

**IMPACT OF TAXATION ON PRICING GOODS.
A CASE STUDY OWINO MARKET KAMPALA**

By


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**A Dissertation to the College of Economics And Management Science
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Declaration

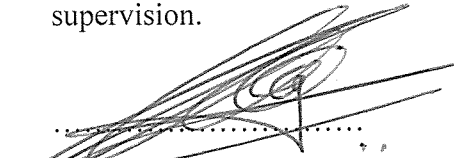
I Kipruto Titus do declare that this proposal is my original work and has never been presented for a degree or any other academic award in any university or institution of learning.

Signature 

Date..... 9/08/2016

Approval

I affirm that the work presented in this report was carried out by the candidate under my supervision.



.....
MR LUGGYA HERBERT

Date.....09/08/2016.....

Acknowledgements

I thank the almighty God for making it possible for me to complete this piece of work. Special thanks go to my supervisor, Mr. Luggya Herbert

May God continue guiding you.

Dedication

I dedicate this Research report to my parents, brothers, sisters, plus friends for their great contribution in terms of finance, encouragement and material support for which enabled me to reach at this level.

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CHAPTER ONE

1.0 Introduction

This chapter is based on the background of the study, problem statement, the purpose of the study, objectives of the study, research questions, research hypothesis, scope of the study and the significance of the study.

1.1 Background of the study

Historically, the major source of revenue in most developing countries is commodity taxation such as domestic sales and excise taxes and taxes on international trade (Burgess and Stern 1993; Keen and Simone 2004); food prices are often kept artificially low for consumers in order to increase the real incomes of poor households (Pinstrup-Andersen 1988a; Gupta et al. 2000); and public sector prices (for example, for electricity, gas, petroleum, coal, other fuels, fertilizers) are also often controlled by governments, reflecting either the perceived strategic importance of these inputs for development or the need to provide these sectors with an independent source of revenue and thus greater financial autonomy (Julius and Alicbusan 1989). Reform of these indirect tax systems and publicly controlled prices is often an important component of many structural adjustment programs. The researcher is grateful for the comments of participants at World Bank seminars on Poverty and Social Impact Analysis (PSIA) and IMF seminars and for detailed discussion with staff at the IMF PSIA Group. The reform of indirect tax systems can involve various approaches such as reducing high trade taxes and replacing lost revenue through other indirect taxes, replacing trade and sales taxes with a value-added tax, broadening the value-added tax base to include previously exempt goods and services, or simply raising existing tax rates (Barbone et al. 1999; Abed et al. 1998). The reform of publicly controlled prices typically involves raising subsidized prices so that they are closer to world or cost recovery prices, or, possibly, the replacement of government price controls by market determined prices (Gupta et al. 2000). Governments and other stakeholders commonly express concerns regarding the potential adverse impact of these reforms on poverty. The desirability of these reforms is usually motivated primarily by efficiency and fiscal considerations, that is, the desire to raise revenue, but limit the distortion of economic activity. However, the associated price changes can potentially decrease the real incomes of households and thus, possibly, increase poverty. This potential for adverse effects on poverty may underlie the reluctance on the part of governments

and other stakeholders to support such reforms. A credible reform strategy therefore requires an analysis of the likely impacts of proposed reforms on household real incomes and the distribution of the impacts across households, with a particular emphasis on the impact on the poorest households. The insights from these analyses should influence program design (that is, the structure of tax reforms, as well as the speed and sequencing of the introduction of the reforms) and, inform the choice of alternative approaches for mitigating the adverse effects. A more comprehensive analysis of tax and price reforms would need to address other important determinants of successful reform strategies, in particular, the administrative and political constraints on reforms. The fact that such issues are not addressed in this chapter should not be interpreted as an implicit assessment as to their relative importance for policy advice, but rather as a desire to keep the scope of the study manageable and focused. Such issues are only addressed indirectly in so far as they influence the set of tax and price reforms under consideration. Also, that the equity and efficiency implications of reforms can be expected to influence both the need for administrative reforms and the likely political economy of reforms.

The study was guided by the partial equilibrium approach to the analysis of tax and price reforms, put forward by Neo classical in 1968 as well as from Kolter, (1990), and Williamson, (1996). The partial equilibrium approaches focus solely on the direct effect of reforms on consumer prices and household real incomes. These studies therefore ignored all household and producer responses and focused on the first-order effect on the real incomes of households (or, equivalently, the effect on household cost of living). It is common to interpret these effects as the short-run impact of reforms prior to household and producer responses. Household responses such as switching consumption away from taxed goods or toward subsidized goods tend to decrease adverse welfare impacts and increase beneficial welfare impacts.

A tax is defined as the charge against a citizen, person or property for the support of the government. A tax is a financial charge or other levy imposed on an individual or legal entity by a state or a functional equivalent of a state for example tribes, secessionist movement or revolutionary movements. Taxes also could be imposed by sub national entity. A tax is a compulsory levy or imposed, which the government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenues. According to Gupta, (2001), economists classify taxes into direct taxes and indirect taxes. Direct tax is defined according to Dalton, (1997), as those taxes that are paid entirely by those persons on whom they are imposed.

In other words, the immediate money burden is upon the man who pays the tax to the authority. Direct taxes are those taxes that cannot be shifted to others. According to Dalton, (1997), indirect tax is a tax the burden of which may not necessarily be borne by the assessed. Indirect tax can be shifted or passed on to other persons. Indirect taxes are taxes on commodities. These are custom duties, excise duties, sales tax. According to John Stuart Mill, indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another.

Pricing is a process that an organization comes up with a specific charge that will be attached to their products and services. Therefore the price must leave a profit as a result of incurring some costs in the production process of a service or a product (International marketing by TerpstraSarathy, 1994). Bermans & Evans, (2002) define price as the mechanism for allocating goods and services among sellers in an open market place. If the demand exceeds supply, prices are usually bid up by consumers. If supply exceeds demand, prices are usually reduced to sellers, (Monroe, 2003), Kotler, (1990), and Shapiro et al, (2002). According to Bermans & Evans, (2002), there are two methods of pricing are as follows:

There are several methods of pricing products in the market. While selecting the method of fixing prices, a marketer must consider the factors affecting pricing: Cost-oriented method and market-oriented method.

1.2 Statement of the Problem

Business Enterprises attracts 90 per cent of the Ugandan population, especially the consumers in the central Uganda, (Market Vendor, 2015). In Owino Market Kampala Uganda there is a problem in pricing of goods, (Report from the chair person market vendors, 2015). The business entrepreneurs are being exploited by the tax authorities every after a month on goods purchased and sold. All these are indicators of inappropriate taxes imposed on the goods sold by the entrepreneurs. The continuous rise in prices of goods will negatively affect the level of consumption and hence affecting the level of sales and the profit margin for these business entrepreneurs. The incorrect pricing of goods in Owino Market in Kampala Uganda is caused by factors such as sellers' demand for higher profits, lack of knowledge by the consumers about the existing prices of the products, high taxes, high costs of transport among others, (Gupta, 2001). This study is intended to examine the impacts of taxes on the pricing of goods in Owino Market

Kampala Uganda. The researcher has chosen taxes because he wants to find out whether the prices of goods can be affected by the taxes imposed on these goods.

1.3 Purpose of the study

The purpose of this study is to the impact of taxes on prices of goods in Owino market in Kampala in Uganda.

1.4 The objectives of the study

The following were the objectives under which the study was carried out;

1. To establish the different taxes levied on goods in Owino market in Kampala Uganda.
2. To determine the pricing procedures and strategies used in Owino market in Kampala Uganda.
3. To establish if there is any significant relationship between taxes and prices of goods in Owino market in Kampala Uganda.

1.5 Research Questions

1. What are the different taxes levied on goods in Owino market in Kampala Uganda?
2. What are the pricing procedures and strategies used in Owino market in Kampala in Uganda?
3. Is there any significant relationship between taxes and prices of goods in Owino market in Kampala Uganda?

1.7 The Scope of the study

The study was carried out in Owino market Kampala central Uganda, covering those areas of the market. The study concentrated in the areas of Kafube Mukasa which is part of Owino where most of the businesses were conducted. The researcher had selected Owino Market due to its proximity to the researcher's residence and easy access to the required information.

1.7.2 Content scope

The study was intended to examine the relationship between taxes and prices of goods in Owino market in Kampala Uganda. This study was to examine taxes in terms of their types as property tax, customs tax, input tax, sales tax among others. The study was also to look at elements of prices in terms of pricing procedures as cost oriented pricing, demand factors, and competition factors.

1.7.3 Theoretical scope

The study was guided by the partial equilibrium approach to the analysis of tax and price reforms, put forward by Neoclassicals in 1968 as cited from Kolter, (1990), and Williamson, (1996). The partial equilibrium approaches focused solely on the direct effect of reforms on consumer prices and household real incomes. These studies therefore ignored all household and producer responses and focused on the first-order effect on the real incomes of households (or, equivalently, the effect on household cost of living). It was common to interpret these effects as the short-run impact of reforms prior to household and producer responses. However Household responses such as switching consumption away from taxed goods or toward subsidized goods tend to decrease adverse welfare impacts and increase beneficial welfare impacts.

1.7.4 Time scope

The study was conducted from April 2016 to July 2016. This time frame is from proposal writing up to the time of submission of the final report or dissertation.

1.8 Significance of the Study

The study will be useful in the following ways:

1. It is expected that the findings of this study will be useful to Owino Market Kampala to understand the effects of taxes on prices.
2. The study will be useful to URA, members of Owino market in yielding data and information that will be useful for understanding the effects of taxes on prices of goods.
3. The future researchers will utilize the findings of this study to embark on a related study.
4. This study is useful to the researcher as it is one of the requirement for the attainment of a bachelor's degree of Economics and Applied Statistics of Kampala International University

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter explains theoretical review, the conceptual review, and additional literature review.

2.1 Theoretical Review

The study was guided by the partial equilibrium approach to the analysis of tax and price reforms, put forward by Neoclassicals in 1968 as cited from Kolter, (1990), and Williamson, (1996). The partial equilibrium approaches focus solely on the direct effect of reforms on consumer prices and household real incomes. These studies therefore ignored all household and producer responses and focus on the first-order effect on the real incomes of households (or, equivalently, the effect on household cost of living). It is common to interpret these effects as the short-run impact of reforms prior to household and producer responses. Household responses such as switching consumption away from taxed goods or toward subsidized goods tend to decrease adverse welfare impacts and increase beneficial welfare impacts. First-order effects are thus often interpreted as an upper bound on longer-term adverse impacts and a lower bound on beneficial impacts. Producer responses can affect the degree to which the incidence of taxes is pushed onto final-goods prices or factor prices and thus also the overall distribution of the welfare impact. Estimation of these first-order impacts requires household-survey information on the consumption of the relevant goods and services. Such surveys, which are now available for many developing countries, can be used to calculate the budget shares for goods and services. By multiplying budget shares by the proportional increase in the corresponding prices attributable to the reforms, one obtains an estimate of the proportional change in household real incomes. For example, if a household allocates 10 percent of its total expenditures to food and the price of food increases by 10 percent, this results in a 1 percent decrease in household real income. If the prices of many goods are affected, this procedure can be carried out for each good and summed to get the total real-income effect. One can then analyze the pattern of these real-income changes across households at different levels of income, for example, by income deciles.⁵ If the percentage decrease in income that is due to taxes is higher (lower) for higher-income deciles, then the incidence of the tax burden is said to be progressive (regressive). If reforms involve a change in the prices of intermediate goods (such as energy products), one needs to model the

pass-through of these price changes to final-goods prices. This requires information on the input output structure of the economy, as well as information regarding the sectors that are internationally traded or non-traded or for which the prices are directly controlled by the government.

One typically assumes that such price increases are pushed forward onto the output prices for non-traded goods, but backward onto factor prices or quasi-fiscal deficits for traded or price-controlled sectors. Since the modeling of price shifting is relatively straightforward (subject to data availability), so too is the simulation of price-shifting outcomes.

Partial equilibrium analyses can provide a valuable input into policy dialogue and reform, especially when combined with a qualitative discussion of the likely efficiency effects of reforms. For example, switching taxes to products with inelastic demands or negative social externalities (such as petroleum products, tobacco, and alcohol) when these are initially small can be expected to increase the overall efficiency of the tax system.

Similarly, broadening the tax base to include previously exempt final-consumption goods and services is also generally expected to improve the overall efficiency of the tax system. Such gains can then be juxtaposed against the distributional implications of these reforms in order to identify possible welfare gains from reforms or any trade-offs between efficiency and distributional considerations. The policy relevance of such analyses can be strengthened even further by using household-survey data to simulate the likely effectiveness of existing or potential safety net expenditures in mitigating any adverse effects of reforms on poor households. Household-survey data, combined with knowledge of the design of any existing safety net programs, can be used to simulate the potential for such programs to protect the poorest households during the reform process and the implications for the net revenue effects of the reforms. If information on existing safety net programs is weak, one can construct the likely impact of (well-implemented) hypothetical programs as a way of focusing attention on the need for

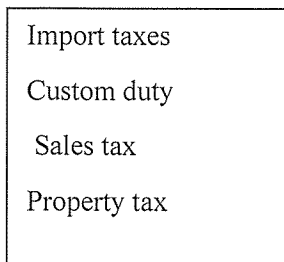
cost-effective programs. The aggregate first-order income effects also provide an estimate of the first-order revenue impacts of the reforms. Similarly, using household data, one can simulate the likely incidence of alternative social expenditures (such as increased education and health expenditures) that may be financed by the revenue gains from reforms. Such analyses help highlight the motivation behind and potential benefits from reforms.

2.2 The conceptual review

2.2.1 The conceptual framework

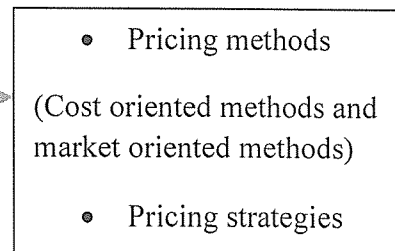
Independent Variable

Taxation



Dependent Variable

Pricing of goods



Source: Adopted from Dalton, (1997) and modified by the researcher, (2016).

The conceptual framework indicates the independent and dependent variables in the topic under investigation and their effects on one another. The independent variable is taxation while the dependent variable is pricing of goods. Taxation will be examined in terms of import taxes, custom duty, sales tax and property tax whereas pricing of goods will be examined in terms of pricing methods as cost oriented and market oriented pricing and in terms of pricing strategies such as, demand factors and factors relating to competition. Taxation affects prices of goods in terms of the costs it poses to the goods hence affecting its prices to increase

2.3 Related literature

2.3.1 Taxation

A tax is defined as the charge against a citizen, person or property for the support of the government. A tax is a financial charge or other levy imposed on an individual or legal entity by a state or a functional equivalent of a state for example tribes, secessionist movement or revolutionary movements. Taxes also could be imposed by sub national entity. A tax is a compulsory levy or imposed, which the government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenues. According to Gupta, (2001), economists classify taxes into direct taxes and indirect taxes.

Direct taxes are defined according to Dalton, (1997), as those taxes that are paid entirely by those persons on whom they are imposed. In other words, the immediate money burden is upon the man who pays the tax to the authority. Direct taxes are those taxes that cannot be shifted to others.

Direct taxes have the following merits;

Equitable; direct taxes such as income tax, taxes on property, capital gain taxes and others are just and equitable because they are based on principle of progression. Lower incomes are taxed more heavily and lower incomes taxed slightly. The larger the income, the higher is the rate of tax and the reverse is true. Direct taxes are charged according to the ability to pay by the tax payers. Ability to pay is interpreted as the money income of the assessed. It means any person having a flow of income is expected to pay tax. Taxes at high rate are paid by the richer section of the society and lower rate are paid by the poor section of the society.

Certainty; direct taxes satisfy the canon of certainty. Direct taxes involve certainty about the rates of taxes such as income tax that are widely publicized. In other words, the tax payer is certain as to how much he is expected to pay and similarly the state is certain as to how much it has to receive as income from direct taxes.

Reduce inequality; as stated above, direct taxes are progressive in nature, and therefore rich people are subjected to higher rates of taxation, while poor people are exempted from direct tax obligations. Rates of taxes increase as the level of income of the person rise.

Elasticity; direct taxes also satisfy the canon of elasticity. Elasticity in direct taxes implies that more revenue is collected by the government by simply raising the rates of taxes. In other words, revenue of the government may be increased by increasing the incomes of the people. Therefore, the income of the government from direct taxes may increase with the increase in the incomes of the people.

Civic consciousness; direct taxes inculcate the spirit of civic responsibility amongst the tax payers. Since direct taxes are certain the tax payers feel the pinch of such payment and are therefore, alert and take keen interest in the method of public expenditure, whether the revenue is being raised by the government and to what uses it is being put. Tax payers become conscious of their rights and obligations.

Demerits of direct taxes Gupta, (2001), criticized the direct taxes on the following grounds:

Unpopular; direct taxes are unpopular because they require to be paid in one lump sum, which is inconvenient to the tax payer. Direct taxes are generally not shifted; therefore, they are painful to the tax payer. Hence, such taxes are unpopular and are generally opposed by the tax payers as they have to be borne by the assessed themselves.

Inconvenience; direct taxes are inconvenient in nature, because tax payer has to submit the statement of his total income along with the source of income from which it is derived. Moreover, direct taxes are paid in lump sum that causes inconvenience to the tax payer.

Possibly of evasion; a direct tax is said to be a tax on honesty, but can be evaded through fraudulent practices. As stated above, direct taxes are certain and tax payers know the rate of tax they have to pay and therefore, awareness of tax liability tempts the tax payer to evade tax.

Arbitrary; a direct tax is found to be arbitrary because there is no logical or scientific principle to determine the progression in taxation authorities.

Indirect taxes, According to Dalton, (1997), indirect tax is a tax the burden of which may not necessarily be borne by the assessed. Indirect tax can be shifted or passed on to other persons. Indirect taxes are taxes on commodities. These are custom duties, excise duties, sales tax among others. According to John Stuart Mill, indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. According to Gupta, (2001), he outlined the merits of indirect taxes as follows:

Convenience; indirect taxes are convenient to pay. They are paid in small amounts instead of one lump sum. They are generally included in the price of commodity and hence the burden of these taxes is not felt very much by the tax payers. They are convenient from the point of view of the government also.

No evasion; there is always a tendency to avoid or evade taxes. Indirect taxes are generally difficult to be evaded, as they are included in the price of a commodity. A person can evade an indirect tax only if he decides not to purchase the taxed commodity.

Elasticity; indirect taxes can be elastic, that is, the revenue from indirect taxes can be increased if the tax is imposed on those articles, the demand for which is inelastic. In other words, if taxes are imposed on articles of common consumption, revenue may be increased.

Wide coverage; through indirect taxes, every member of the community can be taxed, so that everyone may provide something to the government to finance the services of public utilities. In other words, through indirect taxes, every one contributes towards social benefits.

Can be progressive; indirect taxes can be made progressive by imposing heavy taxes on luxuries and exempting article of common consumption from the tax net.

Economy; indirect taxes such as sales tax are collected by traders, manufacturers and sellers from individual buyers and then paid in lump sum to the tax authorities.

Demerits of indirect taxes. Gupta, (2001), identified the following demerits of indirect taxes:

Regressive; indirect taxes are regressive in nature as they fall more heavily upon the poor than upon the rich.

Administrative cost; the administrative cost of collection of such taxes is generally heavy, as they have to be collected from large number of people in small amounts. It is necessary to check records of manufacturers and sellers. It is also necessary to prevent smuggling of goods. The cost of collection tends to be very high in the case of indirect taxes.

Discourage saving; indirect taxes discourage savings because they are included in the price of commodity and people have spent more on essential commodities. Hence, they discourage savings.

Uncertainty; the income from the indirect taxes is to be uncertain, because the taxing authority cannot accurately estimate the total yield from the different taxes.

No civic consciousness; indirect taxes are collected through middlemen like traders and hence they have no direct impact.

Adverse effect on efficiency; when indirect taxes such as excise duties and sales tax are levied on essential goods, their consumption by workers is reduced and so too efficiency. Therefore, productivity of workers is reduced.

Creation of inflation; another major evil of indirect taxes is that these taxes generate inflation in the economy. Prices of taxed goods keep rising without any reduction in the purchasing power in the economy.

Sales tax; this is defined as a consumption tax charged at the point of purchase for certain goods and services. The tax is usually set as a percentage by the government charging the tax. There is usually a list of exemptions. The tax can be included in the price (tax inclusive) or added at the point of sale, (tax exclusive). Ideally, a sales tax is fair, has a high compliance rate, is difficult to avoid, is charged exactly once on any one item, and is simple to calculate and simple to collect. A conventional or retail sales tax attempts to achieve this by charging the tax on the final end user, unlike a gross receipts tax levied on the intermediate business that purchases materials for

production or ordinary operating expenses prior to delivering a service or product to the marketplace. This prevents so called tax cascading or pyramiding, in which an item is taxed more than once as it makes its way from production to final retail sale. The various types of sales taxes are seller or vendor taxes, consumer excise taxes, retail transaction taxes and value added taxes.

Property tax; this is an annual tax on real property. It is usually, but not always, a local tax. It is most commonly founded on the concept of market value. The tax base may be the land only, the land and building, or the various permutations of these factors. For the purpose of this guide, property tax is restricted to annual taxes and excludes one-off taxes on transfers, on realized capital gains or betterment, or on annual wealth taxes.

Customs duty; this is a kind of indirect tax which is realized on goods of international trade. In economic sense, it is also a kind of consumption tax. Duties levied by the government in relation to imported items are referred to as import duties. In the same vein, a duty realized on export consignments is called export duty. Tariff which is actually a list of commodities along with the leviable rate (amount) of customs duty is popularly understood as customs duty.

Pricing is a process that an organization comes up with a specific charge that will be attached to their products and services. Therefore the price must leave a profit as a result of incurring some costs in the production process of a service or a product (International marketing by TerpstraSarathy, 1994).

Bermans&Evans, (2002) define price as the mechanism for allocating goods and services among sellers in an open market place. If the demand exceeds supply, prices are usually bid up by consumers. If supply exceeds demand, prices are usually reduced to sellers, (Monroe, 2003), Kotler, (1990), and Shapiro et al, (2002). The two methods of pricing are as follows: A. Cost-oriented Method B. Market-oriented Methods. There are several methods of pricing products in the market. While selecting the method of fixing prices, a marketer must consider the factors affecting pricing. The pricing methods can be broadly divided into two groups—cost-oriented method and market-oriented method.

Cost-Oriented Method. Because cost provides the base for a possible price range, some firms may consider cost-oriented methods to fix the price. Cost plus pricing involves adding a certain percentage to cost in order to fix the price. For instance, if the cost of a product is Rs. 200 per unit and the marketer expects 10 per cent profit on costs, then the selling price will be Rs. 220. The difference between the selling price and the cost is the profit. This method is simpler as

marketers can easily determine the costs and add a certain percentage to arrive at the selling price.

Mark-up pricing. Mark-up pricing is a variation of cost pricing. In this case, mark-ups are calculated as a percentage of the selling price and not as a percentage of the cost price. Firms that use cost-oriented methods use mark-up pricing. Since only the cost and the desired percentage mark-up on the selling price are known, the following formula is used to determine the selling price. An average selling price is the price a certain class of good or service is typically sold for. Average selling price is affected by the type of product and the product life cycle

Break-even pricing

In this case, the firm determines the level of sales needed to cover all the relevant fixed and variable costs. The break-even price is the price at which the sales revenue is equal to the cost of goods sold. In other words, there is neither profit nor loss. For instance, if the fixed cost is Rs. 2,00,000, the variable cost per unit is Rs. 10, and the selling price is Rs. 15, then the firm needs to sell 40,000 units to break even. Therefore, the firm will plan to sell more than 40,000 units to make a profit. If the firm is not in a position to sell 40,000 units, then it has to increase the selling price. The following formula is used to calculate the break-even point:

$$\text{Contribution} = \text{Selling price} - \text{Variable cost per unit}$$

Target return pricing.

In this case, the firm sets prices in order to achieve a particular level of return on investment (ROI). The target return price can be calculated by the following formula:

$$\text{Target return price} = \frac{\text{Total costs} + (\text{Desired \% ROI investment})}{\text{Total sales in units}}$$

For instance, if the total investment is Rs. 10,000, the desired ROI is 20 per cent, the total cost is Rs.5000, and total sales expected are 1,000 units, then the target return price will be Rs. 7 per unit as shown below:

$$5000 + (20\% \times 10,000) / 1000 = 7$$

$$\text{Target return price} = 7$$

The limitation of this method (like other cost-oriented methods) is that prices are derived from costs without considering market factors such as competition, demand and consumers' perceived value. However, this method helps to ensure that prices exceed all costs and therefore contribute to profit.

Early cash recovery pricing

Some firms may fix a price to realize early recovery of investment involved, when market forecasts suggest that the life of the market is likely to be short, such as in the case of fashion-related products or technology-sensitive products. Such pricing can also be used when a firm anticipates that a large firm may enter the market in the near future with its lower prices, forcing existing firms to exit. In such situations, firms may fix a price level, which would maximize short-term revenues and reduce the firm's medium-term risk.

According to Kolter, (1990), and Williamson, (1996), some of the various kinds of costs to consider on pricing are:

Total fixed cost; this is the sum of these costs that are fixed in total, no matter how much is produced. Among these fixed costs are rent, depreciation, managers' salaries, property taxes and insurance.

Total variable cost; on the other hand, is the sum of those charging expenses that are closely related to output expenses for parts, wages, packaging materials, outgoing freight, and sales commissions.

Total cost; this is the sum of total fixed cost and total variable costs. Changes in total cost depend on variations in total variable cost.

Market-Oriented Methods

Perceived value pricing. A good number of firms fix the price of their goods and services on the basis of customers' perceived value. They consider customers' perceived value as the primary factor for fixing prices, and the firm's costs as the secondary (International marketing by TerpstraSarathy, 1994).

The customers' perception can be influenced by several factors, such as advertising, sales on techniques, effective sales force and after-sale-service staff. If customers perceive a higher value, then the price fixed will be high and vice versa. Market research is needed to establish the customers' perceived value as a guide to effective pricing.

Going-rate pricing

In this case, the benchmark for setting prices is the price set by major competitors. If a major competitor changes its price, then the smaller firms may also change their price, irrespective of their costs or demand. The going-rate pricing can be further divided into three sub-methods:

- a. Competitors 'parity method; A firm may set the same price as that of the major competitor.
- b. Premium pricing; A firm may charge a little higher if its products have some additional special features as compared to major competitors.
- c. Discount pricing; A firm may charge a little lower price if its products lack certain features as compared to major competitors.

The going-rate method is very popular because it tends to reduce the likelihood of price wars emerging in the market. It also reflects the industry's coactive wisdom relating to the price that would generate a fair return.

Sealed-bid pricing. This pricing is adopted in the case of large orders or contracts, especially those of industrial buyers or government departments. The firms submit sealed bids for jobs in response to an advertisement. In this case, the buyer expects the lowest possible price and the seller is expected to provide the best possible quotation or tender. If a firm wants to win a contract, then it has to submit a lower price bid. For this purpose, the firm has to anticipate the pricing policy of the competitors and decide the price offer.

Firms may charge different prices for the same product or service.

The following are some the types of differentiated pricing:

- a. Customer segment pricing; here different customer groups are charged different prices for the same product or service depending on the size of the order, payment terms, and so on.
- b. Time pricing; here different prices are charged for the same product or service at different timings or season. It includes off-peak pricing, where low prices are charged during low-demand tunings or season.
- c. Area pricing; here different prices are charged for the same product in different market areas. For instance, a firm may charge a lower price in a new market to attract customers.
- d. Product form pricing; here different versions of the product are priced differently but not proportionately to their respective costs. For instance, soft drinks of 200,300, 500 ml, etc., are priced according to this strategy. Kotler, (1990), defines pricing strategy as the task of defining the range and price movement through time that would support the sales and profit objectives and marketing positioning of the product in the target market. Pricing tactics is a task of setting specific price levels and term and altering them within

the general parameters of the price strategy as conditions change. McCarthy & Perrault, (1993), state that the setting of price is rarely a simple matter. It is simple in price taking market where each seller must charge the going price. As the conditions approach perfect competition, (homogeneous product, high information and high mobility of resources) such as is found in several raw material market suppliers pretty much have to charge the same as their competitors. Here are some of the various strategies that businesses implement when setting prices on their products and services with premium pricing, businesses set costs higher than their competitors. Premium pricing is often most effective in the early days of a product's life cycle, and ideal for small businesses that sell unique goods. Because customers need to perceive products as being worth the higher price tag, a business must work hard to create a value perception. Along with creating a high-quality product, owners should ensure their marketing efforts, the product's packaging and the store's décor all combine to support the premium price.

Penetration strategies aim to attract buyers by offering lower prices on goods and services. While many new companies use this technique to draw attention away from their competition, penetration pricing does tend to result in an initial loss of income for the business. Over time, however, the increase in awareness can drive profits and help small businesses to stand out from the crowd. In the long run, after sufficiently penetrating a market, companies often wind up raising their prices to better reflect the state of their position within the market. Economy Pricing used by a wide range of businesses including generic food suppliers and discount retailers, economy pricing aims to attract the most price-conscious of consumers. With this strategy, businesses minimize the costs associated with marketing and production in order to keep product prices down. As a result, customers can purchase the products they need without frills. While economy pricing is incredibly effective for large companies like Wal-Mart and Target, the technique can be dangerous for small businesses. Because small businesses lack the sales volume of larger companies, they may struggle to generate a sufficient profit when prices are too low. Still, selectively tailoring discounts to your most loyal customers can be a great way to guarantee their patronage for years to come. Price Skimming Designed to help businesses maximize sales on new products and services, price skimming involves setting rates high during the introductory phase. The company then lowers prices gradually as competitor goods appear on the market. One of the benefits of price skimming is that it allows businesses to maximize profits

on early adopters before dropping prices to attract more price-sensitive consumers. Not only does price skimming help a small business recoup its development costs, but it also creates an illusion of quality and exclusivity when your item is first introduced to the market place. Psychology Pricing with the economy still limping back to full health, price remains a major concern for American consumers. Psychology pricing refers to techniques that marketers use to encourage customers to respond on emotional levels rather than logical ones. For example, setting the price of a watch at \$199 is proven to attract more consumers than setting it at \$200, even though the true difference here is quite small. One explanation for this trend is that consumers tend to put more attention on the first number on a price tag than the last. The goal of psychology pricing is to increase demand by creating an illusion of enhanced value for the consumer. With bundle pricing, small businesses sell multiple products for a lower rate than consumers would face if they purchased each item individually. Not only is bundling goods an effective way of moving unsold items that are taking up space in your facility, but it can also increase the value perception in the eyes of your customers, since you're essentially giving them something for free. Hello world! Bundle pricing is more effective for companies that sell complimentary products. For example, a restaurant can take advantage of bundle pricing by including dessert with every entrée sold on a particular day of the week. Small businesses should keep in mind that the profits they earn on the higher-value items must make up for the losses they take on the lower-value product.

Pricing strategies are important, but it's also important to not lose sight of the price itself. Here are five things to consider, alongside your strategy, when pricing your products

2.3.2 The relationship between taxes and pricing of goods

Gupta, (2001), analyzed the relationship between taxation and pricing of goods by looking at the effects taxes have on production, on distribution of goods, and on stabilization.

Gupta, (2001), analyzes that economic stability may be judged by the behavior of prices. This does not mean that the prices should remain static. Conversely, there should be a normal rise in price due a given circumstances in the economic situations.

Every government tries to overcome these problems through fiscal measures which is the safest and the durable course adopted by any government to control such situations.

There may be three abnormal economic situations; inflation, deflation and stagflation as stated by Gupta, (2001).

Inflation may be defined as situation in which prices continue to rise. Inflation may either be demand pull or cost push. Demand pull inflation according Gupta, (2001), is the inflation caused by rising demand owing to higher capacity of the consumers to pay, supply of goods and services fail to keep pace with it. In other words, prices rise because the money supply far exceeds the availability of goods and services in the market.

Cost-push inflation is the type of inflation caused by substantial increases in cost of important goods or services where no suitable alternative is available.

Deflation is defined as a situation of falling prices. In such situation people's capacity to pay continues to fall with the result that demand for goods also comes down. With the continuous fall in demand, most of the manufacturing enterprises are unable to stand as the prices prevailing in the market may even be lower than the cost of production. Most of the enterprises under this situation decide to close their businesses. To check this situation, the government should device a tax policy that will reduce the tax liability of the people so that they have needed capacity to buy goods and services in the market.

The third situation according to Gupta, (2001), consists of Stagflation and inflation. Hence, inflation and stagflation may also be called Recession.

Recession is that abnormal economic situation in which the price continues to rise in spite of continuously falling demand. Normally when demand continues to fall, the manufacturers and sellers control the situation by reducing the prices of the products. The result of the existence of inflationary condition prevailing in the market, material and wage cost also continues to rise. In such a situation, manufacturers are left with only two choices; to close the business or to continue charging high prices owing to higher costs of production to remain in the market.

2.4 Research gaps

The researcher has identified the following gaps in the previous literature which requires much attention. Contextual gap; since there has never been a study about taxation and pricing of goods in Owino market Kampala Central Uganda. This study therefore is intended to close this contextual gap, Content gap; empirical evidences indicate previous researchers about taxation and pricing of goods in Zanzibar in the research conducted by, (Bakari, 2011), the researcher did not give various elements on pricing. This study is intended to close this conceptual gap by conceptualizing pricing into as many elements as possible which are manageable by the researcher.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter shows the research design, target population, sample size, sampling techniques, data sources, research instruments, validity and reliability of the instrument which were used to achieve the desired objectives and the set hypotheses. It is divided into study design, data source, data analysis and data exploration techniques.

3.1 Research design

The study used the quantitative research approach which specifically consisted of descriptive designs such as descriptive longitudinal, cross sectional design and descriptive comparative designs.

3.2 Study Population

The target population of this study was 100 respondents were consisting of vendors from Owino Market Kampala Central Uganda. These respondents comprised of 50 male and 30 females business people from Owino Market Kampala Central Uganda. The researcher was chosen from Owino Market Kampala Central Uganda due to its proximity to the researcher's residence.

3.3 Sample size

The sample size for this study was 80 respondents who were selected from the target population of 100 business men and women from Owino Market Kampala Central Uganda. This sample was arrived at using Sloven's formula of sample size computation which states that;

$$n = \frac{N}{1 + Ne^2}$$

Where, n is the sample size, N is the target population, e is the error, which is 0.05

$$N = 100 / 1 + 100(0.05)^2$$

$$n = 80$$

Category	Target population	Sample
Male	40	32
Female	60	48
Total	100	80

3.4 Sampling Procedure

To select the sample of 80 respondents out of 100 target population of Owino Market Kampala Central Uganda, simple random sampling technique was used to select respondents from the Owino Market. The researcher used inclusion and exclusion criteria in selecting the sample where the inclusion criteria is the willingness to participate in the study and the exclusion criteria is the unwillingness to participate in the study.

3.5 Data sources

The researcher used both primary and secondary data.

3.5.1 Primary data sources

The researcher obtained primary data by use of questionnaires.

3.5.2 Secondary sources

The researcher also used data from reports and previous research work majorly from text books and internet.

3.6 Data collection instruments

The data collection instrument in this study was basically questionnaires and a Record sheet

3.6.1 Questionnaire

The questionnaires was administered personally by the researcher to the respondents and collected after time interval. The questionnaires comprised of both open ended and closed ended questions that required the respondents to answer all the questions to the best of their knowledge.

3.7 Validity and Reliability of the Instruments

3.7.1 Validity of the instrument

Validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Content validity was ensured by subjecting the researcher devised questionnaires and recorded sheets on taxation and pricing of goods that would consist of all the elements of the concept of these two variables.

3.7.2 Reliability of the instrument

Reliability is a measure of the degree to which research instruments yield consistent results or data after repeated trials.

The test-retest technique was used to assess the reliability (accuracy) of the instruments.

The researcher devised the instruments to ten qualified respondents from Owino Market Kampala Central Uganda. These respondents were not included in the actual study. In this test-retest technique, the questionnaires were administered twice to the same subjects after the appropriate group of the subject were selected, then the initial conditions was kept constant, the scores were then be correlated from both testing periods to get the coefficient of reliability or stability. The tests and the trait measured if they are stable which indicated consistent and essentially the same results in both times (Treece and Treece, 1973).

3.7.3 Observation

The researcher observed the tickets from the tax collectors that the business operators had pinned in the shelves of the businesses as well as registers 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 Research Procedure

The researcher obtained permission from the college of Economics and Management sciences to conduct the study from the market. After approval, the researcher visited the Market and a simple random technique sampling was used to select respondents from the target population to arrive at the minimum sample size. The respondents explained about the study and were requested to sign the Informed Consent Form (Appendix 3). The researcher reproduced more than enough questionnaires for distribution.

Questionnaires were administered and during the administration of questionnaires, the respondents were requested to answer completely and not to leave any part of the questionnaires unanswered, the researcher emphasized retrieval of the questionnaires within five days from the date of distribution, on retrieval, all returned questionnaires were checked if all questions were answered.

After collection of data, the data gathered was edited, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

3.9 Data Analysis

The frequency and percentage distributions were used to determine the demographic characteristics of the respondents. The means and standard deviations were applied in order to assess the extent of taxation and level of pricing of goods in Owino Market in Kampala. The data got was analyzed automatically using SPSS (Statistical Package for Social Sciences). The SPSS package was opted for, because it handles a large number of variables. Pearson's linear correlation index was used in order to correlate taxation and performance of small scale business performance. The index was selected because it measures the degree and direction of the relationship between variables.

3.9.1 Data Presentation

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 analyzed 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.

The following mean ranges and descriptions were used to interpret responses.

A. For the extent of Taxation:

Mean Range	Response Mode	Interpretation
3.26-4.00	Very high	Very satisfactory
2.26-3.25	High	Satisfactory
1.26-2.25	Low	Fair
0.26-1.25	Very low	Poor

B. For the level of prices on goods

Mean Range	Response Mode	Interpretation
3.26-4.00	strongly agree	Very satisfactory
2.26-3.25	Agree	Satisfactory
1.26-2.25	Disagree	Fair
0.26-1.25	Strongly disagree	Poor

The 0.05 level of significance will be used to determine the significance of the difference and to accept or reject the hypotheses –null or alternative (Ho# and H1#) the Pearson’s linear correlation coefficient (PLCC) will be used to determine if there is a significant relationship between the extent of taxation and pricing of goods at 0.05 level of significance and to test the last hypothesis.

3.10 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher:

1. Seek permission to adopt the standardized questionnaire on taxation and pricing of goods in a written communication to the author.
2. The respondents and Owino Market will be coded instead of reflecting the names.
3. Request the respondents to sign in the Informed Consent Form (Appendix 3)
4. Acknowledge the authors quoted in this study and the author of the standardized instrument through citations and referencing.
5. Present the findings in a generalized manner.

CHAPTER FOUR:

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter dealt with the results of a cross-sectional survey design (snapshot of events as they existed at that particular point in time) as pointed out in the methodology. Pearson's rank correlation Coefficient was applied to establish the relationships between the variables in the conceptual model as demonstrated in Chapter Three while the overall effect of the independent variables on the dependent was assessed using the Dependent variable. The presentation was guided by the following research objectives as shown in chapter one. Details of findings are shown later.

4.1 Background Information

This section contains the general characteristics of the respondent group in terms of basic characteristics such as Age group, Gender and level of education. These were all presented using the frequency distributions.

4.1.1 Respondents according to gender

The researcher asked the respondents their gender so as to find out their sexes to avoid unbiased gender information. The findings revealed that both sexes were involved in the study for gender sensitivity as shown in table 1 below.

Table 1: Gender of the Respondents

Response	Frequency	Percent (%)
Male	50	62.5
Female	30	37.5
Total	80	100.0

Source: Primary data

The results in the above table show that most respondents were male 62.5% taxpayers against 37.5% of the female participants.

4.1.2 Age Group among the Tax Payers in central market in Owino Market Kampala

This was intended to help the researcher evaluate respondents' level of maturity and taxpayer's awareness in particular as one of the contemporary issues in economic development process.

Results indicate the distribution for one's category by Age group

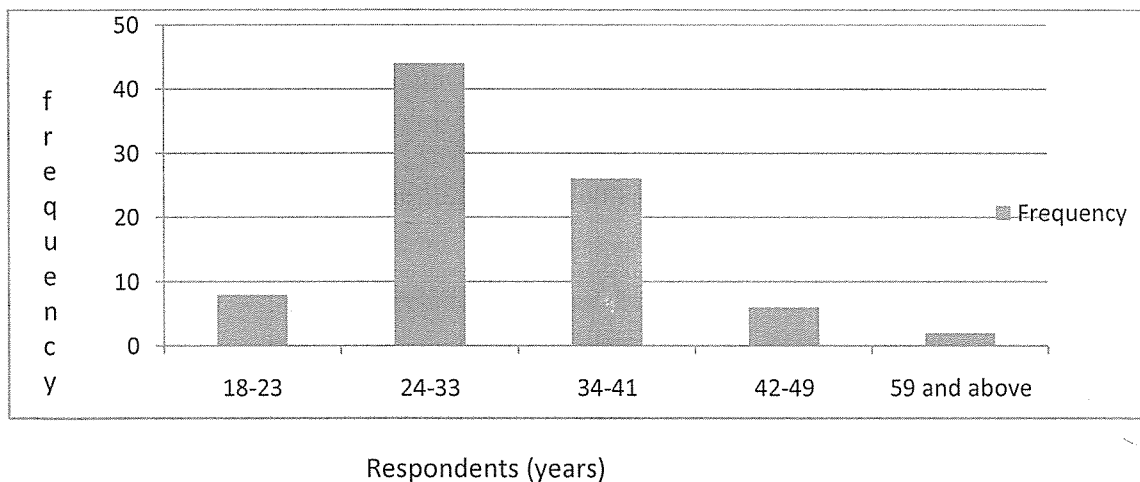
Table 2: Showing Age Bracket of the Respondents

Response	Frequency	Percent (%)
18-23years	8	7.5
24-33years	44	55.0
34-41years	20	25.0
42-49years	6	7.5
58 years and above	2	2.5
Total	80	100.0

Source: Primary data

Table 2 above indicates that the highest percentage (55%) of the respondents were between 24-33 years, these were followed by those between the age of 34-41 years (25%), then those between 18-25 years and between 42-49 years shared the same percentage(7.5%) and lastly only 2.5 % of the respondents were above 58 years. This implies that biggest number of respondents were the youth who own most of the taxable products and services.

A graph showing Age Bracket of the Respondents



4.1.3 Level of Education among the Tax Payers in Owino central market Kampala

The table below shows the level of education of the respondents

Table 3: Showing the Education Level of the Respondents

Response	Frequency	Percent (%)
Certificate	12	15.5
Diploma	20	25.0
Degree	6	7.50
secondary	23	32.0
Never attended primary.	16	20.0
Total	80	100.0

Source: Primary data

Table 3 above indicates that 32% of the respondents had attained secondary education; these were followed by 25% who had diplomas, then 20% who had never attended school, 15.5% with certificates and on 7.5% had attained degrees. This clearly shows that at least majority of the respondents were literate and therefore able to give correct response.

4.1.4 Table showing the marital status of the respondents in Owino Central Market Kampala

Table 4: Showing the Marital status of the respondents

The table below shows the marital status of the respondents

Details	Frequency	Percentage
Married	34	53
Separated	4	6.3
Single	20	31.3
Widowed	22	9.3
Total	80	100.0

Source: primary Data.

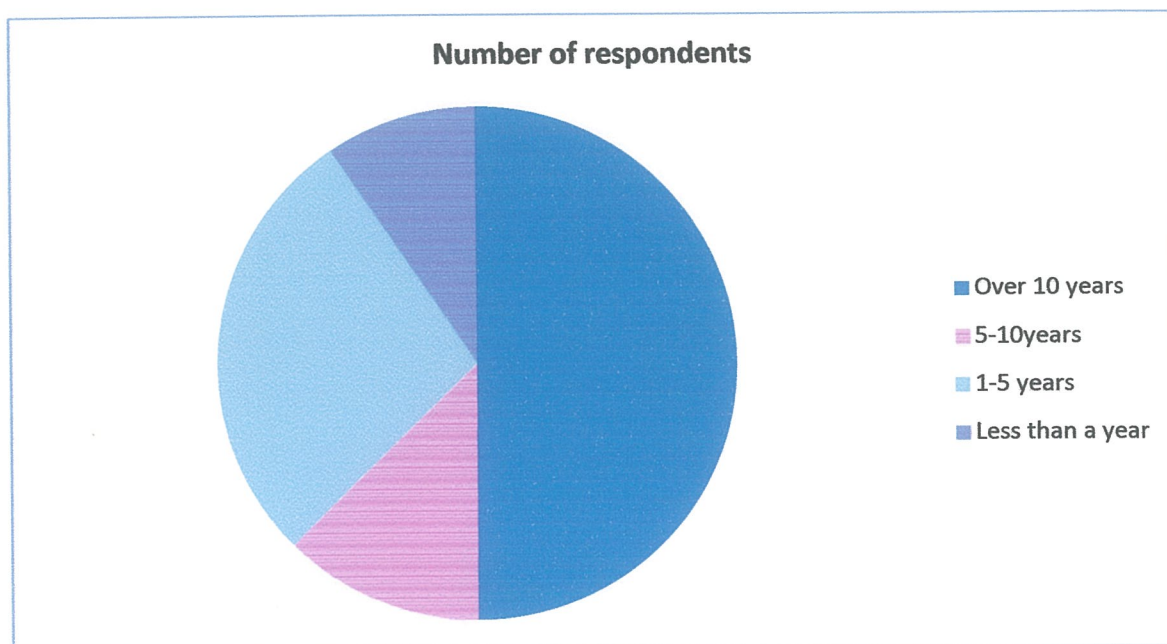
From table 4 above, 53% of the respondents were married, 6.3% were separated

31.3% were single, and 9.3% were widowed.

This means that more than half of the employees are married.

Table 5: Shows the length of time of respondents worked in central market in Owino Kampala

Year	Frequency	Percentage
Over 10 years	32	50
5- 10 years	8	12.5
1-5 years	18	28
Less than a year	11	9.4
Total	80	100.0



Source: primary data.

From the above pie chart, it implies that the industry retains its employees.

Table 6: Shows whether the taxes levied affect their business operations.

Response	Frequency	Percent (%)
Strongly agree	10	12.5
Agree	46	57.5
Not sure	6	7.5
Disagree	16	20.0
Strongly disagree	2	2.5
Total	80	100.0

Source: Primary data

Table 6 above indicates that 57% and 12.5% of the respondents agreed and strongly agreed respectively that their business is affected by taxes, these were followed by 20% who disagreed, then 7.5% who were not sure and lastly 2.5% who strongly disagreed. This also implies that there is still a level of ignorance among the impact of taxes on the daily operation of business with various stall and lockup owners at central market in Owino Kampala.

4.1.5 Tax payer's attitude towards tax rates

The table below shows the perception of tax payers towards high rates of taxes

Table 7: Showing whether Taxpayers Hate Paying because Tax rates are too high.

Response	Frequency	Percent (%)
Strongly agree	14	17.5
Agree	44	55.0
Not sure	0	0.0
Disagree	22	27.0
Strongly disagree	0	0.0
Total	80	100.0

Source: Primary data

From the table 7 above, 55% and 17.5% of the respondents agreed and strongly agreed respectively that they hate paying taxes because tax rates are too high. 27% of the respondents disagreed and they said they pay their taxes whether they are high or not. This implies that as a result of high taxes the level of tax payers' compliance is reduced.

Table 8: Showing Tax Payer's Attitude towards taxing Authority

Response	Frequency	Percent (%)
Strongly agree	20	25.0
Agree	44	55.0
Not sure	6	7.5
Disagree	8	10.0
Strongly disagree	2	2.5
Total	80	100.0

Source: Primary Data

From table 8 above, 55% and 25% of the respondents agreed and strongly agreed respectively that tax payer's attitude towards Uganda Revenue Authority affects the level of tax compliance, these were followed by 10% who disagreed, then 7.5 who were not sure. In an interview with the respondents they revealed that those who have a bad attitude towards Kampala Capital City Authority tend not to comply and those who comply were found to be in good terms with Kampala Capital City Authority officers. This therefore implies that there is a high level of compliance among taxpayers who have solidarity with the division revenue officers.

Table 9: The Level of Tax Compliance is expected to Improve

Response	Frequency	Percent (%)
Strongly agree	32	40.0
Agree	40	50.0
Not sure	8	10.0
Disagree	0	0.0
Strongly disagree	0	0.0
Total	80	100.0

Source: Primary data

From table 9, 50% and 27% of the respondents agreed and strongly agreed respectively that the level of tax compliance is expected improve in Uganda, and only 10% of the respondents were not sure whether level of tax compliance will improve or not. Basing on the highest percentage of the respondents (50% and 40%) the study concludes that with an improvement in compliance levels, Kampala Capital City Authority (KCCA) is likely to collect more domestic revenues hence increasing funds to finance the budget.

Table 10: Showing response on Comparison of Revenue Collection Today and in the Past

Response	Frequency	Percent
Strongly agree	2	2.5
Agree	78	97.5
Not sure	0	0.0
Disagree	0	0.0
Strongly disagree	0	0.0
Total	80	100.0

Source: Primary Data

From table 10, the highest percentage (97.5%) of respondents agreed and also 2.5% of respondents strongly agreed that the collection of revenues today is higher than in the past. This also indicates that there is an improved performance compared to the past.

Table 11: Showing whether Kampala Capital City Authority Realizes Increments in Revenue Collection

Response	Frequency	Percent (%)
Strongly agree	6	7.5
Agree	72	90.0
Not sure	2	2.5
Disagree	0	0
Strongly disagree	0	0
Total	80	100.0

Source: Primary Data

From the table 11 above the highest percentage of respondents (90%) agreed that URA realizes increments in revenue collection every financial year, these were followed by 7.5% who strongly agreed and only 2.5% were not sure. This also indicates good performance in revenue collection.

Table 12: Showing the Expectation about Performance in Revenue Collection

Response	Frequency	Percent (%)
Strongly agree	24	30.0
Agree	56	67.5
Not sure	2	2.5
Disagree	0	0.0
Strongly disagree	0	0.0
Total	80	100.0

Source: Primary Data

As seen in table 12 above, 67.5% and 30% of the respondents agreed and strongly agreed respectively that they expect domestic revenue collection the better next year. 2.5 % of the respondents were not sure whether it will increase or not. In an interview with management they said they expect the collection of next year to be better than that of this year because of an improvement in tax administration, the level of compliance is increasing and that rural electrification has also enabled people to start many businesses which are the sources of revenue.

Table 13: Showing perception of Taxpayers on the pricing procedures and strategies used in Owino central market Kampala

Response	Frequency	Percent (%)
Strongly agree	18	22.5
Agree	44	55.0
Not sure	8	10.0
Disagree	6	7.5
Strongly disagree	4	5.0
Total	80	100.0

Source: Primary Data

Table 13 indicates that the highest percentage of respondents (55%) agreed that the introduction of a Large Taxpayer's Office increased domestic revenue collection, these were followed by 22% who strongly agreed, then 10% were not sure, 7.5% disagreed and only 5% of the respondents strongly disagreed. Basing on the highest the percentage of respondents (55%), the study concludes that introduction a Large Taxpayers' Office improved on revenue collection.

4.1.6 Problems faced by tax payers.

The researcher asked if there are problems faced as regards mode of tax assessment, mode of tax collection, the collector, and efficiency in identifying potential tax payers by the tax officers, specific effects of taxes on business and suggest about the problems encountered which comply with the obligations.

Table 14: The level of taxation affects the prices of goods and services

Response	Frequency	Percent (%)
Strongly agree	58	72.5
Agree	22	27.5
Not sure	0	0.0
Disagree	0	0.0
Strongly disagree	0	0.0
Total	80	100.0

Source: Primary Data

Table 14 above indicates that 72.5% of the respondents strongly agreed that there is a significant relationship between axes and prices of goods and services, and 27.5% of the respondents also agreed that there is a significant relationship between axes and prices of goods and services.

Table 15: Showing Pearson Correlation between Taxes and prices of goods and services

		Taxes	Prices of goods and services
Taxes	Pearson Correlation	1.000	.708**
	Sig. (2-tailed)	.	000
	N	80	80
Prices of goods and services	Pearson Correlation	.708**	1.000
	Sig. (2-tailed)	000	
	N	80	80

** Correlation is significant at the 0.05 level (2-tailed).

Using the rating level of;

0 to +0.3= Weak Relationship

+0.4 to +0.6= Moderate/ Average Relationship

+0.7 to +0.9= Very Strong Relationship

Table 4.21 indicates that there is a very strong positive relationship between Taxes and prices of goods and services at $r = 0.708$ and at level of significance 0.05, this implies that if the level of taxes is high, level of prices of goods and services is also high and if the level of taxes is low, then prices of goods and services is also low. Mannake, (2003), in her study also found out that taxes are significantly positively related to prices of goods and services.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes all findings reported in chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Discussion of Findings

5.1.1 Level of Tax adherence

The study found out that the level of tax compliance is low among the tax payers and they attribute this to the high tax rates, taxpayers' attitude towards Kampala Capital City Authority task force, and the large informal sector which encourages tax evasion. The low level of tax compliance was also attributed to the low compliance culture, in an interview with management they expect the level of compliance to improve due to the measures that are being emphasized for example tax education, tax counselling, introduction of large tax payers office among others. The study findings revealed that business owners in the market consider interpretation of tax regulations, tax planning and functional competencies and business operational competencies as the major components of their tax competencies. These findings are supported by Dennis-Escoffier, Kern & Rhoades-Catanach, (2009) and Strobel, (2001) who categorized core competencies in tax curriculum into three major areas of Functional competencies (focusing on problem identification and potential solutions), Personal competencies (which includes skills for professional conduct, problem-solving, decision-making, interaction, leadership and communication) and lastly Broad Business Perspective Competencies (competencies relate to how professionals perform their services in both internal and external business environments), all these are similar with the study findings that categorise tax competencies in three factors of interpretation of tax regulations, tax planning and functional competencies and business operational competencies.

More so, Niemiowski, Baldon & Wearing, (2003) argued that some taxpayers put off tax reporting and completing returns because they could not afford to use the tax agents who are equally expensive. Similarly, in developing countries Kayaga, (2007) found out that tax laws put a large cost burden upon small enterprises and force them to operate outside official tax reporting system. However because of the limited literature on tax compliance cost, surveys in developing

and transition countries can be used to provide richer detail about the tax compliance burden for businesses than might be available from standard international benchmarks (Coolidge 2010)

5.1.2 Revenue Collection by Kampala Capital City Authority

The study also found out that the cost of Collection of Taxes as a Percentage of Revenue has been on a decline, this was revealed by 50% and 27% of the respondents agreed and strongly agreed respectively. The collection of revenues today is higher than in the past, Large Taxpayer's Office increased domestic revenue collection, Kampala Capital City Authority realizes increments in revenue collection every financial year this was revealed by 90% the respondents. It also found out that KCCA experiences and registers tax arrears at the end of every financial year which also affects its projected performance.

5.1.3 Relationship between Taxes and prices of goods and services

In addition to Mannake, (2003), findings that level of taxes affect prices of goods and services, this study also found out that there is a strong positive relationship between taxes and prices of goods and services at $r = 0.708$ and at level of significance 0.05, It also found out that low compliance culture among Ugandans affects the revenue collection and tax education helps people to understand the importance of paying taxes which helps them to be compliant in paying their taxes hence increasing on the amount of revenue collected this was revealed by 57.5% and 22.5% of the respondents agreed and strongly agreed respectively

Uganda has definitely made improvements in tax policy over the years, but it still lacks sufficient administrative capacity. This has been attributed to numerous barriers to efficient tax administration. The success of the corporation tax in large taxpayer office cannot be taken for granted; it requires good design and implementation. In many developing countries like Uganda, corporation tax suffers from being incomplete in one aspect or another, leading to less revenue being collected. Minister of Finance has on several occasions waived tax arrears on recommendation from central government to KCCA as a means to make a fresh beginning.

However, the extent to which this method has contributed to boosting compliance is still questionable. While tax laws impose obligations on taxpayers to contribute to government revenues, the actual amount of revenues flowing into the hands of any government depends on the effectiveness of its revenue administration (Bird, 2003). Thus to improve revenue performance, Jit B.S. Gill (2003) cited in Kayaga, (2007) states that Uganda has to depend

highly on improving tax administration. This is because good tax policy depends on effective tax administration to raise the revenue.

There are a number of initiatives that industrial division local government council has put in place but at the same time, there are a number of internal weaknesses which have not enabled KCCA to realize fruitful conclusion of the initiatives. There are staffing gaps. The challenge of inadequate audit staff and utilization are still hampering the effectiveness of the Audit function. Katusiime, (2007), observes no strict enforcement of penalties and at times penalties assessed are not collected. Corporation taxation system in Uganda is perforated with a number of weaknesses which require attention.

Improvement in corporation tax system will largely depend on competent staff, administrative units, and a strong Audit function. Collection procedures showed a positive correlation with perceived tax identification and assessment which implies that if collection procedures is strengthened then corporation collections are likely to be boosted. According to Frost (2000), there is a strong relationship between collection procedures and performance. This is because collection procedures improve performance the goal of collection procedures is to improve performance, not to place blame and deliver punishment.

5.2 Conclusion

In conclusion, there is a strong positive relationship between taxation and prices of goods and services at $r=0.708$ at level significance 0.05, this implies that if the level of taxes is high, the prices of goods and services is also high and if the level of taxes is low, then prices of goods and services will also be low. Therefore Tax compliance is a matter of serious concern in many developing countries, there is need to improve it so as to increase capacity of their governments to raise revenues for developmental purposes.

Sensitization for taxpayers and prospective taxpayers is as much an urgent call and a necessary task in tax administration, we believe, as it is equally urgent and necessary on the part of Governments that levy a variety of taxes as a major source of revenue. It is imperative that the sensitization of taxpayers is factored in the objective of the organization.

A key component that should not be overlooked in the tax administration is the Collection Procedure. KCCA should ensure that taxpayers know all collection procedures and penalties involved. This calls for taxpayers to know that collection procedures originate from domestic laws.

Assessment is another aspect of tax administration which is the process of ascertaining / estimating a tax liability and should be done by assessors who are usually the technical people in the tax body.

5.3 Recommendations of the Study

The following should be emphasized in order to improve on the level of tax compliance which will also help to improve on revenue collection;

The tax administration should provide individuals and groups with guidance on how to improve bookkeeping standards and tax returns.

Generally, tax counselling offices should be established country wide so as to provide advice on the interpretation and application of tax laws, procedures for filing returns and applications. This will also enhance tax compliance.

Tax education should be a part of public relation activities, which can play an important role in creating tax awareness hence improving on the level of tax compliance.

Prizes should also be given to those who comply and pay their dues in time and with the correct amount, this will help to attract more people to comply.

The registration programs should be developed to bring the high number of qualified but non registered corporation tax payers into the tax net. Increasing corporation tax registration threshold should be considered in order to have a manageable taxpayer register.

Also tax compliance procedures should be simplified because in most cases they are found to be very complicated for small business owners, especially for those who do not keep proper books of account and sometimes do not understand the tax laws in order to reduce the compliance costs in terms of money and time.

Sensitization programs should be intensified to increase staff awareness and taxpayer appreciation of existing automation projects.

5.4 Areas for Further Research

This study specifically focused on taxation and pricing of goods and services; however it did not look at the effect of tax compliance on both domestic and external revenue collection.

There is also need to find out the effect of other factors on revenue collection. Therefore further research should be carried out on those areas so as to obtain a comprehensive picture.

APPENDIX

QUESTIONNAIRE

INTRODUCTION

Dear Respondents,

This is an academic research about the impact of taxes on pricing of goods and services in Owino Central Market in Kampala, Uganda. The research is being carried out as a partial fulfilment of the requirement of the award of a bachelor's degree in Economics and Applied Statistics at Kampala international University in Uganda. As of the business organisation in Uganda you have been selected to participate in this study,

The research is purely for academic purposes and all the information given will be treated with the utmost confidentiality. Please kindly contribute towards this by ticking in the box or fill in the answer.

I thank you in advance for your cooperation and contribution.

SECTION 1: General information

1. Gender of the respondents

(i) Male

(ii) Female

2. Age bracket

(i) 18- 23

(ii) 24- 33

(iii) 34- 41

(iv) 42- 49

(V) 50- 57

(vi) above 58

3. Marital status

(i) Married

(ii) Single

(iii) Widowed

4. Religion

(i) Christianity

(ii) Muslim

(iii) African religion

(iv) Any other specify.....

5. Level of education

(i) Never attended primary

(ii) diploma

(iii) degree

(iv) Secondary

(iii) certificate

7. For how long have you been doing business in central market?

(i) Less than 2 years

a) 2-3 years

b) 4-6 years

c) Above 6 years

SECTION B

INSTRUCTION

Please indicate the extent to which you agree with the following observations on Taxation and prices of goods and services.

1. Do the taxes levied by Industrial division affect your business?.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2. Do you hate paying taxes because the tax rates are too high?.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

3. Is your attitude towards taxing authority affecting your tax compliancy?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

4. Is the level of tax compliancy expected to improve?.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

5. Is collection of revenue today better than the past?.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

6. Does Industrial Division Local Government Council realize increments in revenue collection?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

7. Do you expect performance in revenue collection to increase in the next two years?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

SECTION C

1. Do you think the pricing procedures and strategies adopted by business owners in Mbale central market adequate and relevant in this current economic situation in Uganda?.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

SECTION D

1. Is there any significant relationship between taxation and pricing of goods and services in Mbale Central Market?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

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