

**TAXATION AND GROWTH OF SMALL, MICRO AND MEDIUM ENTREPRISES
CASE STUDY OF SELECTED SMEs IN NTUNGAMO MUNICIPALITY, UGANDA**

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**A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS
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Declaration

STUDENT'S DECLARATION

This project is my original work and has not been presented for a degree in any other university.

SIGN 

DATE.. *02nd July 2019*

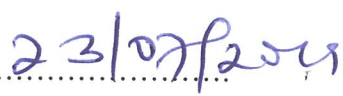
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APPROVAL

This project has been submitted for examination with my approval as University supervisor.

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Dedication

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

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The development of this research project depended on the effort, support and guidance of a number of people whom I should thank.

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Abstract

Small and medium enterprises play a very important role in development of the Ugandan economy. The SMEs sector's importance in the economic development of any country in recent years cannot be underrated especially with regard to creation of employment, innovation, uplifting the people's standard of living and financial contribution to the growth of the country's GDP. This sector's growth is hindered by the challenges of lack of financial resources to expand, the entrepreneur managerial skills, unskilled labour, production of poor quality goods, lack of market for their products, infrastructure and above all taxation policy which does not favour their growth potential. The study looked at the impact of tax influence on SMEs sector growth in Uganda. The study employed descriptive design. Primary data was collected on valuables contributing to tax influence and their effect of the growth of SMEs. A total of 50 respondents were considered out of the entire population in Ntungamo municipality. The study found that there was a significant correlation between taxation and SMEs sector growth. The study recommends that there be a friendly tax policy for all start-up businesses preferably a tax holiday, or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment. It also recommends that, URA; should supply tax assessment forms in time, intensify on the sensitization different tax rates and introduce a scheme that allows taxpayers to pay the tax obligation in instalment to better the profitability of small-scale businesses. There is therefore need for more research on firms' management techniques, the role of bookkeeping and profitability of small and micro enterprise.

List of Abbreviations

UNCTAD- United Nations Conference on Trade and Development

GDP- Gross Domestic Product

VAT- Value Added Tax

SME- Small Micro Enterprises

MSMEs- Micro, Small and Medium Enterprises

CHAPTER ONE

1.0 Introduction

This chapter examines the background information to the study, the statement of the research problem and the purpose of the study. The research objectives, research questions, justification of the study, importance of the study and scope are also discussed.

1.1 Background of the Study

The desire to build a civilized country with a strong and sound economy is the desire of every country, including Uganda. Tax payment is the demonstration of such desire, although some income earners see it as a means of exploitation by the government. Tax payment is a voluntarily contribution imposed by the government on personal income earners, companies, investors, exporters, importers etc. Revenue realized from taxation is a major source of revenue to the government of Uganda, and as such is important tool used in development of Uganda and her economy. A country's tax policies and systems are greatly related with the business ventures in the country. An economy that enacts favourable and progressive tax laws and policies will definitely breed successful and finance healthy business organizations. Once business flourish, the economy flourishes as well, as there is no quicker way of stirring up the matters of economy without help of organizations that move services, goods, money and investments from those with surplus to those with deficit; those with marketable ideas/ output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival. If one is greatly affected the other follows suit.

The Ugandan tax system has undergone significant changes in recent times. With the help of various studies and research done by tax experts, tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones.

Small business enterprises are generally recognized as important drivers of economic success. They are key ingredient in the ecology of firms" in healthy economy, as job creators, sales generators and source of tax/ fiscal revenue. In Uganda the importance of small business enterprises as a creator of jobs, particularly for those with low skills level, is widely recognized.

SMEs contribute 18% of the country's gross domestic product (GDP) and their employment and job creation rising to 90% irrespective of age and gender. In service, construction and retail sector SMEs employ more than 80% of the total workforce. Over the last few years the growth of SMEs employment has exceeded the growth in their contribution to the GDP, the reason why the Ugandan government has been notably supporting them through financial institutions credit lending.

Regulations and tax policies are reported to be one of the constraints to the expansion of small businesses in Uganda and internationally. However, these enterprises like any other business Uganda are liable to different types of taxes and these include income tax, corporation tax capital gain tax, sales tax and customs duties that are paid at different stages of the business. For purposes of this study the emphasis is put on income tax which is levied on the incomes of all Ugandan residents.

1.2 Statement of the problem

According to (MTIC), ministry of trade, Industry and cooperative's final draft on Uganda Micro, Small and Medium Enterprise policy of 2015, there is uncoordinated structure of MSME sector. It is believed that income tax rates that are charged on small and medium enterprises are not accurate since it's based on assumptions without assessing the actual turnover of the enterprise, yet at times these enterprises may be making losses. It is alleged that high Income tax rates affect the level of consumption and increase the unit cost. Profit maximization is the major goal of every small scale enterprise. However, this seems not to be a reality as most of them cannot achieve this goal.

Income tax administration plays a pertinent role regarding revenue collection as well as profitability of any business entity. In an effort for the government to increase its tax base, the tax burden for many firms' increases. However, the tax administration system is poor as at times, the tax liability computation is based on estimates, records of many small business firms are incomplete, and some miss out completely leading to tax over charge. In return, this directly affects the growth of the enterprise and may threaten its survival because taxes are paid out of profits. Therefore, failure to have an effective tax administration system adversely affects the profitability of small-scale businesses.

1.3 Purpose of the Study

The purpose of the study was to establish the effect of tax administration on of small-scale business enterprises in Ntungamo municipality.

1.4 Objectives of the Study

The study was guided by the following research objectives;

- i. To determine how tax rate affects growth of small-scale business enterprises in Ntungamo municipality.
- ii. To determine the tax policy used to administer tax on small-scale business enterprises in Ntungamo municipality.
- iii. To establish the types of tax that affects the growth of small-scale business enterprises in Ntungamo municipality.

1.5 Research Questions

The study was guided by the following research questions;

- i. How do tax rates affect growth of small-scale business enterprises in Ntungamo municipality?
- ii. What is the effect of tax policy on the growth of small and micro enterprises?
- iii. What type of tax affects the growth of small-scale business enterprises in Ntungamo municipality?

1.6 scope of the study

This research mainly focuses on the impact of tax policies on the economy of small business enterprises in Uganda more particularly in Ntungamo municipality.

The study only delimits itself to the challenges on the tax policies in Uganda to the small business enterprises and how it can affect self-employed business persons, traders and other forms of sole proprietorship businesses

1.7 The significance of the study

The findings will benefit the different stakeholders as explained below:

1. The traders- they will learn their duties as tax payers. Taxes being one of the operational costs of business and must be paid.
2. The legislature Assembly (Parliament) – will amend parts of the Tax Act which are unfair to small scale traders.
3. Uganda Revenue Authority (URA) will use appropriate trader friendly methods when collecting taxes.
4. The Authority will get to know about corruption tendencies of its officials in the tax administration.
5. The county government, to revise tax rates downwards and fight corruption among tax collectors.
6. The East African Legislative Assembly, to revise tax rates so that exports and import trade can be done cheaply within East Africa.
7. The general public, they will learn that every business has to pay different forms of taxes. This is because a tax is a compulsory operational business expense. Even other researchers on this topic will use it as reference for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of this study, is reviewed. Important theoretical and practical problems are brought out, relevant literature on the aspects pertaining to the effects of taxation on SMEs.

2.2. Theoretical Review

The SME's sector plays a crucial role in maintaining high employment and income generation and is therefore critical for a country to achieving sustainable growth. To enhance their role, SME's need to focus on a number of key business challenges such as reducing costs, improving employee productivity and building competitive advantage through producing quality products and services and other entrepreneurial interventions (UNCTAD, 2005). To achieve the growth potential of the SME's sector the government has to play a role of providing the necessary infrastructure to the sector and this is only achievable through taxing the same sector i.e. reaping the benefits of the said infrastructure.

According to Dalton, (1996) tax is a compulsory contribution imposed by a public authority irrespective of the amount of service rendered to the tax payer in return; Professor Seligman (2004) defined it into compulsory contributions from a person to the government to defraying the expenses incurred in the common interest of all without reference to special benefits compared. The government offers these functions of administrative, development and social function effectively and adequately.

While growth of any firm or sector is measured by the contribution and number of employment it is providing an increase in sales, income, profit and thus capital which portrays a survival capability in case of any problem facing the sector or firm.

Salemi (2010) argues that there are various types of taxes i.e. income tax, corporation tax, sales tax, excise tax, custom duty, fees, prices, fines, special assessments, VAT along others.

The government levy taxes to accomplish the following purpose i.e. raise revenue, maintain economic stability, solve unemployment problem, offer protection policy, social welfare and help achieve fair distribution of resources by optimally allocating resources and increase the rate

of economic formula. But when imposing any tax, the following conditions and challenges must be fulfilled i.e. Equality, certainty, convenience, economical productivity, elasticity, flexibility, simplicity and durability otherwise it won't be fulfilling its objectives. Another challenge of taxation is those who try not to pay tax through evading or avoidance. In order for SME's sectors to grow, the level of taxation set must be friendly and not stifle the running of the business. Holtz-Eakins (1995) argues as to whether there is an economic case for the preferential tax treatment of SME's. Some of the factors that could be advanced in favour of tax concessions for SME's includes: firstly, presence of externalities provided by small firms that benefit the economy, the rewards for which are not fully captured by small firms, for example if small firms were highly innovative, but the majority of the advantages accrued to large businesses who, because of their market power, were able to buy small firms for less than they are worth. Secondly, there is a need to provide tax breaks for small firms, on the basis of equity and thirdly the tax system should not affect the growth of the SME's in a negative way.

2.3 Characteristics of SME'S

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

2.4 Importance of the SMEs

As in most developing countries, the indigenous private sector in Uganda is dominated by SMEs. The sector is therefore an integral means of strengthening the Ugandan economy. It has emerged as a major source of employment in Uganda's labour market.

They are spread across all sectors with 49% in service sector, 33% in commerce and trade, 10% in manufacturing and 8% in others.

Over 2.5 million people are employed in this sector, where they account for approximately 90% of the entire private sector, generating over 80% of manufactured output that contribute 20% of the gross domestic product (GDP).

In line with vision 2040, the NDPI (2010/11-2014/15) and NDPII (2015\6-2019/20) both identify and emphasize the role of the private sector in engendering private led economy development.

Evidence from UBOS (2010) statistical abstract pronounce the contribution of MSMEs as significant and having potential to change the economy of Uganda for the better.

Despite the fact that the diverse activities are widely noticeable as a source of livelihood for many Ugandans, a number of issues have been raised about the sector.

Concerns have basically revolved around legitimacy of the activities when they are carried out in an informal environment their operating environment and their implications and impact on the entire economy. Majority of the firms in the sector do not fulfil business registration requirements and tax obligations. Given the rapid rate at which SMEs have increased, there is an urgent need to capture their activities into the tax net. For the informal firms in the sector, there is a pressing need for a formalization strategy. This will ensure that, firstly; they are legally in the tax net.

Second, their tax regime is simplified to enable them fulfil their tax liabilities at minimal costs.

Third, this will help tax authorities enhance administrative efficiency, eliminate avenues for tax evasion and enhance tax compliance.

2.5 The Concept of Tax in SMEs

Experiences in the past couple of years have proven that SMEs are unquestionably the growth engines of the African economy and therefore, the Ugandan Government considers the issue of SMEs a priority. It has been obvious that there cannot be a recovery from the financial and economic crisis without small enterprises which have to be freed of burdens weighing on their activities. The SMEs tax was introduced to serves this end.

This tax was set in a new direction in the income tax system. Although certain elements of the system which has been presented in the parliament may still be modified via the expected social and parliamentary debate, but it includes – besides a more favourable tax rate.

Tax regimes and taxation of SMEs have become increasingly topical and governments globally have sought to accommodate and provide a means for such businesses to participate in mainstream economic activity in a legitimate fashion. Previously, tax administrations had argued

that the cost of registering these enterprises and processing their returns far outweighed the benefits in terms of revenue yield. This remains true where such businesses are required to participate in the normal taxpaying regime and this has led to a significant move internationally to offer simplified regimes for this category of taxpayers. Cost versus benefit is still an important issue that needs to be carefully balanced. However, a better balance is greatly facilitated where a simplified regime is implemented.

There is a growing awareness that tax systems can go beyond merely maximizing revenue collection but over the medium- to longer-term can inculcate a higher degree of tax compliance and build a platform to support entrepreneurship and business development. Over time, perceptions regarding small businesses have changed. In the late 70's, small businesses were typically regarded as habitual tax avoiders and evaders. With the advent of private sector led development paradigm in the early 1980s, the SMEs represented a higher and growing proportion of GDP in both developing and developed countries culminating into much emphasis on taxing these businesses.

2.6 Methods of Taxing the SMEs

There are fundamental differences in initiating a tax regime in developed and developing economies. In developed economies, most small businesses are within the formal category and it has been easy to customize the existing tax legislation to suit their needs. Essentially, the system used does not represent a major departure from existing systems. Furthermore, the location of the taxpayer is easily traceable. However, in developing countries, the task is more difficult in that small taxpayers are not generally compliant with tax, registration, local government requirements and regulations (through ignorance as well as intent). Furthermore, they cannot be easily located or identified by the tax administration because they overwhelmingly operate within the informal sector.

The following are the key features of the small taxpayer's sector:

- (i) Small, transient, and often cash-based businesses.
- (ii) High turnover rates - many new businesses created, many others fail, and a few grow.

Many of them are family based, sole proprietorships, and partnerships.

- (iii) Large numbers often comprising between 70-80 percent of total taxpayers.

- (iv) Low revenue potential (typically 5-10 percent) of total revenues.
- (v) Expensive to administer.
- (vi) Many remain outside the tax net due to challenges in complying with tax and other government regulations.
- (vii) They have weak accounting capabilities coupled with rudimentary accounting systems.

Tax authorities experience major problems in identifying informal sector activities, not only because they sometimes include illicit activities, but also because even legitimate activities are difficult to identify when they are mobile (traders), small-scale (basic services) or elusive (craftsmen carrying out small jobs for cash). These difficulties severely limit the personal and business income tax base that is known and reported to the tax authorities. Usually, only a fraction of small businesses registers with the tax authorities. Moreover, only a small share of the overall population is on the payroll of formal sector enterprises and the government, where recorded wages and salaries are readily observable and easily taxable through employer withholding schemes. Despite such handicaps, the experience of several countries in recent years shows that substantial improvement can be achieved with determined effort and an appropriately designed strategy.

2.7 Approaches to Taxing the Informal Sector

2.7.1 Legitimizing the Informal Sector Approach

Available literature shows that one way to capture the shadow economy into the tax net is to legitimize the sector by allowing tax holiday and/or exemptions for certain sectors. For instance, exempting typically low-yield sectors like agriculture from income taxation will significantly reduce the cost of tax administration. This system has been applied in India where the agricultural sector is constitutionally excluded from central income tax.

2.7.2 The Presumptive Approach

Presumptive taxation involves the use of indirect means to ascertain tax liability, which differ from the usual rules based on the taxpayer's accounts. The term "presumptive" is used to indicate that there is a legal presumption that the taxpayer's income is no less than the amount resulting from application of the indirect method¹. It involves simple and cost-effective techniques to capture domestic transactions and sources of income that frequently escape taxation under conventional norms. These techniques include lump-sum levies on small-scale business activities (standard assessments); the assessment of taxes through indicators or proxies that help estimate a taxpayer's income (estimated assessments); and the collection of minimum taxes irrespective of a taxpayer's actual level of business activity (presumptive minimum taxes). More recently, other methods have gained importance. They include presumptive taxes on imports; withholding schemes designed to capture the incomes of unregistered businesses; and graduated business license fees.

A presumptive tax can be assessed in two ways. These include: First, estimating the taxpayer's income estimated on a specific basis. Secondly, computing taxable income on the basis of key factors associated with income generation such as sales, turnover, number of employees, size of the firm and taxpayer's assets. Presumptive tax is of various types. These include:

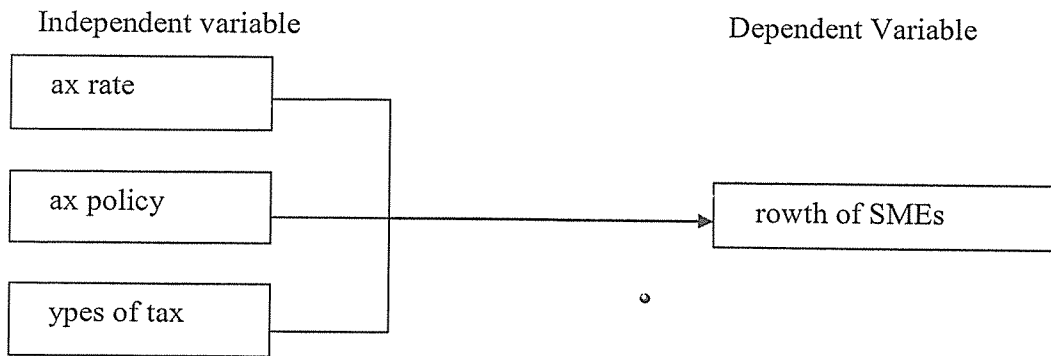
- (i) Minimum tax concept which is a fixed amount of tax is paid by persons in the informal sector regardless of the actual trading results;
- (ii) Forfeit Tax in VAT which is similar to the minimum tax and is applicable to a class of persons referred to as small traders in lieu of Value Added Tax; and
- (iii) Multi bands tax liability scheme where several fixed income brackets (bands) are set based on sales or turnover.

2.7.3 The Indirect Approach

This approach imposes an appropriate tax burden on those operating in the underground economy. Indirect taxes could potentially substitute for special regimes aimed at the hard to tax sector to the extent that these taxes reach the targeted sector via the shifting of taxes into wages, returns on capital or consumer prices. It is ideal for economies where final consumption taxes

significantly capture many of the informal sector activities and where the proportion of the informal sector to the entire economy is relatively large.

2.8 Conceptual Framework



2.9 Types of Taxes

2.9.1 Direct Taxes and Indirect Taxes:

1. Direct taxes are those that are imposed on incomes and property of individuals. The distinguishing characteristics are that their impact and incidence fall on the persons concerned and cannot be shifted to other persons. Examples include: Personal income tax (employment income and rental income), wealth tax, capital gains tax, estate duty, inheritance duty, the capital levy, corporation tax, and super profit tax.
2. Indirect taxes – these are taxes which are not directly collected by the government but indirectly through intermediaries who are usually the business people. Indirect taxes are usually imposed on commodities but they can be shifted on to the consumers. Indirect taxes include: sales tax, excise duty, customs duty consisting of import and export duties, expenditure tax, sumptuary tax and Value Added Tax (VAT).

2.9.2 Proportional and progressive taxes

1. Proportional tax – this is a tax levied on a uniform percentage between the tax and the income. The tax liability increases in the same proportion with income.

2. Progressive tax – this is where the tax rate increases as the amount subject to taxation increases. This tax is designed to help the lower paid tax payers and therefore to redistributed income.
3. Regressive tax – is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. It imposes a greater burden for the poor than on the rich.

2.10 Tax Policy and the Growth of SMEs

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations.

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses. Among the factors militating against SME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the procedures that were followed in the whole research process. It discusses the research design, the study population, sample size, data collection methods and instruments, data processing, analysis and presentation and finally the limitations of the study.

3.2 Research Design

The researcher used a cross sectional survey design basing on the use of descriptive and quantitative designs that were used to establish the relationship between income tax administration and the performance of small-scale business enterprises. This design was used for estimating, predicting and examining associative relationships. Cross sectional studies easily provide a quick snapshot of what is going on with the variables for the research problem.

3.3 Study Population

The study comprised of a population of over 25 small-scale enterprises, which included retail shops, hardware shops, groceries, and dealers in general merchandise and URA tax administrators.

3.4 Sample Size

The major participants in the informal sector that is to say the small-scale business was too wide so there was a need to choose a few manageable respondents to participate in the study.

The researcher obtained data from the 5th respondents and these included the small-scale businesses in Ntungamo municipality and the tax administrators.

Table 1: showing Sample distribution

stratum	Size of the population
Tax administrators=a	5
Small scale business=b	20
Total=c	25

Source: Survey Study (2019)

3.5 Sampling Design and Procedure

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

3.6 Data Sources

Data was obtained from both secondary and primary data sources.

3.6.1 Secondary data collection

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

3.6.2 Primary data collection

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

3.7. Data Collection Instruments and Methods

3.7.1 Questionnaire

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire was equally used because the information had to be collected from a large sample in a short period yet some of the respondents could not read and write which necessitated interviews. The questionnaire was used in collection of data from respondents (owners of small-scale businesses). The questionnaires consisted of both open and close-ended questions administered to respondents of Ntungamo municipality.

3.7.2 Interview method

The researcher also administered interviews. An interview is a dialogue between an interviewer and interviewee. It is an organized conversation aimed at gathering data about a particular topic. This is a method where a researcher interviews respondents to obtain information on the issue of interest. In this case, the interviews during this research were structured and were specifically administered to staff of Ntungamo municipality.

3.7.3 Observation method

The researcher observed the tickets from the tax council that the business operators had pinned in the shelves of the businesses as well as counter books that were used to record the customers who took goods on credit. However, the observation method revealed that the respondents never

used the counter books to record all the transactions made implying that they have poor records keeping system.

3.8.0 Data Processing and Analysis

3.8.1 Data processing

The data collected from the field was subject to processing for easy interpretation and understanding. Data collected was checked for completeness, categorized, coded, and entered into a computer where it was summarized into frequency tables edited and tabulation by use of percentages.

Quantitative data was presented in form of descriptive statistics using frequency tables. Qualitative data was sorted and grouped into themes. The researcher thereafter evaluated and analysed the adequacy of information in answering the research questions through coding of data, identifying categories and parameters that emerge in the responses to the variables of the study. Qualitative data was presented using narrative text.

3.9.0 Limitations of the Study

Financial constraints: Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal and research report.

Limited time: Inadequate period required for a detailed research study. Comprehensive research study involves a great deal of collecting, analysing and processing that requires a lot of time.

Non-response: Owners of businesses were busy attending to their customers and rarely spared time for the researcher.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents findings on income tax administration and profitability of small-scale businesses in Ntungamo municipality. The findings were from both primary and secondary sources. The findings are presented in conjunction with the objectives that the study was set to achieve.

4.1 General findings

The researcher sought to establish the general characteristics of the respondents who did fill the questionnaires and this section presents the findings.

4.1.1 Age of respondents

In order to attest the credibility of the responses, the respondents were asked to indicate their age bracket and the response was shown below;

Table 2: Showing the respondents' age

Age	Frequency	Percentage (%)
20-29	5	20
30-39	7	28
40-49	3	12
50-59	6	24
60 and above	4	16
Total	25	100

Source: Survey Study (2019)

The table above shows that 20% of the respondents were in the age group of 20-29, 28% in the age group of 30-39, 12% between 40-49, 24% between 50-59 and 16% in the age group of above 60 years. This implies that the majority of the respondents are between 30-39 years of age an indication that they can make independent decisions.

4.1.2 Gender of the respondents

This seeks to establish gender balance in the study.

The table and graph below clearly indicates what the researcher found out concerning the gender of the respondents in Ntungamo municipality.

Table 3: Showing gender of the respondents

Gender	Frequency	Percentage (%)
Male	15	60
Female	10	40
Total	25	100

Source: survey study (2019)

The study population was selected in a way that avoid gender bias. As illustrated in the pie chart below, 60% of the respondents were male while 40% were female. This indicated that most of the respondents were male.

Table 4: A chart showing percentage of respondents in relation to gender

Category	Frequency	Percentage (%)
URA officials	5	20
Business community	20	80
Total	25	100

Source: Primary data

Table 5 above shows that 20% of the respondents were Uganda revenue authority (URA) officials while 80% was the small-scale business community and this is as well represented in the graph below.

4.1.4 Findings on the marital status of the respondents

Here respondents were asked if they were married, single, separated widow and the results were as follows;

Table 5: Shows marital status of the respondents

Marital status	Frequency	Percentage (%)
Single	5	20
Separated	9	36
Married	7	28
Widow	4	16
Total	25	100

From table above, 20% were single, 36% separated, and 28% were married while 16% were widowed. This implies that most of the small-scale business enterprises in Ntungamo municipality were operated by married people, widowed and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of funding for their families including opening up small-scale businesses.

4.1.5 Level of education attained

This seeks to establish the level of education of the respondents. The respondents were asked to indicate their level of education and the response below was got;

Table 5: showing the level of education of the respondents

Level of education	Frequency	Percentage (%)
Not educated	3	12
Primary level	5	20
Secondary level	8	32
Diploma	4	16
Bachelor's degree	2	8
Master's degree	3	12
PHD	-	-
Total	25	100

Source: survey study (2019)

The table above shows that majority of the respondents are “A „level with 32% followed by primary level, diploma holders, and bachelor holders, others did not have any education background and only 12% had master's degree and there were no PHD holders. This indicates that most of the respondents did not have enough knowledge about income tax.

This information is also represented in the graph bellow;

4.1.6 Nature of business

The respondents were asked about the nature of their business and the products they deal in. Alongside interviewing, the researcher used observation method to identify the nature of products they deal in. variety of businesses were identified which include; retail shops, bars and

lodges, kiosks and eating places, restaurants, Hotels, grocery, petrol station, tailoring, Sacco's, among others which are charged a trade license and operation permits according to their nature of business operated.

Table 6: Showing the nature of business and products

Nature of business	Number of respondents	Percentage (%)
Retail shops	8	32
General merchandise	11	44
Hotel & Restaurants	3	12
Hard ware	1	4
Others	2	8
Total	25	100

Source: survey study (2019)

From the table above we observe that most of the respondents deal in general merchandise with 44% of the products followed by those who deal in retail shops, restaurants and the rest in the different kinds of businesses.

4.1.7 Period in business

Besides testing for maturity and integrity of the respondents, respondents were also asked to indicate how long they had been in business so as to establish the level of understanding of the operations of the business environment, how businesses are taxed and to know their level of profits for the given periods in business. Below is the response obtained.

Table 8: showing the assessment of business for income tax purposes

Response	Frequency	Percentage (%)
Strongly agree	12	48
Agree	9	36
Disagree	2	8
Strongly disagree	-	-

Source: survey study (2019)

From the table above, it was identified that most of the respondents are usually assessed their business for income tax purposes with 36%-48% agreeing that income tax is carried out on their businesses. This implies that Ntungamo municipality carries out assessment of the small-scale businesses before the tax they are meant to pay is levied.

4.2.1.2 Assistance from tax authorities

The respondents were asked if they had received any form of assistance as regards tax awareness from the tax authorities.

Table 9: showing form of assistance rendered by tax authorities

Response	Frequency	Percentage (%)
Yes	8	32
No	17	68

Source: survey study (2019)

From the table above, 68% did not receive any form of assistance and 32% said they received some assistance. Those who had received said it was in form of manuals, radio talk shows,

meaning that there were very few workshops, which could have been more effective in terms of creating awareness to the taxpayers. This information is also represented in the chart.

4.2.2 Income tax returns and computations

The respondents were asked how often they make income tax returns and if they are aware of income tax computations. This was shown using a graph and tables showing the percentages of respondents.

Table 10: showing Income tax returns and computation

Period	Number of respondents	Percentage (%)
Weekly	-	-
Monthly	7	28
Quarterly	6	24
Half yearly	5	20
Yearly	3	12
Do not know	4	16
Total	25	100

Source: survey study (2019)

From the above table, 16% do not know how to compute income tax returns. This is mainly due to lack of sensitization. 12% of the respondents make income tax returns yearly. 20% half yearly, 24% quarterly, 28% monthly and none of the respondents make returns weekly.

This implies that the period for filling returns is too short.

4.4 Relationship between income tax administration and the performance of small-scale businesses in Ntungamo municipality

Respondents were asked as to whether income tax affects their level of performance (growth). The researchers aim was to find out the relationship between income tax administration and profitability as the major objectives of the study. The responses below was got;

4.4.1 Causes of trend performance

The researcher was interested in finding out if income tax administration impacted adversely on the performance of small scale businesses and how it affects profitability of the business. The response was as follows.

Table 11: showing the causes of trend performance

Causes	Number of respondents	Percentage (%)
Stiff competition	6	24
Unfavourable economic conditions	4	16
Poor income tax administration	10	40
Political environment	1	14
Others	1	6

Source: survey study (2019)

Table 19: shows that the variations in the trend performance is mainly attributed to the different causes of poor business performance which may arise due to some of the above factors which show that 24% of the respondents are affected by stiff competition, 16% by unfavourable economic conditions, 40% by poor tax administration system, 14% by political environment whereas others are affected by other factors which could be seasonal in nature. It is identified that most of the respondents are affected by poor tax administration which has greatly affected their profitability levels.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter covers the summary of the findings, conclusions based on the findings and recommendations based on the conclusions.

5.1 Summary of Findings

From the review of the study, income tax administration is administered in three major ways, that is to say, identification of the taxpayer, assessment of income tax, and finally collection of tax dues. The findings of the study showed that tax payers were identified on the basis of their operation, however it was noticed that there were delays in the processing of assessment forms and collection of the tax dues was not easy since some of the tax payers defaulted on payment and others were given penalties. The researcher found out that local government often plays a critical role in the tax administration of small operators. However, municipal levies inhibit the creation of formal enterprises. For example, it was found out that licensing costs and requirements are a key driver of continued informality. Coordination between government agencies is usually very poor with inconsistent local and central government policies and multiple non-transparent taxes, fees, and non-regulatory “licenses” at the local level. This increases firm’s compliance costs and the administrative costs of local authorities.

The findings of the study showed that the profit margins of the firms were too small to improve on the scale and size of the business. This is due to the high taxes imposed on these small firms that they could hardly have enough capital to re-invest.

Other factors that affect the profitability of small-scale business enterprises apart from income tax administration include business location, seasonal variations and other types of taxes. Most of the respondents were unsatisfied with the income tax rate based on the sales turn over and some of the respondents did not fully understand income tax and its computation. The findings of the study showed that the introduction of income tax has adversely affected the profitability of small-scale industries according to the responses strongly agreed that income tax affects the profitability of their businesses. The study showed that sensitizing the people about income tax

and extending the period of income tax return could improve on the profitability of small-scale enterprises without necessarily adjusting the income tax rate.

5.2 Conclusion

The administration of small firms is an afterthought for income tax administration and technical assistance programs. This is due to the low benefit-cost ratio of administering small contributors from a revenue perspective. Therefore, creating successful small business administration is thus closely linked to the decentralization agenda.

Constructing appropriate indicators and setting an appropriate tax rate is challenging. It requires extensive analysis of profit margins and will usually be disputed by some in the business community. Small businesses are not necessarily small earners; rates need to be high enough to encourage firms at the upper end of the threshold to join the general system and low enough to encourage informal entrepreneurs to comply. This process requires extensive survey-based analysis of small firms' profit margins to determine presumptive tax rates, which will not affect the small business earners. Income tax administration has greatly affected the profitability of small-scale businesses. Uganda revenue authority needs to intensify on the sensitization campaigns since the business communities do not take the education of income tax seriously.

5.3 Recommendations

The researcher made the following recommendations as a way of reducing the burden of income taxes on SMEs as well as to increase the revenue of the Ntungamo municipality.

Ntungamo municipality should find a way of assessing the tax in that the SSBs should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously.

Ntungamo municipality should introduce a scheme that allows taxpayers to pay the tax obligation in the instalments over a given period as opposed to lump sum at once. The URA should reach out and educate the business community about its different tax rates and mode of payment.

The study revealed that the biggest problem with the tax paid is in fact that the SMEs community does not understand how the tax is arrived at as well as how it is paid but not because it is too high. The URA should improve on the methods of collecting the taxes: It should adopt the closure of business premises on default only as a last resort after all the other methods of

collection have failed. This should be an exception and not a rule. The URA should improve awareness amongst the taxpayers of the need to pay taxes and how their tax liability is determined and the time process of the tax assessment.

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Appendix: Questionnaires for owners of small scale business

Dear respondents,

My name is Mugabo John, a student of Kampala International University pursuing a Bachelor's Degree in Business Administration (Finance and Accounting Option). Am carrying out a research on 'Taxation and growth of small scale business in Ntungamo municipality' The information needed from you is purely for academic purposes and therefore any information given to me will be treated with maximum confidentiality.

Kindly spare a little time to fill this questionnaire.

Thank you very much.

SECTION A: BACKGROUND INFORMATION

(Tick where Appropriate)

1. Gender:

a) Male

b) Female

2. Age

a) 10 – 30 years

b) 31 – 40 years

c) 41 – 50 years

d) 51 – 60 years

e) 61 years and above

3. Marital Status:

a) Single

b) Married

c) Widowed

d) Divorced

e) Others (specify).....

4. Your highest level of education

- a) Primary
- b) Certificate
- c) Diploma
- d) Degree
- e) Any other (specify).....

5. For how long have you been doing this business?

- a) 0 – 5 years
- b) 6 – 10 years
- c) 11 – 15 years
- d) 16 – 20 years
- e) Above 20 years

SECTION B: TAXES

(Tick where appropriate)

1. What type of tax do you pay?

- a) Income tax
- b) Property tax
- c) Value Added Tax (VAT)
- d) Trading license
- e) Market dues

2. How many times have you attended seminars about the type of tax you pay?

- a) Once
- b) Between 2 – 5 times
- c) 6 – 9 times
- d) 10 – 13 times
- e) Others (specify).....

3. After what period is the assessment for taxes done?

- a) Six months
- b) Four months
- c) One year
- d) Two years
- e) More than two years

4. After what period is tax collected?

- a) Every after three months
- b) Every after four months
- c) Every after six months
- d) Every after nine months
- e) Every after one year

5. How often do you pay the taxes that are usually imposed by the authorities?

- a) Very rarely
- b) Rarely
- c) Neither rarely nor regularly
- d) Regularly
- e) Very regularly

7. Comment on the relationship between the tax collectors and the traders.

.....
.....

8. How is the tax you pay determined by the tax authorities?

.....
.....

SECTION C: GROWTH OF SMALL SCALE BUSINESSES

(Tick where appropriate)

1. How has your business been performing for the last two years in terms of profit?

- a) Very well
- b) Well
- c) Average
- d) Very poor

2. Has your business ever suffered losses in the last five years?

- a) Once
- b) Twice
- c) Three times
- d) Four times
- e) Others (specify).....

3. Do you always keep records of your business transactions in order to determine profitability?

- a) Very rarely
- b) Rarely
- c) Not at all
- d) Regularly

4. Which books of accounts do you prepare in your business?

- a) Cash book b) Journal
 c) Ledgers d) Register
 e) Others (specify).....

5. The amount of tax levied on the small scale business is too much.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

6. The location of the business affects its profits.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

7. Small scale business may make less profit as result of lack of sales promotion used.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

8. The tax collectors do not co-operate with the traders.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

9. The taxes paid by traders are properly assessed by the tax authority.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

10. The high operational costs affect the profit of small scale business.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

11. Inflation is one of the causes of low profits realized by small scale business.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

12. The quality of goods sold by small scale business affect their profits.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

13. Stiff competition among small scale businesses affect their profitability.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

14. Taxes paid by small scale business reduce their profits.

Strongly agree	Agree	Not sure	disagree	Strongly disagree

SECTION D: SMALL SCALE BUSINESS

(Tick where appropriate)

1. Business ownership:

- a) Sole trade
- b) Partnership
- c) Privately limited company
- d) Co-operative society
- e) Others (specify).....

2. A business premises is locked in case of failure to pay taxes.

- a) Very rarely
- b) Rarely
- c) Regularly
- d) Definitely
- e) Very regularly

3. A small scale business may close completely when it fails to make enough profits.

- a) Very rarely
- b) Rarely
- c) Definitely
- d) Regularly
- e) Very regularly

4. The Business cannot finance its operations by bank loans due to high interest rates.

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- a) Strongly disagree b) Disagree
- c) Not sure d) Agree
- e) Strongly agree

5. Small scale business fails to make enough profits as a result of inadequate capital employed.

- a) Strongly disagree b) Disagree
- c) Not sure d) Agree
- e) Strongly agree

6. URA should organize more workshops to sensitize its members about tax issues.

- a) Strongly disagree b) Disagree
- c) Not sure d) Agree
- e) Strongly agree

7. Small scale business owners have training and skills in business management.

- a) Strongly disagree b) Disagree
- c) Not sure d) Agree
- e) Strongly agree

Thank you very much