and their tax liability to the government; taxpayers grasp the logic behind tax laws and tax rates taxpayers can look at a tax form or a tax rate schedule and understand the lawmakers' reasoning; taxpayers know their own tax burden and the tax burden of others: irrespective of who actually writes a cheque to the government,

taxpayers can identify who actually bears the burden of a tax; and taxpayers are aware of the extent of compliance by others"(Growth, 2008).

The literature on tax compliance of SMEs although insightful, it lacks adequate experiences on the influence oftax compliance on SME performance. To address this literature, void, this research determined the extent to which tax compliance affects the performance of SMEs.

The study found out that having;"a simplified system of taxation, tax planning and functional expertise, interpretation of tax laws and regulations" plays a fundamental role in enhancing the performance of SMEs through supporting SME tax payers to meet their tax requirements and thus reduce the burden of taxes among the small and medium enterprises.

2.3 Tax rates and performance of SMEs

Effective tax rates are an important instrument for businesses that demand an abridged but refined information on effective tax burdens. Consequently, business owners take keen interest in assessing the effect of post-tax measures on their performance (Lammersen, 2007)

Vicari, (2015)construes that an effective tax rate can be designed in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base.

The SMEs in a regular tax system are discriminated against since the tax rate for the small and large firms is the same which increases the costs of the small enterprises. This has distorted the growth of SMEs where most small firms have transformed into firms that are levied fewer taxes or no taxes at all (Masato, 2009).

Atawodi & Ojeka (2012)opine thatthe choice of the tax rate should depend on the tax preference accorded to small businesses to promote the growth of small enterprises which can be done by lowering tax rates, offering tax holidays as well as reliefs to the small businesses. The

fundamental objective is to ensure that tax income is successfully increased through methods that suit the country's environment and administrative ability (Atawodi & Ojeka, 2012).

According to the "Regional Program on Enterprise Development (RPED, 2003) survey in Uganda," it indicated that taxation was one of the major impediments to the growth and development of SMEs since the high tax rates inversely affected the performance of small firms.Among other obstacles to SME growth were; initial firm size, human capital, sources of finance to start up, nature of firm's acquisition and government fiscal policy. This validates the importance of tax rates towardselevating the performance of SMEs in Uganda.

Mungaya, Mbwambo, & Tripathi, (2012) in their research on "The impact of the tax system on the growth of Small and Medium Enterprises (SMEs)" found out that high tax rates increase the cost of production within the small and medium enterprises which greatly affects performance of these firms and therefore should not be ignored. In complement, Oludele and Emilie, (2012) also highlighted that high tax rates coupled with complex tax systems have negatively affected performance within the SMEs sector.

In their 2015 report on the National Small Businesses Survey of Uganda, FSD Uganda, (2015) reported that most small businesses in Uganda had not paid their tax dues because their businesses could not afford the high tax rates being levied. In addition, Baurer, (2005) observed that it is rare not to find complaints among small businesses about the complicated tax structure involving vague tax laws and high tax rates that have hampered the growth of these small businesses. Amongst other reasons for not paying taxes highlighted were: the payment of local service taxes. Ignorance about the tax requirements, failure of the tax body to collect taxes from them, the business did not earn enough to require them to do so, etc.

Furthermore, Gordon, (2010) asserts that when the tax rates imposed on businesses are high, they distort supply and demand for labor among other aspects which diminishes productivity and performance since the owners and workers in the SME sector have to relinquish leisure for work. The performance of SMEs is continuously troubled by the high tax rates and ambiguous tax system. Economist identified taxation as an important aspect of the economy since it affects numerous economic activities including the establishment and development of SMEs. "Taxes increase the cost of production of goods and services which eventually cause prices of goods."Taxes escalate the production costs which results in upsurgeof the prices of goods and servicesthus affecting the final consumers. However, revenue mobilized from taxes represent major funding for government expenditure. Creating favorable conditions for SME prosperity at the same time upholding tax compliance is still a challenge in most countries (Sophia, 2016).

According to the OECD survey report, (2015) on the Taxation of SMEs, the findings indicated that fourteen countries had adopted the reduced corporate tax rates for the small and medium enterprises. This is complemented with various tactics to support the SMEs corporate tax rates that include: "lower tax rate on first tranche(s) profits, regardless of total income level, withdrawal of tax relief at higher profit levels, reduced CIT (corporate income tax) rates for corporations with income below a certain level, eligibility for small-business rates determined by non-income criteria instead of or in addition to income criteria"(OECD, 2015)

Lammersen, (2007) in his study on The Measurement of Effective Tax Rates reported that effective tax rates are ordinal in nature whereby higher (lower) effective tax rates depict less (more) preferred alternatives yet equal effective tax rates portray indifference. Therefore, if such

a situation is not taken into consideration, then the effective tax rate cannot adequately predict result behavior.

In addition, Caroline, (2015) recommends that the tax bodies should devise means of lowering the tax rates as well as penalties inflicted on SMEs among others to help small businesses enhance their performance and consequently stimulate economic growth.

The literature on tax rates of small and medium enterprises was not only scant but also failed to showpragmatic evidence on the influence of tax rates on the performance of SMEs. To address this literature gap, this study established the extent to which tax rates affect the performance of SMEs in Nakawa division, Kampala.

The findings of the study showed that having a correct level of tax rates, ensuring clarity of tax rates and fair tax rates are essential for the growth and performance of SMEs in Nakawa Division and thus indicated that designing an effective tax rate that aims at lowering the tax rates and offering tax reliefs to SMEswill enhance the performance of SMEs in Nakawa division, Kampala.

2.4 Tax incentives and performance of SMEs

"Tax incentives are special provisions of the tax code granting preferential treatmentto certain activities, investments or taxpayers"(Martin & Theresia, 2017). According to European Commission, SME tax incentive is referred to as;"the special tax treatment that is enjoyed by the enterprises in the SME sector" (European Commission, 2003). Consequently, it is essential to highlight that special tax treatment" does not automatically suggest SME "preferential tax treatmentalthough political leaders and the citizens agree that there is a need for SMEs to be given special treatment regarding tax laws and regulation (Jousten, 2007).

Globally, tax incentives have been implemented by governments to attract and retain private investors within their economies. The prime objective of these incentives is to counterbalance the actual/ perceived operational costs associated with the payment of taxes. These incentives have become a catalyst for an enriched performance seen within the SME sector (Philips, 2010).

Since 1991, the Uganda government through the Investment Code has been employing various tax incentives to new and expanding firms so as to expand the private sector in the economy. Various tax incentives were implemented like tax holidays, initial capital allowances, withholding tax exemption, Value Added Tax (VAT) reductions, income tax rates reductions, and preferential tax rates, carry forward losses and import duty exemptions among others (Mayende, 2013).

Feyitimi, et al., (2016) note that tax holiday is one of the most frequently adopted government tax incentives which exempts firms from their tax liability and also relieves some businesses certain tax deductions over the tax holiday. These tax incentives are observed to stimulate the growth and expansion of SMEs due to the perception that these incentives lower the tax compliance burden inflicted on the small and medium enterprises

In line with above, Borgarello, Marignani, & Sande, (2004) assert that investments continue to flourish if the gross return on investment is more than the tax-adjusted cost of capital, i.e., the corporation tax rate, as well as the tax on dividends, should be within the tax incentive platform.

Equally, Jousten, (2007)emphasizes that the primary objective of providing special tax regimes to small taxpayers is to lower compliance costs associated with taxation which enhances the growth of the SMEs. Providing special tax regimes to SMEs is important because it reduces the

operations of the SMEs in the informal sector in terms of having a well-regulated business sector.

In research conducted on the impact of tax incentives on the growth of small and medium scale enterprises in developing economy, the study results revealed that tax incentives are a vital aspect to the growth and development of the SME sector (Feyitimi, Temitope, Akeem, & Oladele, 2016)

UNCTAD, (2000) reported that tax incentives are effective in protecting and stimulating infant firms. The report further points out that the infant firms are unable to meet their tax obligations in their early years of operation due to the small capital base and lack access to financial loans.Therefore, the tax incentives implemented by the government to support these small firms determine their performance in the economy.

Tax incentives implemented by the government are as result of numerous goals the government may consider necessary for the country. These goals may include correction of market imperfections faced by firms, reductions of transaction costs of firms, regional development, and prioritized investments, etc. This substantiates that tax incentives influence the performance of SMEs (Mayende, 2013).

Feyitimi, Temitope, Akeem, & Oladele, (2016)highlight that due to the classifications associated with the definition of SMEs, it was revealed that some small and medium enterprises miss out on the tax incentives from the government. However, the scholars recommended that such problems can be circumvented when the government uses these tax incentives to create a supporting atmosphere for all SMEs.

The literature reviewed on tax incentives focuses on the business unit in the SME sectorand thus ignores to scrutinize the effect of the ownership arrangement on taxation of SMEs, which entails

a clear linkage with the final recipient of business income. For instance, some arguments in favor of special tax treatment of SMEs rely on the specific ownership structure and the behavioral characteristics of the owners rather than the SME itself."Based on the above, this study investigated how tax incentivesimplemented by the government have affected the performance of SMEs.

This research found out thattax incentives are key in reducing the operational costs associated with the payment of taxes for SMEs by lowering the tax compliance burden inflicted on the SMEs which stimulates the progress and expansion of SMEs in Uganda. Therefore, the performance of SMEs is highly dependent on the tax incentives in the form of investment deductions and allowances, tax holidays and special tax regimes according to the small and medium businesses.

2.5. Summary of the Literature Review

A review of the related literature suggested that simplified system of taxation should support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance withinSMEs. A streamlined tax administration strategy through providing tax education is fundamental in addressing the tax compliance costs faces by SMEs. However, the empirical evidence on tax compliance of SMEs although insightful, it ignoressatisfactory experiences on the influence oftax compliance of SMEs on SME performance.

Similarly, the literature review revealed that the choice of the tax rate should depend on the tax preference accorded to small businesses to promote the growth of SMEs which can be done by lowering tax rates, offering tax holidays as well as relieves to the small businesses. However, the literature on tax rates of small and medium enterprises was not only scant but also failed to offer pragmatic proof on the influence of tax rates on the growth of SMEs.This research strived to

cover the raised literature gaps by examining "the effectof the taxation on the performance of Small and Medium Enterprises in Nakawa" to cover the information gap.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section presents;"the research design, study population, sample size and selection, data collection methods, validity and reliability of findings, research instruments, data analysis and measurement of variables."

3.2 Research Design

"A research design is a strategy for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems" (Cooper and Schindler, 2003). The descriptive design was adopted, which aimed at examining "the effect of taxation on the performance of small and medium scale enterprises in Uganda." The descriptive research design refers to the systematic process of gathering descriptions of existing phenomena in order to describe or explain what is going on(Ololube, 2009).

A descriptive research design was adopted for the study since it focuses on the people as well as their attributes whichenable the investigator to understand and examine the influence of taxation on SME performance.This was achieved using a survey questionnaire, observation schedule, and document analysis.

In addition, the descriptive design empowered the respondents to reply to questions administeredthrough interviews or questionnaires and describe the responses given. Thus, it was used to assess thoughts, opinions, and feelings of the respondents (Zechmeister & Jeanne, 2011).

3.3 Study Population

The study population concentrated on SME owners within Nakawa Division, Kampala. The study area was limited to Nakawa division since the majority of the SMEs are established in

urban areas. Nakawa division has a population of 318,447 people with 17,573 registered SMEs (Ntayi, Mutebi, Kamanyi, & Byangwa, 2013).

3.4 Sample size and selection

"A sample size refers to the number of subjects in a sample (symbolized by n) or a subset of a population" (Creswell, 2013). Based on the "Krecjie and Morgan (1970) sampling table" (**See Appendix 3**), the researcher selected a sample size of 377 SME respondents from a population of 17,573 registered SMEs with the help of convenient sampling(Chuan, 2006)

Table 1: Population, sample size, and techniques

SME Category	Population	Sample size	Sampling Techniques
Retail and wholesale Trade	7451	160	
Hotel and Restaurant	2345	50	
Computer and Electronics Repairs	1074	23	
Entertainments joints and bars	2570	55	Simple random sampling
Metal fabrication	1405	30	
Manufacturing	1557	33	
Food Processing	1171	25	
Total	17573	377	

Source: Study population accessed from Ntayi et al., (2013)and sample size determined using the Krejcie & Morgan model (1970)

3.5. Sampling Techniques and Procedures

The study employed both "probability and non-probability sampling techniques."The author used the probability sample since the research is focused on the entire SME population. Employees employed in the SME sector in Nakawa divisionwere eligible to participate in the research that was conducted by the author.

"The probability sampling approach involves selecting a sample in such a way that all the elements in the population have same chances of being selected" (Amin, 2005). Thesimple

random sampling technique was also used such that all population elements are accorded a proportionate likelihood of being nominated within the sample.

In the non-probability approach, the items in the population do not have a well-defined chance of being selected (Amin, 2005). Purposive sampling was used whereby the researcher usedhis own decision and experience to determine which SMEs have in-depth information to take part in the study. Thus the selection of the respondents was based on the researchers understanding with the respondents' possession of the required information. Therefore, purposive sampling was conducted for the owners and top management staff within the SMEs.

3.6 Data Collection Methods

Both quantitative and qualitative methods of data collection were employed during the study. The questionnaire survey method was used to pool quantitative statistics, while the interview and documentary review methodwereemployed to gather qualitative information. The researcherchose a data collection method that better suited the intended purposes.

3.6.1 Questionnaire Survey Method

The questionnaire survey method is a set of questions used to obtain information from a large group of people in a given study (Amin, 2005).The questionnaire is an effective method of data collection due to the following advantages: it is standardized since the same wording is used each time it's administered; it ensures confidentiality through use of a coding system. Thus it can cover embarrassing, socially undesirable or illegal topics; it is cheaper to administer among others(Barker et al., 2002).The method was used to collect data from middle-level staff and other lower level staff within the SMEs because they are directly involved in the operations of the SMEs.

3.6.2 Interview Method

"An interview is a data-collection technique that involvesoral questioning of respondents, either individually or as a group"(Chaleunvong, 2009).The responses to the interview questions werewritten down and also recorded on tape during the interview.

In-depth interviews were used to obtain data from key informants such as the proprietors and top management staff who were purposively selected because of the information they hold. Interviews are of great advantage since they can enable theresearcher to establish rapportwith the respondent which enables the interviewer to:"ask follow-up questions, in order to clarify the respondent's meaning, probe for material that the respondent does not mention spontaneously and get beyond superficial responses;ensure that the respondent answers all the questions; give more complicated instructions and check that they are understood; vary the order of the questions" among others (Barker, et al., 2002). The interviews were structured comprising a set of issues on tax compliance, tax rates, and tax incentives.This interview method was used to gather information from the SME proprietors, and other top management staff in these enterprises since these people have in-depth information concerning taxation policies and how they are influencing the performance of SMEs.

3.7 Data Collection Instruments

3.7.1 Questionnaires

Self-Administered Questionnaires (SAQ) wereemployed to gather data from the study elements in a structured manner. SAQs with one open ended question per section weredesigned for SMEemployees to give additional or express their mind while the rest were close ended aimed at testing perception using "a five-point likert scale measuring from Strongly Disagree as response

1, Disagree as response 2, Not sure as response 3 Agree as response 4 and Strongly Agree asresponse 5"for easy measurements of variables (Jackson, 2009). (**See Appendix 1**).

3.7.2 Interview Guide

An interview refers to a data collection technique that involves face-to-face, telephone or focus group discussions between the researcher and the interviewee(s) (Creswell, 2013). The guide involved unstructured and generally open-ended questions that allowed probing for in-depth information from participants(**see Appendix 2**). This guide enabled the gathering offacts from the SME proprietors, and other top management officers in these enterprises since these people have in-depth information concerning taxation policies and the performance of SMEs.

3.8 Validity and Reliability

3.8.1 Validity

"Validity refers to whether one can draw meaningful and useful inferences from scores on particular instruments"(Creswell, 2013). The questionnaires wereverified, and modifications were made basedon my UMI supervisors' recommendations for validity and relevancy to the study. In addition, an expert judgment which is effective for survey tools was used (Gay & Airasian, 2003). Pre-testing of the instrument is necessary to reduce ambiguity, ensure proper editing, wording, and good measurement (Sekaran, 2004). The research instrument is valid when the CVI computed is above 0.7.

$$CVI \quad = \quad \frac{\text{Number of Questions Declared Valid in the Questionnaires}}{\text{Total Numbers of Questions}}$$

$$CVI \quad = \quad \frac{47}{49}$$

$$CVI \quad = \quad 0.959$$

Since the CVI was 0.959, which is above the 0.7 recommended by Amin (2005), it was inferred that the instrument was relevant in measuring the influence of taxation on the performance of SMEs. The validity of qualitative instruments was established by expert judgment and also UMI supervisors' recommendations for validity and relevancy to the study.

3.8.2. Reliability of the instruments

"Reliability refers to whether scores to items on an instrument are internally consistent (i.e., are the item responses consistent across constructs?), stable over time (test-retest correlations), and whether there was consistency in test administration and scoring" (Creswell, 2013).

The consistency and trustworthiness of the qualitative instruments were upheld by the researcher through checking the tools to ensure that they are free from errors that may have been made in transcription (Gibbs, 2007).

Internal consistency method was used where a single pre-test cluster is assessed. This method told us the extent to which the aspects of the questionnaire are interrelated. This was done with the aid of the "Cronbach Co-efficient Alpha," which evaluated the dependability of the quantitative research tool. The Alpha varies;"from 0 to 1 and a value of 0.6 or less generally indicates unsatisfactory internal consistency or reliability" (Malhotra, 2010), while Cooper & Schindler (2008) indicated that a coefficient of 0.7 shows a consistent research tool. The Cronbach's coefficient alpha (α) was computed as follows:

$$\alpha = \frac{k}{(k-1)} \quad 1 - \frac{\sum \sigma^2 k}{\sigma^2}$$

Where $\sum \sigma^2 k$ = "the sum of variances of the k parts (usual items) of the test."

α = Cronbach's coefficient alpha.

k = Standard deviation of the test.

Table 2:Reliability Statistics using Cronbach's alpha formula

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.934	0.937	49

Source: Primary data

Table 2 above includes results for all questionnaire items and indicated that the reliability coefficient (alpha score) for the questions was greater than 0.7. Therefore, the questionnaires collected reliable data for this study. Alpha was preferred because the questions had choices to be made, to which different weights were attached. A reliability coefficient 0.937 was considered acceptable since it was greater than the target value of 0.7.

For the qualitative instruments, the researcher ensured reliability by checking the instruments to make sure that they are free from errors that may have been made in transcription.

3.9 Data Collection Procedures

An introductory letter from UMI was obtained after defending the research proposal to enable the researcher to collect data from the field. Upon establishing the validity and reliability of instruments to be used, the researcher gathered raw information from the field. Data collection, processing, and analysis were undertaken by the researcher himself.

3.10 Data Analysis

"This is the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the hypotheses" (Sekaran, 2004). Initially, data wasentered into MS Excel computer program for cleaning. The data was also imported to SPSSversion 23 statistical software for investigation. Quantitative data analysis entailed descriptive statistics and inferential statistics. Descriptive statistics involved analysis

using frequencies, percentages, mean, charts, and standard deviation. The Analysis of central tendency and dispersion based on; "a 5-point likert scale ranging from strong agree to strong disagree." Similarly, inferential statistics were done based on the Pearson's correlation coefficient and linear regression analysis.

Quantitative data was analyzed by reporting of summary results in numerical terms and waspresented using a percentage distribution technique but maintaining a specified degree of confidence (Creswell, 2013). While Qualitative data wasanalyzed in the form of texts and themes, yet impressions wereexamined and presented using descriptive methods for in depth analysis to be generated from views of the respondents and to allow the reader to make their opinions freely (Bryman & Bell, 2003). In addition, qualitative data is flexible, "needs more checking and auditing at all steps of the analysis as well as careful archiving of each step of the analysis for later checking." Conversely, qualitative research offers an overall approach that provides "the backbone for the analysis" (Strauss & Corbin, 1998).

Closed-ended questions wererecorded and then the answers to each question were checked by the respondent as deemed suitable. This was done to all the questionnaires, after which the mean, standard deviation, and percentages were computed from the responses given.

Thematic analysis was done for the open ended questions whereby the participants' responses were organized in themes based on the study objectives (Freebody, 2003).

For individual interviews, these were used to produce data in the form of notes to develop a summary of the findings. The summaries were done by capturing the participants' responses in their own words for all the questions that were asked (Freebody, 2003).

3.11 Measurement of variables

Weiner (2007) defines "measurement as a systematic, replicable process by which objects or events are quantified and or classified with respect to a particular dimension."The proposed variables were measured using both the categorical and continuous level of measurements, where the categorical measurements were used because they provide for categories and numbers are assigned to categories. These were based on a Likert scale of five items namely: "Strongly Agree (5), Agree (4), Not Sure (3), Disagree (2) and Strongly Disagree (1)" for easy measurements of variables as supported by Van Selst (2012). With the nature of sample population and the choice of sampling methods, the categorical scale was the most appropriate for institutional processes, staff attributes, and ICT. On the other hand, a continuous scale was used on respondents' demographic information, for instance, age, as it is simple and less manipulative.

3.12 Ethical Considerations

Ethics in this proposal mean to be open, accountable, avoid conflict of interest, be responsible, honest, objective, careful, and maintain privacy, dissemination of the research findings to the respondents, avoiding duplication, not being deceitful and seeking the consent and permission of the respondents. The researcher also maintained a high level of confidentiality by coding questionnaires rather than use respondents' names and using the findings only for the purposes of the study (Robert & Sari, 1998). The "research design, the study population, sample size, sample techniques and procedures, data collection methods and instruments are determinants of good validity and reliability, data analysis, measurement of variables if ethical considerations"were considered.

According to the anti-plagiarism requirements, the researcher acknowledged all sources of literature used in the study, by referencing or citation. A final copy of the dissertation was run on

the Turnitin software, and a similarity index of 12% was obtained, which was within the acceptable score of 15% and below.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION OF FINDINGS

4.0 Introduction

This unitindicates;"the response rate, background characteristics of the respondents according to age, gender, level of education, nature of the business, the age of SME business and legal status of SMEsin Nakawa division of Kampala." The chapter further presents study findings, analysis, and interpretation of study findings basing on objectives of the study.

4.1   Response rate

Table 3:Response rate

Research instrument	Targeted number	Actually conducted	Percentage
Questionnaires	377	369	97.9
Interviews	10	8	80
Total	387	377	97.4

Source: Primary data

Table 3 above displays that from the 377questionnaires distributed, 369 filled questionnaires were returned giving a percentage response rate of 97.9%. In addition, out of the 10 planned interviews, 8 interviews were conducted giving a percentage response rate of 80%. The overall response rate was 97.4%. This response rate was above the recommended two-thirds (67%) response rate (Amin, 2005; Mugenda & Mugenda, 1999). This indicates that researcher was able to obtain enough data for a comprehensive report.

4.2 Background characteristics

4.2.1 Age of respondents
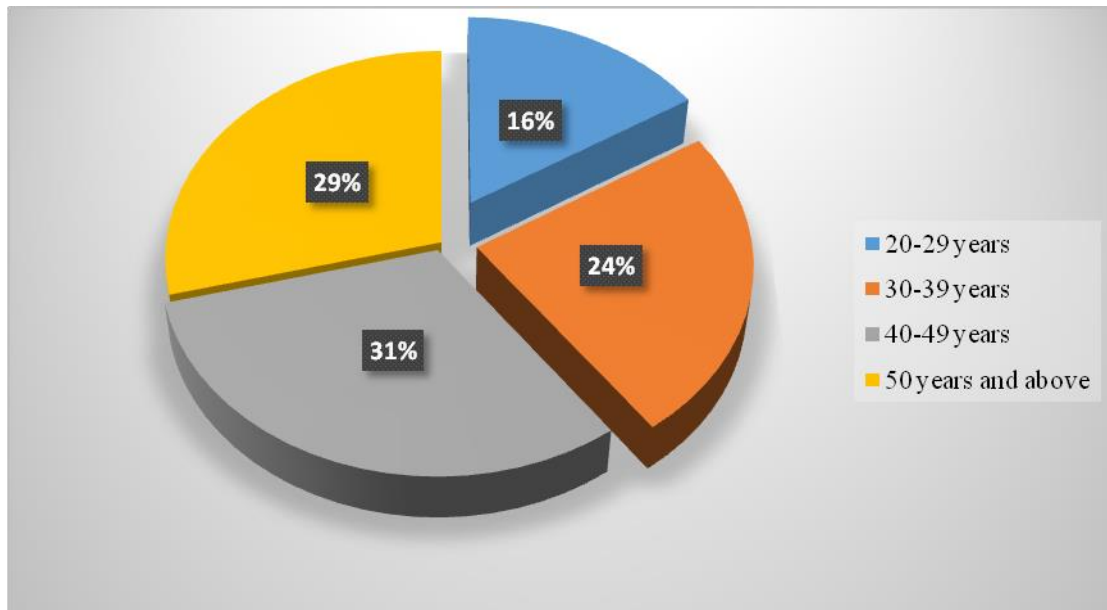
Source: Primary data

Figure 3:Age of respondents

Figure 2 above indicates that a bigger proportion of respondents (31%) were aged between 40-49 years. These were followed by respondents 50 years and above with (29%) while those aged 30-39 years were 24% and lastly those aged 20–29 years constituted 16%. The above statistics indicate that all respondents were mature and able to provide reliable data.

4.2.2 Sex of respondents

The sex of the respondents was assessed which enabled the researcher to have proportionate representation of both the females and males.

Table 4:Gender of respondents

Gender	Frequency	Percentage
Male	296	78.5
Female	81	21.5
Total	373	100

Source: Primary data

Table 4 indicates that a bigger percentage of respondents 78.5% were males while the females constituted 21.5% of the total responses. This means that the males dominate the SME sector and the findings were obtained from gender balanced respondents with representation from both the males and females.

4.2.3   Age of the SME business

The study examined"how long SME businesses have been in existence."This enabled the researcher to understand the duration of operation for the SMEs and in-depth information of how taxation influences the performance of SMEs in Nakawa division, KAMPALA.
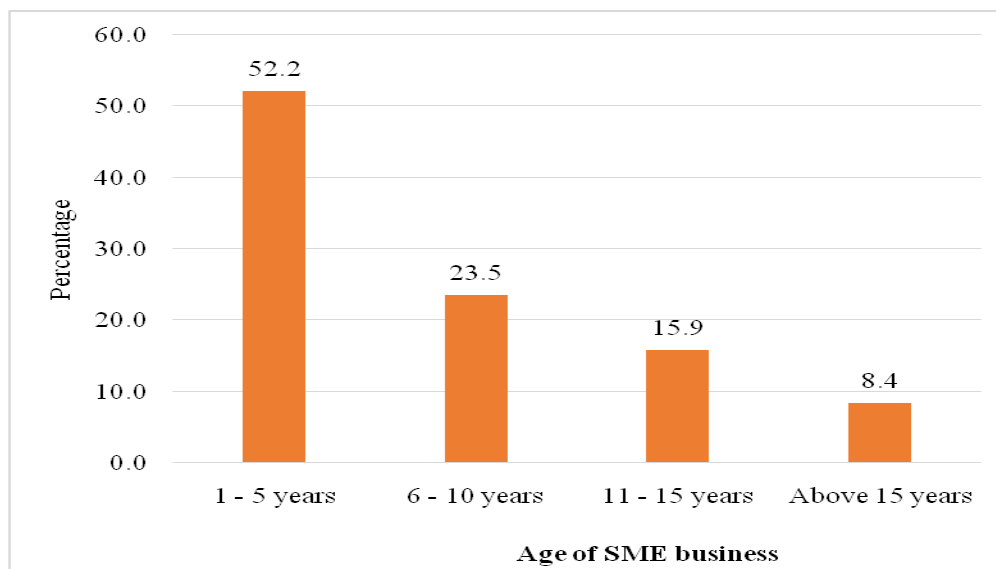
Source: Primary data

Figure 4:Age of SME business

Figure 3 above highlights that over 50% of the SMEs studied have been in operation for a period of 1-5 years. Thesetrailed businesses that have been in existence for 6-10 years with 23.5% and those with 11-15 years accounted for 15.9%. Very few SME businesses (8.4%) have been in existence for over 15 years. The findings revealed that most of the SMEs studiedhave been in operation for a long period of time and therefore were more knowledgeable about how taxation affects the performance of "small and medium enterprises" in Nakawa. Therefore, the respondentsprovided reliable data for the study.

4.2.4 Legal status of business

Table 5:Legal status of SME business

Status	Frequency	Percentage
Sole proprietor	266	70.6
Partnership	70	18.6
Limited Company	41	10.9
Total	377	100.0

Source: Primary data

Table 5showed that a bigger proportion of the SME owners registered their businesses as a sole proprietorship and these accounted for (freq. 266, 70.6%). These were trailed by businesses registered as a partnership with (freq. 70, 18.6%) while businesses registered as a limited company accounted for (freq. 41, 10.9%).

4.2.5 Nature of the business

Table 6:Nature of the business

Nature of business	Frequency	Percentage
Trade	194	51.5
Service	107	28.4
Manufacturing	76	20.2
Total	377	100.0

Source: Primary data

Table 6 pointed out that a bigger proportion of SMEs studied was engaged in trade, and these accounted for (freq. 194, 51.5%) of the total responses while businesses engaged in service constituted (freq. 107, 28.4%), and very few businesses (freq. 76, 20.2%)were engaged in manufacturing.This implies that the study was well distributed among the SMEs in Nakawa division and thus provided reliable findings.

4.2.6   Education level of respondents
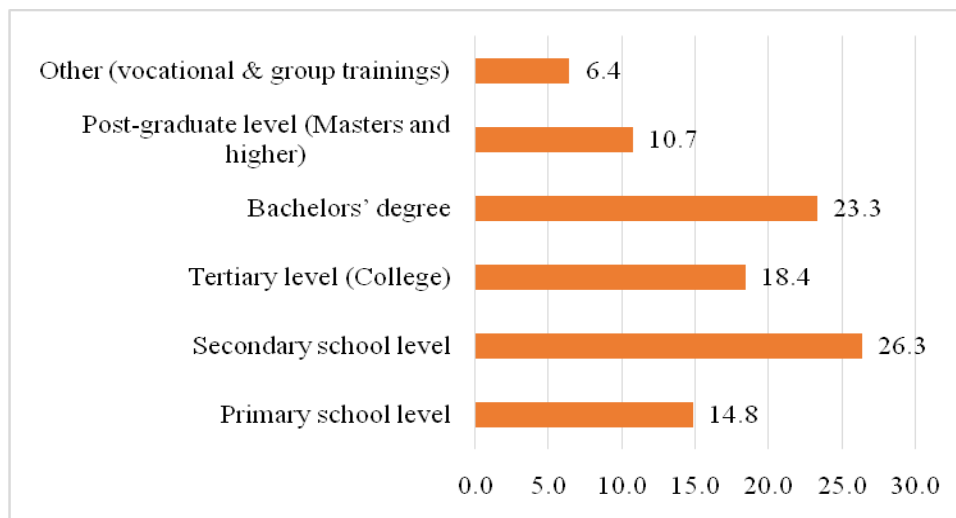
Source: Primary data

Figure 5:Education level of respondents (%)

Results in fig. 4 showed that a bigger percentage of respondents had secondary school level of education and these accounted for 26.3% of the total responses. These were followed by those with a bachelor's degree (23.3%), 18.4% with a tertiary level of education(college) and 14.8% with primary school level. Respondents with a post graduate level (Masters and higher qualifications) constituted 10.4%, and very few respondents (6.4%) had other qualifications. This indicates that all the respondents were educated and able to understand and interpret research questions to provide valid and reliable data.

4.3   Empirical findings based on objectives of the study

4.3.1   To examine the effect of tax compliance influences the performance of SMEs in Nakawa division

During the study, a set of statements regarding tax compliance were presented to respondents in order to establish their opinion onthe performance of SMEs in Nakawa division, Kampala. A likert scale of "Strongly Agree (SA) = 5, Agree (A) = 4, Not Sure (NS) = 3, Disagree (D) =2 and Strongly Disagree (SD) =1" quantified the responses.

Table 7:Responses on tax compliance

Item	Mean	Std. Deviation
Simplified system of taxation		
I understand the Ugandan tax system	2.32	.766
I can compute the income tax liability of our business with ease	2.31	.684
I always attend taxation seminars and workshops on behalf of the business to update myself on the tax system	4.31	.667
Payment of levies is straight forward hence the business does not hire professional consultancy services	2.35	.950
Interpretation of tax laws and regulations		
I am aware of most tax laws and guidelines about taxation of incomes for SMEs	4.44	.641
I understand the tax laws and regulations in Uganda	2.24	.711
I can interpret tax laws and compute tax liabilities	2.45	.710
I always file tax returns with URA on a timely basis as requires by law	4.34	.856
Tax planning and functional expertise		
I know how to treat the expenses incurred in relation to income tax in Uganda.	4.19	.856
I always advise management on income tax planning issues	4.02	.857
I am sure of the incomes /turnover on which we pay income taxes as a firm	4.15	.766
I am always part of the team that carries out budgeting process of my employer especially on income tax matters	4.24	.643

Source: Primary data

Table 7 above highlights that the majority of the respondents within the SME sectorcannot understand the Ugandan tax system as indicated by the average score of 2.32 (SD = 0.766). This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements.

Most of the respondents revealed that they could not compute the income tax liability of their businesses with ease. This is confirmed by the mean score of 2.31 (SD = 0.684) which shows that the majority of the respondents need assistance to understand how much to pay when to pay according to the size and capital of their businesses.

A bigger proportion of the respondents agreed that they always attend taxation seminars and workshops on behalf of their business to update themselves with the tax system as noted by the mean 4.31 (SD = 0.667). The above findings were supported by a respondent during face to face interviews who reported that;

> "URA through the umbrella body KACITA engages the traders to ease provision of taxpayer services, which include tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. For example we able to learn how to avoid making mistakes which could result in penalties which are avoidable. This is because taxes arecostly to businesses; therefore, managing penalties would significantly reduce businesscosts."

This means that the traders and other employees within the SME sector have attended taxation seminars and workshops which has improved their knowledge of tax policies and also enabled them to avoid tax penalties associated with tax evasion. This has reduced the tax compliance costs for the SMEs and thus boosted their performance.

The payment of levies is not straight forward hence the business has to hire professional consultancy services. This was confirmed by the majority of the respondents (mean = 2.35; SD = 0.950) who revealed that they usually hire someone to file their tax returns for them.

In addition, most of the respondents agreed (mean = 4.44; SD = 0.641) that they are aware of most tax laws and guidelines about taxation of incomes for SMEs. This means that the majority of the respondents can comprehend their tax acquiescence as noted by tax authorities. The above findings were supported by a respondent who said;

"Recently, Uganda Manufacturers Association (UMA) conducted a seminar on Tax Legislation, Tax Compliance and the impact of company tax practices on business performance where I was able to know the rights and obligations of my business regarding tax, know the various taxes to which my business may be subjected, application of tax planning techniques without evading tax and breaking the law, and learning the best techniques of tax computation."

This implies that the respondents have received tax education through seminars which have improved theirawareness concerning tax laws, tax planning and compliancefor small and medium businesses. This has also enabled them to know their rights and obligations of their businesses regarding taxes.

The study findings revealed that members of the small and medium enterprises could not understand the tax laws and regulations in Uganda which is represented by the mean score of 2.24 and standard deviation of 0.711. Furthermore, most of the respondents disagreed (mean = 2.45; SD = 0.710) that they can interpret tax laws and compute tax liabilities. This shows that the majority of the respondents do not have sufficient tax knowledge regarding the when to pay taxes and in what proportions.

On whether the small and medium enterprises always file tax returns with URA on a timely basis as required by law, the majority of the respondents mean = 4.34; SD = 0.856) agreed that they always file their tax returns on time. The study findings further revealed that most of the respondents know how to treat the expenses incurred in relation to income tax in Uganda which was confirmed by a high average score of 4.19 and standard deviation of 0.856.

On average, most of the respondents in the SME sector agreed (mean = 4.02; SD = 0.857) that they always advise management on income tax planning issues. The majority of the respondents

noted that they are sure of the incomes /turnover on which they pay income taxes as a firm which is represented by the mean score of 4.15 and relatively low standard deviation of 0.766.

The findings also show that the majority of the respondents with an average score of 4.24 (SD = .643) agreed that they are always part of the team that carries out the budgeting process of their employers especially on income tax matters.

4.3.1.1 Correlation results of tax compliance and the performance of SMEs

Pearson correlation coefficient established the extent to which tax compliance influences the performance of SME's in Nakawa Division, Kampala, and the results are shown in table 6 below.

Table 8:Correlation matrix for tax compliance and the performance of SMEs

		Tax compliance	Performance of SMEs
Tax compliance	Pearson Correlation	1	.595**
	Sig. (2-tailed)		.000
	N	377	377
Performance of SMEs	Pearson Correlation	.595**	1
	Sig. (2-tailed)	.000	
	N	377	377

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Primary data

The study findings table 8 above show that tax compliance significantly affects the performance of SMEs in Nakawa division since p- value (.000) is less that the significance level. The correlation coefficient is (0.595) which implies that there is a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs. Thus thehypothesis:*"Tax compliance significantly affects the performance of SME's in Nakawa Division, Kampala."* is accepted. So, in order to enhance the performance of SMEs in Uganda,

the government needs to ensure that there is a proper mechanism to ease tax compliance through having a simplified system of taxation, proper tax planning, and functional expertise as well as the ease with the interpretation of tax laws and regulations.

Results from the quantitative findings indicated that tax compliance significantlyinfluencesthe performance of SMEs which coincided with the qualitative results whichindicated that members within the SME sector have been able to enhance their knowledge on taxation where by URA through the umbrella body KACITA has engaged the traders to ease provision of taxpayer services, by delivering tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. This has benefitted the traders by equipping them with practical knowledge of tax compliance and best practices.

In summary, the study found that tax compliancecontributes to the performance of SMEs in Nakawa division, Kampala.

4.3.2 To establish the effect of tax rates on the performance of SMEs in Nakawa division

During the study, statements on tax rates were presented to the respondents to establish its effect on the performance of SMEs in Nakawa division, Kampala. Results from the study were presented using a likert scale as:"Strongly Agree (SA) =5, Agree (A) = 4, Not Sure (NS)= 3, Disagree (D)=2 while Strongly Disagree (SD) =1."

Table 9:Responses on tax incentives

Statement	Mean	Std. Deviation
Clarity of tax rates		
The tax rates charged are clear in terms of payable taxes.	2.09	.675
There are diverse taxes imposed on small and medium enterprises,	3.73	.502
The government either increases or decreases tax rate at its own discretion	4.56	.388
Correct level of taxation		
The taxes charged are burdensome to the business	4.48	.410
SMEs pay taxes when it is convenient for them to pay	2.11	.973
Taxes are only charged when the business is operating. Hence allows for momentary closures of business	2.46	.5580
SME tax rates consider the scale of operation	4.35	.744
Fair taxation rates		
The tax rates charged are fair to small and medium business owners	2.72	.965
The regressive nature of taxes on SME reduces their revenue base	4.77	.949
The tax rates charged are economical to SMEs	2.36	.756
SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment	3.20	.392

Source: Primary data

Table 9 above indicates that for a total of 377 respondents with an average score of 2.09 and a relatively low standard deviation (0.675), most of the respondents disagreed that the tax rates charged are clear in terms of payable taxes. This means that respondents in the SME world are not aware of how much to pay to the tax bodies.

There are diverse taxes imposed on small and medium enterprises, which was confirmed by the majority of the respondents (mean = 3.73; SD = 0.502) who agreed that their business pays different taxes depending on the nature and size of business.

Most of the respondents agreed (mean = 4.56; SD = 0.388) that the government either increases or decreases tax rate at its own discretion. This means that the government of Uganda can always

increase or decrease a tax rate without consulting the parties that will be paying the tax.In addition, this is supported by qualitative data collected from key informant interviews, as one informant had this to say;

> *"Despite the contestations from traders, the government has continued to increase tax rates for instance with a tax increase as a result of the introduction of the specific excise tax alternative; there has been an increase in the prices of goods and services making it more expensive for the customers."*

This means that the government of Uganda has continued to alter tax rates for the small and medium businesses without involving those in the SME sector which has negatively influenced the performance of their businesses due to the increased tax burden on the SMEs.

A bigger proportion of respondents agreed that the taxes charged are burdensome to their businesses as shown by the mean score 4.48; (SD = 0.410). This means that the taxes levied from the SMEs are inhibiting growth and performance of these enterprises in Uganda.The above conclusion was supported by an SME proprietor who had this to say;

> *"Many small businesses have continued to evade taxes because they are high and imposes high costs on their businesses yet most of these enterprises are struggling to keep operating for instance; some traders evade VAT returns since out there on the streets, the one who is selling at lower prices will eventually make a sale. VAT is 18% addition to the price being paid; this means that if one has to pay all VAT without having considered deductions, this trader will be selling expensive goods and sooner than later will be out of business."*

In addition, another respondent stressed that;

> *"....multiple taxations of the same business is a big problem and an obstacle to the performance of businesses, for example, a trader in his/her retail shop pays income tax to URA and pays import duty whenever he/she imports small merchandise in association with fellow traders. After all this it is Kampala's turn, it comes in, and requests for license fees and then the syndrome continues…. "*

This shows that taxes are not only an obstacle to the performance of SMEs in Uganda but have also contributed to the collapse of small and medium businesses due to the ever increasing costs of operation associated with taxes which has discouraged performance within the SME sector.

On whether SMEs pay taxes when it is convenient for them to pay, most of the respondents disagreed as noted by the mean = 2.11; SD = 0.973. This indicates that the tax bodies always require these enterprises to meet their tax obligations regularly and on time.

The majority of the respondents disagreed that taxes are only charged when the business is operating and hence allows for momentary closures of business. This was confirmed according to the low mean score of 2.46 (SD = 0.558). The findings further revealed that most of the respondents (mean = 4.35; SD = 0.744) agreed that the SME tax rates consider the scale of operation. This means that taxes are levied from SMEs depending on their capital size and nature of the business.

On whether the tax rates charged are fair to small and medium business owners, most of the respondents disagreed (mean = 2.72; SD = 0.965) which shows that the taxes rates charged from the SMEs are irrational and thus affect the performance of these enterprises.

On average, the majority of the respondents agreed (mean = 4.77; SD = 0.949) that the regressive nature of taxes on SMEs reduces their revenue base. In addition, most of the respondents also disagreed that the tax rates charged are economical to SMEs as noted by the mean score of 2.36 and standard deviation of 0.756. This means that the taxes levied from the small and medium enterprises are reducing the capital base of these enterprises and thus hindering the performance of SMEs.

The study findings highlighted that most respondents were neutral on whether the SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment which was confirmed by the mean score of 3.20 and standard deviation of 0.392.

4.3.2.1 Correlation results of tax rates and the performance of SMEs

Table 8 shows how tax rates influence the performance of SME's in Nakawa Division, Kampala, with the aid of Pearson correlation coefficient.

Table 10: Correlation matrix for tax rates and the performance of SMEs

		Tax rates	Performance of SMEs
Tax rates	Pearson Correlation	1	.689[**]
	Sig. (2-tailed)		.000
	N	377	377
Performance of SMEs	Pearson Correlation	.689[**]	1
	Sig. (2-tailed)	.000	
	N	377	377

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Primary data

The findings in table 10 above revealed that tax rates have a significant effect on the performance of SMEs in Nakawa division since p – value (.000) is less that the significance level. The correlation coefficient (0.689) shows a strong positive relationship between tax rates

and the performance of SMEs in Nakawa division. Tax rates have a statistically significant strong positive effect on the performance of SMEs in Nakawa Division, Kampala, Uganda Therefore the hypothesis *"Tax rates significantly affect the performance of SMEs in Nakawa Division, Kampala."*that wasstated is accepted. Therefore, the government of Uganda should carefully set tax rates by ensuring Clarity of the tax rates, correct level of taxation and fair tax rates since these play a key role in the performance of SMEs in Uganda.

Quantitative findings showed that tax rates have a significant influence on the performance of SMEs in Nakawa division which also corresponded with the qualitative findings which revealed that the high taxes are not only an obstacle to the performance of SMEs in Uganda but have also contributed to the collapse of small and medium businesses due to the ever increasing costs of operation associated with taxes.

Generally, from the study findings, the majority of the respondents indicated that taxeshave asignificantinfluence on the performance of SMEs in Nakawa Division, Kampalato a very great extent.

4.3.3 To assess the effect of tax incentives on the performance of SMEs in Nakawa division.

During the study, statements on tax incentives were presented to the respondents in order to establish the extent to which they affect the performance of SMEs in Nakawa division, Kampala. Using a likert scale of "Strongly Agree (SA) = 5, Agree (A) = 4, Not Sure (NS) = 3, Disagree (D) =2 and Strongly Disagree (SD) =1."

Table 11:Responses on tax incentives

Item	Mean	Std. Deviation
Investment deductions and allowances		
Tax incentives for SMEs have lowered the operational costs associated with payment of taxes for small and medium enterprises	4.39	0.867
Tax incentives, investments, and performance of SMEs are closely linked.	4.53	0.641
Tax incentives have attracted private investors to the SME sector	4.33	0.795
Tax holidays		
The government has given special tax treatment to SMEs in the form of tax holidays	3.87	0.878
Tax holidays have helped my business to grow and expand.	3.68	0.929
Tax incentives have stimulated the growth and expansion of SMEs in Uganda.	4.41	0.726
Special tax regimes		
Tax incentives have encouraged a reasonable number of traders in the SME sector to continue operating	3.94	0.392
The special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector.	3.79	0.356
Special tax treatment for SMEs has corrected market imperfections in the country.	3.08	1.364
Tax incentives have protected the infant small and medium enterprises in Uganda	2.47	0.904

Source: Primary data

The study findings revealed that the majority of the respondents agreed (mean = 4.39; SD = 0.867) that tax incentives for SMEs have lowered the operational costs associated with the payment of taxes for small and medium enterprises. Tax incentives, investments, and performance of SMEs are closely linked. This was confirmed by most of the respondents as highlighted by the mean score of 4.53 and standard deviation of 0.641.

The majority of the respondents (mean = 4.33; SD = 0.795) agreed that tax incentives had attracted private investors to the SME sector. This means that the tax incentives have increased investment in the SME sector and thus improved the performance of small and medium enterprises.The above findings were corroborated by an interviewee who said;

> *"My business has benefitted from tax exemption of With Holding Tax and we have a tax exemption certificate issued to the business from URA. This is because my business has demonstrated a good track record of paying the taxes on time. This has reduced the tax burden on the business and enabled me to reinvest and expand the business."*

This implies that tax incentives like withholdingtax exemption have had a positive contribution towards that performance of SMEs through reducing the tax burden on businesses which has stimulated performance in the SME sector.

On whether the government has given special tax treatment to SMEs in the form of tax holidays, most of the respondents agreed as represented by the mean score of 3.87 and a relatively low standard deviation (0.878). This implies that the tax holidays accorded to the SMEs have reduced the tax burden and boosted performance in these enterprises.

A bigger proportion of respondents agreed that tax holidays have helped my business to grow and expand as shown by mean = 3.68 and standard deviation = 0.929. In addition, tax incentives have stimulated the growth and expansion of SMEs in Uganda which was established by the majority of the respondents according to the mean = 4.41 and SD = 0.726. This means that tax incentives are a prerequisite to improved performance of small and medium enterprises.This was confirmed during a personal interview with a key informant, who had this to say;

> *"This company would not have survived in these hard times if it were not for the tax holiday that we are benefiting from the government. This tax holiday has reduced our*

operating costs and enabled us to break-even during these hard times when business is

slow."

This implies that the survival of some SMEs has been as a result of tax incentives which have reduced the operational costs and enabled the small and medium enterprises to continue operating and thus enhanced the performance of SMEs.

The findings also indicated that most of the respondents (mean = 3.94; SD = 0.392) agreed that tax incentives had encouraged a reasonable number of traders in the SME sector to continue operating. Likewise, the special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector. This was established by most of the respondents with an average score of 3.79 (SD = 0.356).

On whether special tax treatment for SMEs has corrected market imperfections in the country, the majority of the respondents were neutral as indicated by the mean score = 3.08 (SD = 1.364). Similarly, most of the respondents are disagreed on whether tax incentives have protected the infant small and medium enterprises in Uganda, this was revealed by the mean score of 2.47 and standard deviation of 0.904.

4.3.3.1 Correlation results of tax incentives on the performance of SMEs

Table 11 portraysPearson correlation coefficient resultsthatassess the effect of tax incentives on the performance of SME's in Nakawa Division, Kampala.

Table 12:Correlation matrix for tax incentives on the performance of SMEs

		Tax incentives	Performance of SMEs
Tax incentives	Pearson Correlation	1	.776**
	Sig. (2-tailed)		.000
	N	377	377
Performance of SMEs	Pearson Correlation	.776**	1
	Sig. (2-tailed)	.000	
	N	377	377

**. Correlation is significant at the 0.01 level (2-tailed).
 Source: Primary data

Table 12revealed that tax incentives have a significant effect on the performance of SMEs in Nakawa Division, Kampala since the p – value (.000) is less than the significance level. The correlation coefficient (0.776) indicates a strong positive relationship between tax incentives on the performance of SMEs. Therefore, tax incentives have a statistically significant positive effect on the performance of SME's in Nakawa Division, Kampala which confirms the hypothesis that "*Tax incentives significantly affect the performance of SME's in Nakawa Division, Kampala."* as earlier stated. And thus, tax incentives are paramount towards the growth and performance of SMEs in Uganda, therefore, the government should strengthen these tax incentives through enhancing the provision of investment deductions and allowances, tax holidays, special tax regimes among other tax incentives which will boost the performance of SMEs in Uganda.

Results from quantitative findings highlighted that tax incentive have a significant effect on the performance of SMEs. This is in line with the qualitative findings that revealed that the survival of some SMEs has been as a result of tax incentives which have reduced the operational costs and enabled the small and medium enterprises to continue operating and thus enhanced the performance of SMEs.

In summary, the study found out that tax incentives are paramount to the performance of SMEs in Uganda thus need to be strengthened.

4.3.4 Performance of SMEs in Nakawa Division

Using a "five likert scale of Strongly Agree (SA)= 5, Agree (A)= 4, Not Sure (NS)= 3, Disagree (D)=2 while Strongly Disagree (SD) =1." The respondents were given statements to assess the performance of SMEs in Nakawa division,Kampala.

Table 13:Responses to performance of SMEs

Statement	Mean	Std. deviation
Taxes have reduced the return on investments of small and medium firms	4.18	0.741
Taxes have not affected the sales turnover of SMEs through increasing the operational costs	2.17	1.373
Taxes have affected the liquidity position of SMEs	3.63	0.953
The profits of the small and medium enterprises before taxes are always high	3.81	1.244
Taxes have reduced capital resources for investment in research, innovation, and development	4.42	0.653
Taxes have inhibited the growth of SMEs in Uganda	4.57	0.349
The taxes levied from SMEs have made it difficult for the small and medium firms to achieve their goals	4.36	0.456

Source: Primary data

Table 13 above indicated that taxes had reduced the return on investments of small and medium firms. This was confirmed by the majority of the respondents with a mean score of 4.18 and standard deviation of 0.741. Most of the respondents also disagreed that taxes have not affected the sales turnover of SMEs through increasing the operational costs and this was represented by the mean score 2.17 (SD = 1.373).

On whether taxes have affected the liquidity position of SMEs, most of the respondents agreed as highlighted by the average score of 3.63; (SD = 0.953). Similarly, the profits of the small and medium enterprises before taxes are always high and this was established by the majority of the respondents who agreed as noted by the average score 3.81; (SD = 1.244).

A bigger proportion of respondents (mean = 4.42; SD = 0.653) agreed that taxes have reduced capital resources for investment in research, innovation, and development. The majority of the respondent also strongly agreed that taxes had inhibited the growth of SMEs in Uganda as indicated by the average score of 4.57 and standard deviation of 0.349. This implies that taxes are a major obstacle to the prosperity and performance of small and medium enterprises in Uganda.

On average, most of the respondents (mean = 4.36; SD = 0.456) agreed that the taxes levied on SMEs have made it difficult for them to achieve their goals . This indicates that the failure of SMEs to accomplish their objectives is partly due to the taxes levied from these enterprises.

4.3.5 Regression analysis of the study variables

In order to establish the magnitude of taxation (tax compliance, tax rates, and tax incentives) on the performance of SME's in Nakawa Division, Kampala, regression analysis was conducted as indicated in table 12 below.

Table 14:Regression analysis of the study variables

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.627	.269		2.329	.023
Tax incentives	.459	.094	.543	4.911	.000
Tax rates	.311	.108	.331	2.889	.005
Tax compliance	.171	.086	.206	2.014	.031
R = .827	**R- square = .684**		**F= 34.574**	**Sig = .000**	

 Dependent Variable: Performance of SMEs

Source: Primary data

Table 14 above shows the components of taxation, i.e. tax compliance, tax rates and tax incentives which significantly predict the performance of SMEs since the p – value (.000) is less than the significance level. The correlation coefficient (.827) revealed that the study variables had a strong positive relationship with the performance of SMEs. Thus the study variables explain 68.4% of the performance of SMEs in Nakawa Division, Kampala, Uganda.

The findings further revealed that tax incentives (Beta= .459, Sig. < .000) was a better predictor of the performance of SME's and this was followed by tax rates (Beta = .311, Sig. < .005), and lastly tax compliance with (Beta= .171, Sig. < .031). This implies that strengthening and improving the existing taxation policies relating to tax compliance, tax rates and tax incentives, the performance of SMEs will improve in Uganda.

CHAPTER FIVE

SUMMARY, DISCUSSIONS, CONCLUSION, AND RECOMMENDATIONS

5.0 Introduction

This researchassessedthe effect of the taxation on the performance of SME in Nakawa Division, Kampala.This unit provides;"the discussion, conclusions, and recommendations."

5.1 Summary of findings

This sub-section summarizes study findings on the extent to which taxation influences the performance of SMEs in Nakawa. The summary of findings was presented according to the study objectives.

5.1.1 Tax compliance and the performance of SMEs

The study determined the extent to which tax compliance influences the performance of SME's in Nakawa Division, Kampala. The study findings revealed that tax compliance significantly affects the performance of SMEs in Nakawa division since p- value (.000) is less that the significance level. The correlation coefficient is (0.595) which implies that there was a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs which confirms the hypothesis stated above.

Furthermore, findings from the interviews indicated that members within the SME sector have been able to enhance their knowledge on taxation where by URA through the umbrella body KACITA has engaged the traders to ease provision of taxpayer services, by delivering tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of

taxpayers in the designated blocks are among the benefits to taxpayers. This has benefitted the traders by equippingthem with practical knowledge of tax compliance and best practices.

5.1.2 Tax rates and the performance of SMEs

The results also indicated that tax rates have a significant effect on the performance of SMEs in Nakawa division since p – value (.000) is less that the significance level. The correlation coefficient (0.689) shows a strong positive relationship between tax rates and the performance of SMEs in Nakawa division. Tax rates have a statistically significant strong positive effect on the performance of SMEs in Nakawa DivisionKampala, Uganda and therefore the hypothesis that was stated is adopted.

In addition, qualitative findings from interviews revealed that the government of Uganda has continued to increase tax rates for the SMEs despite the contestations from traders, for instance with a tax increase as a result of the introduction of the specific excise tax alternative, there has been an increase in the prices of liquor making it more expensive for the customers. This has increased the operational costs of these enterprises and thus affected their performance.

5.1.3 Tax incentives and the performance of SMEs

The study findings highlighted that tax incentive have a significant effect on the performance of SME's in Nakawa Division, Kampala since the p – value (.000) is less than the significance level. The correlation coefficient (0.776) indicates a strong positive relationship between tax incentives on the performance of SMEs. Therefore, tax incentives have a statistically significant positive effect on the performance of SME's in Nakawa Division, Kampala which confirmed the hypothesis stated earlier.

Similarly, the findings from interviews indicated that as a result of tax incentives, businesses havebenefitted from tax exemption like With Holding Tax exemption and issued with a tax exemption certificate from URA since such businesses have demonstrated a good track record of paying the taxes on time. This has reduced the tax burden on these businesses and enabled them to reinvest and expand their businesses. Thus, fueling the prosperity and performance of SMEs in Uganda.

5.2 Discussion of findings

This sub-unitpresents;"the discussion of the study findings with the guidance of the study objectives."

5.2.1 Tax compliance and the performance of SMEs

During the study, a simplified system of taxation was examined as a factor of tax compliance, and the findings highlighted that a bigger proportion of the respondents within the SME sectorcannot understand the Ugandan tax system. This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements. This corroborated with Bozdoğanoğlu, (2016) who asserts that on top of the direct costs incurred by tax payers especially the SMEs towards meeting their tax compliance costs, they face an extra tax burden associated to the diverse and complicated tax system. The scholar further maintains that tax compliance costs have continuously become a fixed cost element that has imposed a relatively higher burden on the small and medium enterprises compared to the large enterprises that accrue benefits from returns to scale due to prompt compliance. These high tax compliance costs inhibit the financial prosperity of both the proprietor and the employees in the SMEs (Bozdoğanoğlu, 2016)

On the interpretation of tax laws and regulation as one of the indicators of tax compliance, the study findings highlighted that members of the small and medium enterprises cannotcomprehend the tax laws. Furthermore, the findings showed that most of the respondents could not interpret tax laws and compute tax liabilities. This shows that a bigger percentage of respondents lack sufficient tax knowledge regarding the when to pay taxes and in what proportions.This is supported by Boadi, Opoku, Firm, & Wy, (2016) who highlighted that tax compliance costs among SMEs in developing countries, are high due to the narrow resource envelope of these small and medium enterprises to fully meet their tax obligations; in addition to the limited expertise in taxation to observe the complex tax laws. This is supported by Pope & Abdul-Jabbar, (2008) who pointed out that small and medium enterprises are facing tax burdens due to the nature and size of these enterprises which has inhibited the financial and non-financial performance aspects of SMEs.

In addition, the findings indicated that the payment of levies is not straight forward hence the business has to hire professional consultancy services to file their tax returns for them. The findings also highlighted that most of the respondents could not calculate the income tax charge of their businesses easily. This implies that these respondents need assistance to understand how much to pay when to pay according to the size and capital of their businesses. This is supported by Oberholzer, (2008) who observed that tax compliance is still a challenge in developing countries due to the complex systems of taxation used yet there are only a few tax experts who can comprehend them. This has resulted in additional costs incurred by the tax payers including SMEs to hire tax professionals that can file tax returns on their behalf.

5.2.2 Tax rates and the performance of SMEs

The findings revealed that the tax rates charged are not fair to small and medium business owners, which shows that the taxes rates charged from the SMEs are irrational and thus affect the performance of these enterprises. This is in line with Masato, (2009) who found out that the SMEs in a regular tax system are discriminated against since the tax rate for the small and large firms is the same which increases the costs of the small enterprises. This has distorted the growth of SMEs where most small firms have transformed into firms that are levied fewer taxes or no taxes at all.

According to the study findings, the taxes charged are burdensome to the small and medium enterprises. This implies that the taxes levied from the SMEs are inhibiting growth and performance of these enterprises in Uganda.This is supported by Atawodi & Ojeka (2012)opine thatthe choice of the tax rate should depend on the tax preference accorded to small businesses to promote the growth of small enterprises which can be done by lowering tax rates, offering tax holidays as well as reliefs to the small businesses. The fundamental objective is to ensure that tax income is successfully increased through methods that suit the country's environment and administrative ability (Atawodi & Ojeka, 2012).

Study findings indicated that the regressive nature of taxes on SMEs reduces their revenue base. The findings further highlighted that the tax rates charged are not economical to SMEs. This means that the taxes levied from the SMEs are reducing the capital base of these enterprises and thus hindering the performance of SMEs. This is in line with Mungaya, Mbwambo, & Tripathi, (2012) findings that high tax rates increase the cost of production within the small and medium enterprises which greatly affects the performance of these firms and therefore should not be

ignored. In complement, Oludele and Emilie, (2012) also highlighted that high tax rates coupled with complex tax systems have negatively affected performance within the SMEs sector.

5.2.3 Tax incentives and the performance of SMEs

During the study, it was noted that that tax incentive for SMEs had lowered the operational costs associated with the payment of taxes for small and medium enterprises. In addition, the findings also indicated that tax incentives had attracted private investors to the SME sector. This means that the tax incentives have increased investment in the SME sector and thus improved the performance of small and medium enterprises.This corroborated with Philips, (2010) who asserts that tax incentives have been implemented by governments to attract and retain private investors within their economies. The prime objective of these incentives is to counterbalance the actual/ perceived operational costs associated with the payment of taxes. These incentives have become a catalyst for an enriched performance seen within the SME sector.

Additionally, findings from this study revealed that the government had given special tax treatment to SMEs in the form of tax holidays. In the same way, study findings also highlighted that tax holidays have helped my business to grow and expand. This is in line with Feyitimi, Temitope, Akeem, & Oladele, (2016) who noted that the tax holiday is one of the most frequently adopted government tax incentives which exempts firms from their tax liability and also relieves some businesses certain tax deductions over the tax holiday. These tax incentives are observed to stimulate the growth and expansion of SMEs due to the perception that these incentives lower the tax compliance burden inflicted on the "small and medium enterprises."

Furthermore, tax incentives have encouraged a reasonable number of traders in the SME sector to continue operating. Likewise, the special tax regimes for SMEs have reduced the operations of

the small businesses in the informal sector. This is supported by, Jousten, (2007) who emphasized that the primary objective of providing special tax regimes to small taxpayers is to lower compliance costs associated with taxation which enhances the growth of the SMEs. Providing special tax regimes to SMEs is important because it reduces the operations of the small businesses in the "informal sector" in terms of having a well regulated business sector.

5.3 Conclusions

This sub-unit shows the conclusions centered on each of the research objectives, as drawn from the study findings.

5.3.1 Tax compliance and the performance of SMEs

According to study findings, it was concluded that;"the simplified system of taxation, tax planning and functional expertise, interpretation of tax laws and regulations play a fundamental role in enhancing the performance of SMEs." This implies that strengthening the system of taxation through a simplified system of taxation can support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. Therefore, a streamlined tax administration strategy is important in enhancing the performance of SMEs.

5.3.2 Tax rates and the performance of SMEs

Based on the findings, the researcher concluded that having a correct level of tax rates, ensuring clarity of tax rates and fair tax rates are essential for the growth and performance of SMEs. This implies that there is need to design an effective tax rate through lowering the tax rates and offering tax reliefs to small and medium businesses which will reduce the cost of running a business within these enterprises and thus enhance the performance of SMEs in Uganda.

5.3.3 Tax incentives and the performance of SMEs

From the study findings, the researcher further concluded that the performance of SMEs depends on the tax incentives in the form of investment deductions and allowances, tax holidays and special tax regimes according to the small and medium businesses. This implies that tax incentives are key in reducing the operational costs associated with the payment of taxes for SMEs by lowering the tax compliance burden inflicted on the SMEs. Therefore, efforts to stimulate the performance of SMEs in Uganda, require that tax incentives should beintensified to encourage the growth and expansion of SMEs in Uganda.

5.4 Recommendations of the study

The study recommends the following:

5.4.1 Tax compliance and the performance of SMEs

During the study, it was found out that in order to promote the performance of SMEs in Nakawa Division,Kampala. Uganda's, primary consideration should be given to strengthening the system of taxation through having a simplified system of taxation that can support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. This will contribute to lowering the presence and magnitude associated with these fixed costs of operation for SMEs as well as putting in place a simplified tax structure that will accommodate all tax payers including the SME sector.

5.4.2 Tax rates and the performance of SMEs

The study recommends that the government of Uganda should design an effective tax rate in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base. This will lower the cost of production for the goods and services which will eventually ensure favorable prices for the goods and services

being provided to the customers and thus increase sales turnover and the performance of SMEs in Uganda.

5.4.3Tax incentives and the performance of SMEs

According to the findings, this research recommends that the government of Uganda should strengthen tax incentives so as to stimulate the performance of SMEs in Uganda. These tax incentives will help to rectify market limitations faced by small and medium businesses, cut business operational costs as well as stimulate selected investments. In addition, the tax incentives will help to protect and stimulate infant small and medium enterprisessince these infant firms are unable to meet their tax obligations in their early years of operation due to the small capital base and lack access to financial loans. Therefore the tax incentives implemented by the government will support these small and medium firms which will eventually stimulate the performance of SMEs in the economy.

5.5 Contributions to the study

The research provides up-to-date information on how taxation affects the performance of "Small and Medium Enterprises." It revealed that tax compliance, tax rates, and tax incentives play a fundamental role in stimulating the performance of SMEs. Such findings provide empirical evidence and understanding of the extent to which taxation affects the performance of SMEs in Nakawa Division, Kampala.

5.6 Limitations of the study

Most respondents within the SMEs in Nakawa division had busy schedules and were not readily available at the time the researcher wanted to engage them in the study. However, the researcher made a schedule and had appointments with all selected respondents, who reserved time for him and provided the required data for the study.

5.7 Areas for further study

More research is proposed in the areas of Corporate Income tax, Value Added Tax, and how they affect the performance of SMEs in Uganda. This is important because SMEs are a lubricant to Uganda's economy in the form of creating new jobs, income generation among others.In addition, improved performance of small and medium businesses is essential for the growth and development of the economy in Uganda.

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APPENDIX 1: QUESTIONNAIRE

Dear respondent,

My name is John Barungi Amooti, a participant of Uganda Management Institute pursuing a "Master's Degree in Business Administration as partial fulfillment for the award of this degree." I am carrying out research to examine "the effect of the taxation on the performance of Small and Medium Enterprises in Uganda." A case of SMEs in Nakawa Division, Kampala.This study is academic oriented, and the responses will be used for the initiative.

Please take time to answer by ticking the most appropriate alternative.

Thank you for your cooperation.

SECTION 1: DEMOGRAPHICS

Please tick where appropriate

1.1 Gender of the respondent

Male	Female

1.2 Age group

20- 29 years	30 - 39 years	40 – 49 years	50 - 59 years	Above 60 years

1.3 Category of therespondent

Person involved in tax matters	Manager	Owner of the enterprise

1.4 Education

Primary school level	Secondary school certificate	Vocational certificate	Diploma	Bachelors' degree	Masters' degree	PhD

1.5 Nature of the business

Trade	Service	Manufacturing

1.6 Length of service
For how long has the SME been in existence?

1-5 years	6-10 years	11-15 years	Over 15 years

1.7 Legal form
What is the legal form of business?

Sole proprietor	Partnership	Limited Company

SECTION 2: TAX COMPLIANCE
(Please tick the most suitable response)

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
2.1 Simplified system of taxation					
I understand the Ugandan tax system					
I can compute the income tax liability of our business with ease					
I always attend taxation seminars and workshops on behalf of the business to update myself on the tax system					
Payment of levies is straight forward hence the business does not hire professional consultancy services					
2.2 Interpretation of tax laws and regulations					
I am aware of most tax laws and guidelines about taxation of incomes for SMEs					
I understand the tax laws and regulations in Uganda					
I can interpret tax laws and compute tax liabilities					
I always file tax returns with URA on a timely basis as requires by law					
I am sure of the incomes /turnover on which we pay income taxes as a firm					
2.3 Tax planning and functional expertise					
I know how to treat the expenses incurred in relation to income tax in Uganda.					
I always advise management on income tax planning issues					
I am sure of the incomes /turnover on which we pay income taxes as a firm					
I am always part of the team that carries out budgeting process of my employer especially on income tax matters					

a) How is tax compliance affecting the performance of SMEs?

……

……

……

……

SECTION 2: TAX RATES

On a scale of "1 to 5, 1 being the lowest, representing Strongly disagree, and 5 being the highest representing strongly agree," this is how I feel about………..

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
2.4 Clarity of tax rates					
The tax rates charged are clear in terms of payable taxes.					
There are diverse taxes imposed on small and medium enterprises,					
The government either increases or decreases tax rate at its owndiscretion					
2.5 Correct level of taxation					
The taxes charged are burdensome to the business					
SMEs pay taxes when it is convenient for them to pay					
Taxes are only charged when the business is operating. Hence allows for momentary closures of business					
SME tax rates do not consider muchthe scale of operation					
2.6 Fair taxation rates					
The tax rates charged are fair to small and medium business owners					
The regressive nature of taxes on SME reduces their revenue base					
The tax rates charged are economical to SMEs					
SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment SMEs					

b) Whatare your comments regarding the tax rates for SMEs?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

SECTION 3: TAX INCENTIVES

On a scale of "1 to 5, 1 being the lowest, representing Strongly disagree, and 5 being the highest representing strongly agree," this is how I feel about………..

Please tick the appropriate view of your opinion in regard to the aspects in the table below

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
3.1 Investment deductions and allowances					
Tax incentives for SMEs have lowered theoperational costs associated with payment of taxes for small and medium enterprises					
Tax incentives, investments, and performance of SMEs are closely linked.					
Tax incentives have attractedprivate investors to the SME sector					
3.2 Tax holidays					
The government has given special tax treatment to SMEs in the form of tax holidays					
Tax holidays have helped my business to grow and expand.					
Tax incentives have stimulated the growth and expansion of SMEs in Uganda.					
3.3 Special tax regimes					
Tax incentives have encouraged a reasonable number of traders in the SMEsector to continue operating					
The special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector.					
Special tax treatment for SMEs has corrected market imperfections in the country.					
Tax incentives have protected the infant small and medium enterprises in Uganda					

c) What are your comments on the tax incentives given to SMEs?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

SECTION 4: PERFORMANCE OF SMEs

On a scale of "1 to 5, 1 being the lowest, representing Strongly disagree, and 5 being the highest representing strongly agree," this is how I feel about………..

Please tick the appropriate view of your opinion in regard to the aspects in the table below

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
Taxes have reduced the return on investments of small and medium firms					
Taxes have not affected the sales turnover of SMEs through increasing the operational costs					
Taxes have affected the liquidity position of SMEs					
The profits of the small and medium enterprises before taxes are always high					
Taxes have reduced capital resources for investment in research, innovation, and development					
Taxes have inhibited the growth of SMEs in Uganda					
The taxes levied from SMEs have made it difficult for the small and medium firms to achieve their goals					

d) What are your comments on the performance of SMEs?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

THANK YOU FOR YOUR TIME

APPENDIX 2: INTERVIEW GUIDE

i) Tax compliance and administration

1. In your opinion, how has tax compliance and administration affected the performance of SMEs in Uganda?

2. Do you think that the government has taken initiatives to solve challenges associated with tax compliance and administration of the small and medium enterprises?

ii) Tax rates

3. Do you think the tax rates for SMEs are favorable for the development of small and medium enterprises?

4. In your view, do you think the SME tax rates are fair to all small and medium enterprises in Uganda? Why?

iii) Tax incentives

5. In carrying out your business, how have tax incentives benefitted the SMEs in Uganda?

6. Is there a mechanism in place to ensure that SMEs maximize the benefits from the available tax incentives? Do you think it is effective?

iv) Performance of SMEs

7. What is your opinion on the overall the performance of SMEs in Uganda?

8. Do you think that taxation has affected the performance of SMEs in Uganda?

9. According to you what is the main reason for the poor performance of SMEs?

THANK YOU FOR YOUR TIME

Appendix 3: Krejcie & Morgan Population Table (1970)

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	377	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	377
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is Population size, and "S" is Sample size

Appendix 4: Introductory Letter

Appendix 5: Field Research Letter