

# The Impact of Taxation on Small Scale Businesses on Performance of Small-Scale Businesses in Namungoona Parish, Kampala Uganda. A Case Study of Namungoona Parish

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**Abstract:** *The following specific objectives served as the structure for the research in order to ascertain the effects of tax rates on the success of small business owners in Namungoona parish, Kampala, Uganda, as well as the effects of business taxes on the success of small businesses in Namungoona parish, Kampala, Uganda, and the influence of tax compliance on the performance of small businesses in Namungoona parish, Kampala, Uganda. The findings showed a positive relationship between tax incentives and small business success in the study region. The table shows that a significant portion of respondents receive 50% tax advantages. In response to suggestions, the tax authority should establish a means to determine the tax so that small-scale enterprises pay their taxes as quickly as possible in order to give them enough time in the business to pay their obligations, rather than making an assessment haphazardly. In order to relieve the strain placed on them and allow them to better manage their finances, the tax administrators should also implement a system that allows taxpayers to pay their tax liability in installment instalments over a time period they pick.*

**Keywords:** Taxation and small-scale businesses

## Background of the Study

Early in the year 2000 BC, the Egyptians of Egypt imposed a tax on cooking oil, and the tax officials made sure that no one was exchanging non-taxed oil for the oil that was subject to the tax. These are the oldest depictions of tax. Also, in order to pay for military costs, the ancient Greeks constructed a functional tax system in which residents were subject to fees such as sales taxes, inheritance taxes, land taxes, poll taxes, and fees on imports and exports ([www.taxworld.org](http://www.taxworld.org)) Early in the year 2000 BC, the Egyptians of Egypt imposed a tax on sunflower oil, and the tax officials made sure that no one was exchanging non-taxed oil for the oil that was subject to the tax. These are the oldest depictions of tax. Also, in order to pay for military costs, the ancient Greeks constructed a functional tax system in which residents were subject to fees such as sales taxes, inheritance taxes, land taxes, poll taxes, and fees on imports and exports ([www.taxworld.org](http://www.taxworld.org)) This resulted in the transference of tax system to the ministry of finance, which was then transferred to Uganda Finance Ministry in 1991 via a Parliamentary Act. The EAC, which was re-established in 1999, later enacted the East African Community Customs Administration Act 2004 to govern EA customs, which involved operational, administrative, and legal issues.

## Problem statement

A 2015 study by the United Nations Institute for Social Development found that taxes are a significant impediment to small businesses' growth. It was added that tax rates play a crucial role in how well the SSBs perform. According to a 2019 analysis by Professor Paul Lakuma, tax rules and rates frequently have an effect on the financial and quasi success of SSBs in Uganda. In addition, he underlined that the Ugandan government, as part of its initiatives to promote SSBs, established a tax policy to support and encourage the performance of the firms, focusing on harmonizing tax rates and offering new tax incentives. In Uganda, taxes have an effect on both governments and businesses since they provide the government with money, which is then utilized to subsidize enterprises and provide them with incentives and operational cost reductions. (Ugandan National Panel Survey, 2015–16) M. (Almunia, 2017) went on to say that taxes shield domestic businesses from foreign rivalry by increasing the cost of imports and preventing dumping, protecting the domestic businesses and encouraging performance improvement.

## Objectives of the Study

1. To establish the influence of tax rates on the performance of Small scale businesses in Namungoona parish, Kampala Uganda.
2. To determine the impact of tax compliance on the performance of small scale businesses in Namungoona parish, Kampala Uganda.
3. To determine the influence of tax incentives on the performance of Small scale businesses in Namungoona parish, Kampala Uganda

## Research Questions

The research questions below were answered namely:

1. How does tax compliance influence the performance of small scale businesses in Namungoona parish, Kampala Uganda?

2. How do tax rates influence the performance of Small scale businesses in Namungoona parish, Kampala Uganda?
3. What is the effect of tax incentives on the performance of Small scale businesses in Namungoona parish, Kampala Uganda?

### **Methodology**

#### **Research design**

A research design is the blueprint for how the study will be carried out and outlines the procedures to be followed in order to gather the information needed to formulate and address the research issues (Cooper and Schindler, 2003). To investigate "the impact of taxation on the operation of small-scale business in Uganda," the investigator will use a descriptive research design. The descriptive research design is a systematic approach to gathering descriptions of current events in order to describe or understand what is happening (Ololube, 2009).

Because it focuses on people and their traits, the descriptive research approach should be used for the study because it enables the researcher to understand and assess how taxes affect SSBs' productivity.

#### **Sample size**

The samples are to be 50 shops out of the 200 shops which is the research population selected to represent the small scale business around the Namungoona parish.

#### **Sampling techniques**

The research used both probability-based and non-biased sampling techniques. Because the research was centered on the entire small scale community, the probabilistic sampling approach—which entails selecting a sample in a way that offers every element in the population an equal likelihood of being selected—was adopted. Also, the simple random sampling approach was used, which provides a proportionate chance for each demographic component to be represented in the sample.

#### **Quota sampling**

this sampling method shall address the issues of repetitiveness where the matrix describing the characteristics of the largest population was used to determine what proportion of the population is male and female and for each sex, what proportion falls into the various educational levels

#### **Multi-stage sampling**

The primary samplings were chosen from a list of seven shop owners, six small business owners, four shop keepers, and 3 shop employees, and a specimen of those units then was listed. This probability sampling will involve two basic steps: listing the study population and tasting from that list.

purposeful sampling

In this sampling technique, the researcher chooses a sample of the population based on his or her own understanding of the population, its components, and the purpose of the research, particularly when the questionnaires were first intended and the research scientist wanted to choose a specific respondent to gauge how broadly applicable the survey questionnaire were.

### **Data Collection Methods**

The researcher intends to get information from primary and secondary data sources this include literature on taxation and small scale business in journal, text books, and newspapers. Magazine, data on unpublished research report articles and the internet using the following methods;

#### **Questionnaire survey method**

In a questionnaire survey, a collection of questions is used to collect information from a large population for a specific study (Amin, 2005). The questionnaire is an effective method of gathering data due to its advantages, including standardization (as the same language is used each time it is delivered) and confidentiality (through the use of a coding system). As a result, it might address taboo, immoral, or illegal topics. This will be used to acquire information from middle level workers and lower level personnel inside the small scale population because they are involved directly in the operation of SSBs.

#### **Interview method**

An interview is a way to collect information that entails asking respondents one-on-one or in a group (Chaleunvong, 2009). Throughout the interview, the answers to the questions must be noted down and recorded on tape. To gather material that would be pertinent to reach a logical conclusion on which to base his viewpoint, the researcher conducted interviews with the sampled individuals, such as store owners or owners of small enterprises.

### Observation method

In this method, the researcher used the eye to observe what actually happens on the ground and to record, more so, the researcher is to observe the activities of the con-respondents, selling and buying activities of shops and how they carry out their business activities. This was done using observation technique such as natural observation.

### Data collection instruments

#### Questionnaires

Self-administered questionnaires are to be employed to gather data from the study elements in a structured manner. The questionnaires with one open ended question per section are designed for SSB employees and owners to give additional or express their minds while the rest are close ended aimed at testing perception of the respondents.

#### Interview guide

The interview guide involves unstructured and general open ended questions that was allowed probing for in-depth information from participants. The guide was enabled the gathering of facts from the SSB proprietors, and other top management officers in these businesses since these people have information concerning taxation policies and the performance of their businesses.

## RESULTS

### Response rate

Table 1: Response rate

Research instrument	Targeted number	Actually conducted	Percentage%
Questionnaires	100	90	90
Interviews	100	60	60
Total	200	150	75

Source; primary data, 2022

Table 3 shows that 90 completed surveys were returned out of the 100 that were distributed, for a 90% response rate. Moreover, only 60 of the 100 planned interviews were actually done, yielding a 60% response rate as a percentage. 75% of respondents responded in total. This response rate was higher than the advised response rate of 67%. (Amin, 2005; Mugenda & Mugenda, 1999). This shows that the researcher was successful in gathering enough information for a thorough report.

### Background characteristics of respondents

This includes the age, gender, education level and marital status of the respondents and the findings are given below.

#### Age of respondents

#### Figure 1; findings on the age of respondents

Source; primary data, 2022

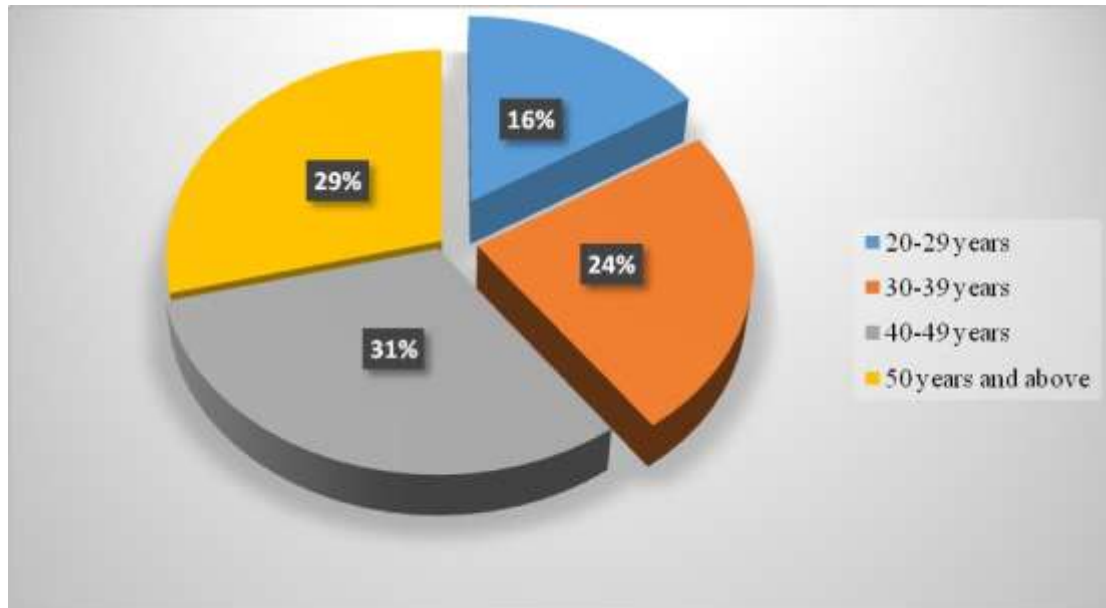


Figure 1 above indicates that a bigger proportion of respondents (31%) were aged between 40-49 years. These were followed by respondents 50 years and above with (29%) while those aged 30- 39 years were 24% and lastly those aged 20–29 years constituted 16%. The above statistics indicate that all respondents were mature and able to provide reliable data.

**Sex of respondents**

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

**Table 1; age of respondents**

Gender	Frequency	Percentage%
Male	100	66.6
Female	50	33.3
Total	150	100

Source; primary data, 2022

Table 1 above indicates that a bigger percentage of respondents that is to say 66.6% were males while the females constituted 33.3% of the total responses. This means that the males dominate the SME sector and the findings were obtained from gender balanced respondents with representation from both the males and females.

**Level of education of respondents**

The respondents were asked about their highest level of education that is those with certificates, diplomas, degrees and other forms of education indicators. The results were as follows;

**Table 2; level of education of respondents**

Level of education	frequency	Percentage%
None	10	6.6
Certificate	60	40
Diploma	40	26.6
Degree	20	13.3
Others	20	13.3
Total	150	100

Source; primary data, 2022

In accordance with the aforementioned statistics, just 6.6% of participants had no formal schooling, compared to 40% of responders who had certifications and only 26.6% of responders who had earned diplomas after graduating from college. 13.3% of the remaining respondents had bachelor's degrees despite having various levels of education. As a result, they were able to comprehend and integrate the data sought in the interviews and questionnaires. This indicates that the majority of respondents were educated.

**Findings on the small-scale businesses**

**Table 3: Nature of the business**

Nature of business	Frequency	Percentage%
Trade	75	50
Service	55	36.6
Manufacturing	20	13.3
Total	150	100

Source; primary data, 2022

Table 3 shows that, in contrast to provider enterprises (freq. 55, 36.6%) and industrial output companies (freq. 20, 13.3%), the bulk of the SMEs under study were engaged in commerce, which accounted for (freq. 75, 50%) of all responses. This shows that the study's coverage of SMEs was strong, leading to reliable findings.

**Timeframe of the Business**

In order to acquire a certain degree of comprehension of the company's operations and the climate nearby, participants were prompted to specify how long they had been in business.

The reaction was as follows;

**Table 4; duration of the business**

period	frequency	Percentage%
Less than a year	35	23.3
1-4 years	80	53.3
5-10 years	25	16.6
Over 10 years	10	6.6
total	150	100

Source; primary data, 2022

The table above shows that most of the respondents have been in business for a period between 1-4 years and less than a year which indicates that the taxation system affects the businesses hence hindering them from lasting longer.

**Capital employed**

**Table 5; capital employed**

capital	frequency	Percentage%
Less than 0,5million	20	13.3
0.5-0.9million	30	20
1m-4milliom	60	40
5m-9million	30	20
10million and above	10	6.6
total	150	100

Source; primary data, 2022

Table 5 shows that the majority of participants use capital in their enterprises between \$1 million and \$4 million, while only 6.6% of participants use capital exceeding \$10 million. Just 20% of participants are employed between 500,000 and 900,000 shillings, but 3.3% of respondents work for less than 500,000 shillings. This suggests that the majority of enterprises are quite small since they use such little money.

**Average amount of tax paid per annum**

**Table 6; average annual tax paid**

Tax amount	frequency	Percentage%
Below 100,000/=	0	0
100,000-190,000/=	25	16.6
200,000-500,000/=	90	60
600,000-900,000/=	30	20
1million and above	15	10
total	150	100

Source; primary data, 2022

The aforementioned table shows that none of the enterprises surveyed pay yearly average taxes below 100,000 shillings, while the majority—60% of respondents—pay taxes between 200,000 and 500,000 shillings. By implication, smaller companies incur greater tax liabilities than necessary based on their working capital.

**Awareness of tax payers**

Table7; awareness of tax payers

Response	frequency	Percentage%
Yes	95	63.3
No	55	36.6
Total	150	100

Source; primary data, 2022

According to the table above, 63.3% of the respondents agreed that they were aware of the taxes they ought to pay while the remaining 36.6% were not aware of the taxes they are supposed to pay. This shows that there is still a huge percentage that is not aware of their tax obligation which affects tax compliance negatively.

**Tax assessment**

Respondents were asked if they have ever been assessed for tax purposes and the table below shows the results

**Table 8; tax assessment occurrence**

Response	frequency	Percentage%
Strongly agree	30	20
Agree	45	30
Uncertain	20	13.3
Disagree	30	20
Strongly disagree	25	16.6
Total	150	100

Source; primary data, 2022

According to the table above, 30% of responders and 20% of those polled strongly believe that their firms have been assessed for tax purposes. This indicates that while the majority of respondents believe they have been charged, a sizable portion do not, necessitating the need for more effort in taxation.

**Range of profits**

Respondents were asked about the profits they earn per annum and the response was as follows;

Table 9; Range of profits

Profits per annum	frequency	Percentage%
Below 5millions	15	10

6-9millions	70	46.6
10-15millions	40	26.6
16-19millions	20	13.3
20 Millions and above	5	3.3
Total	150	100

Source; primary data, 2022

It is clear from the above figure that only a few persons earn more than 20 billion shillings in profit yearly, and the majority of them, or 46.6%, earn between 6 and 9 million, while the remaining 26.6% earn between 10 and 15 million. This indicates that the majority of company owners make very little money after taxes.

### Findings on the impact of taxation on performance of small-scale businesses

#### Relationship between tax rates and performance of small-scale businesses

Table 10; relationship between tax rates and performance of SSBs

Descriptive statistics	Response	Frequency	Percentage (%)
Are tax rates fair?	Strongly agree	10	6.6
	Agree	20	13.3
	Disagree	70	46.6
	Strongly disagree	50	33.3
	<b>total</b>	<b>150</b>	<b>100</b>
Are tax rates effective?	Strongly agree	5	3.3
	Agree	10	6.6
	Disagree	80	53.3
	Strongly disagree	55	36.6
	<b>total</b>	<b>150</b>	<b>100</b>
Do tax rates affect your	Strongly agree	50	33.3
Rate Of returns?	Agree	65	43.3
	Disagree	23	15.3
	Strongly disagree	12	8
	<b>total</b>	<b>150</b>	<b>100</b>

Source; primary data, 2022

According to the table above, it is evident that tax rates have a strong impact on the performance of small scale businesses in the research area in that the majority of the respondents agree and strongly agree that the rates affect their rate of returns on investment. Similarly, 46.6% and 33.3% which is the majority of the respondents disagree with the fairness of the tax rates and their effectiveness. In this regard, 53.3% and 36.6% strongly disagree and disagree on the question of effectiveness of the tax rates.

#### Relationship between tax incentives and performance of small scale businesses in Namungoona parish

Table 11; Relationship between tax incentives and performance of small scale businesses

Descriptive statistics	response	frequency	Percentage (%)
Do you receive tax Incentives?	Strongly agree	75	50
	Agree	45	30
	Disagree	20	13.3
	Strongly disagree	10	6.6
	<b>total</b>	<b>150</b>	<b>100</b>
Do you benefit from tax Incentives?	Strongly agree	70	46.6
	Agree	50	33.3
	Disagree	15	10
	Strongly disagree	15	10
	<b>Total</b>	<b>150</b>	<b>100</b>
Do tax incentives	Strongly agree	50	33.3

Improve on your	Agree	80	53.3
Service delivery?	Disagree	15	10
	Strongly disagree	5	3.3
	<b>Total</b>	<b>150</b>	<b>100</b>

Source; primary data, 2022

A positive link between tax breaks and the outcomes of small businesses in the research area is shown in the previous table. According to the table, 50% and 30% of respondents, respectively, strongly agree and agree that they get tax breaks. In addition, the highest likelihood of respondents (46.6% and 33.3%), as well as the lowest rate (20%), do not believe they benefit from the tax incentives they receive. Similar to this, while 13.3% of participants disagree, 33.3% and 53.3% of participants, respectively, strongly agree and agree that tax incentives allow them to enhance their service delivery.

### Relationship between tax compliance and performance of small scale businesses in Namungoona parish

Table 12; the relationship between tax compliance and the performance of small scale businesses in Namungoona parish

Descriptive statistics	Response	frequency	Percentage (%)
Does the government	Strongly agree	90	60
Assist you to comply	Agree	50	36.6
With tax	Disagree	5	3.3
	Strongly disagree	5	3.3
	<b>Total</b>	<b>150</b>	<b>100</b>
Does tax increase your	Strongly agree	55	36.6
Profit margin?	Agree	45	30
	Disagree	25	16.6
	Strongly disagree	25	16.6
	<b>Total</b>	<b>150</b>	<b>100</b>

Source; primary data, 2022

The chart demonstrates that smaller companies in Namungoona parish perform better when taxes are paid on time. The chart indicates that the majority of respondents, or 60%, agree and agree strongly that the government offers support to help people comply with their tax obligations, while the percentage of those polled who disagree is just 6.6 overall. The respondents are also overwhelmingly in favour of tax compliance increasing their profit margin, with 66.65 of the participants overall agreeing with this statement, compared to 33.2% who disagree.

### Conclusions

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

The study's findings resulted in the finding that improving the quality of SMEs requires a simplified tax system, tax planning, functional competence, and the capacity to comprehend tax regulations and laws. This suggests that streamlining the tax code can help SME taxpayers fulfil their tax obligations and reduce the burden of business taxes on small businesses. Thus, a streamlined tax administration strategy is necessary to improve the performance of SMEs.

The researcher concluded from the data that fair tax rates, transparent tax rates, and the appropriate amount of tax rates are crucial for the development and performance of SMEs. This implies that decreasing tax rates and providing tax relief to small and medium-sized firms is important to produce an effective rate of taxation in order to boost the performance of SMEs in Uganda. By doing this, these businesses' running expenses will be reduced.

### Recommendations

The researcher offered the following suggestions as a means of easing the financial burden of taxes on small firms and allowing them to take advantage of the tax regime by performance improvement. The tax authority should devise a method to assess the tax rather than making an immediate determination so that small businesses can pay their taxes as early as possible and still have time to operate their companies and fulfil their responsibilities.

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