

# Taxation Policies and The Development of Small Businesses. A Case Study of Namungoona Lubaga Division, Kampala

Shema Amos<sup>1</sup>, Babirye Shamirah<sup>2</sup>, Kabanda Richard<sup>3</sup>

1, 2, 3 Metropolitan International University

**Abstract:** This study examined the relationship between taxation policies and the development of small businesses in Namungoona Lubaga Division, Kampala, Uganda. Small enterprises constitute a large portion of the economic landscape and play a key role in job creation and income generation. However, unfavorable government taxation can constrain their growth and competitiveness. The research aimed to evaluate how various tax regulations and rates influenced the performance and expansion of small firms over a five-year period from 2016 to 2020. A mixed methods approach was employed that included a review of relevant taxation laws and collection of both quantitative and qualitative primary data. Quantitative data were gathered through a survey of 100 small business owners regarding tax compliance levels, profitability, employment figures, and investment levels annually. Qualitative data were obtained through in-depth interviews with 20 participants exploring their perceptions of taxation impacts. Development of SMEs and the tax policy were found to have a significant strong positive relationship ( $r=0.712$ ,  $p<0.05$ ). This was interpreted to mean that the better the tax policies, the better the development trends for SMEs. The government should therefore come up with good tax policies on small scale businesses if they are to stimulate their development. The study found that high corporate income tax and value-added tax rates significantly reduced after-tax profits and capacity to reinvest in operations. Furthermore, complex filing procedures discouraged timely payment and subjected defaulters to heavy penalties that constrained cash flows. The study recommends that the government of Uganda should design an effective tax rate in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base.

**Keywords:** Taxation Policies, Development and Small Businesses

## Background to the study

Taxation has been a fundamental aspect of economic development globally. It has historically been used to generate revenue for governments to fund public services, infrastructure, and other developmental activities (Kazaara & Christopher, 2023). In the global context, countries have developed various taxation policies, such as income tax, value-added tax (VAT), and customs duties, to support economic growth (Frank et al., 2023).

**Taxation Impact on Small Businesses** Taxation policies can significantly affect small businesses' growth and sustainability. High tax rates, complex tax systems, and excessive regulations can place a heavy burden on small enterprises, making it difficult for them to thrive. **Historical Context** Historically, the relationship between taxation and small businesses has been complex. In some cases, high taxes stifled entrepreneurship and innovation (Turyatamba et al., 2022). However, in many developed economies, taxation has also been used to fund infrastructure, education, and healthcare, indirectly benefiting small businesses by creating a more favorable business environment (Winny, Kazaara, et al., 2023).

**Tax Incentives** Governments worldwide have often used tax incentives to promote small business development. This might include lower tax rates, deductions for business expenses, and credits for job creation. These incentives can stimulate entrepreneurship and economic growth. **Compliance and Informal Economy:** High compliance costs and complicated tax regulations can drive businesses into the informal economy, where they operate without legal recognition and can't access government support or services (Tasha et al., 2023b).

Taxation policies and their impact on small businesses vary greatly from country to country. In some places, taxation has been used to support social programs that indirectly benefit small businesses, while in others; it has been a barrier to growth (Ramadhan et al., 2023).

In Africa, the historical background of taxation policies is complex and varies from one region to another. Traditionally, African societies had their own forms of taxation, which included levies on trade, agriculture, and communal activities. During the colonial period, European powers imposed their taxation systems, often leading to significant economic disparities. **Colonial Legacy** Many African countries, including Uganda, were colonized by European powers during the 19th and early 20th centuries. Colonial powers established taxation systems to extract resources, which often had negative impacts on local economies and small businesses (Lydia, Kazaara, et al., 2023).

**Independence Movements** African nations gained independence from colonial rule in the mid-20th century. Post-independence, they inherited tax systems that were often ill-suited to their needs. **Informal Economy** Small businesses have historically played a significant role in Africa's economy, often operating in the informal sector due to limited access to formal resources and complicated tax regulations (Winny, Ariyo, et al., 2023). African countries faced challenges in designing fair and efficient tax systems that support economic development while ensuring government revenue. High levels of corruption and informality further complicate taxation. In recent years, many African nations, including Uganda, have undertaken tax policy reforms to promote small business growth, reduce informality, and attract foreign investment (Tasha et al., 2023a).

Many businesses in places like Namungoona operate informally. Understanding the reasons for informality and its implications for tax collection and small business development is crucial.

Research any government initiatives aimed at supporting small businesses, such as tax incentives, access to credit, and entrepreneurship training (Ntirandekura et al., 2022). Challenges: Identify the challenges small businesses face in complying with tax regulations. This might include complex tax codes, corruption, or limited access to financial services. East African nations, including Uganda, have experienced the evolution of taxation policies over time (Christopher, Moses, Muhindo, & Komunda, 2022). Colonial powers introduced new tax systems, which had both positive and negative effects on the economies of the region. Post-independence, these countries developed their own tax systems to fund public services and promote economic growth. In East Africa, tax revenue is crucial for financing infrastructure, education, healthcare, and other development initiatives (Kazaara & Christopher, 2023).

In Uganda, the history of taxation can be traced in times of the initial British colonial administrators which involved —compulsory public works such as road construction, the building of administrative headquarters and schools among other works. The hut tax opened the genesis of formal taxation in the early 1900s (Tasha et al., 2023a). Conversely, the first common tariff was introduced that involved a 5% import tax rate for the goods going to Uganda via the port of Mombasa, Kenya (Jamal, 2018). Gradually, taxation in Uganda has evolved over the years, which involved the East African Community (EAC) administering the income tax and customs duty through its departments until the EAC collapsed.

Taxation in Uganda has been also influenced by World Bank policies with the aim of nurturing economic growth and development (Ronald et al., 2023). The Uganda government has transformed a number of tax policies to foster the growth of small and medium enterprises through harmonization of tax rates and formulating new tax incentives among others to avoid double taxation and tax evasion. However, with all these tax reforms Uganda still does not have well known clear national taxation policy for the small and medium enterprises (Tasha et al., 2023a). The recent taxation policy only focuses on the legal requirements surrounding the administration of the tax regime instead of yielding strategies to foster the performance of SMEs in Uganda (Ddumba-Ssentamu 2015). Over the years, various scholars have developed a number of performance measurement methods like the balanced scorecard, ineffectiveness method, goal oriented method, stakeholder method, time frame method among others (Christopher, Moses, Muhindo, & Muhammad, 2022).

### **Statement of the problem**

According to the Regional Program on Enterprise Development (RPED, 2015) survey on Investment Climate in Uganda. Taxation was highlighted as a key impediment to the performance of SMEs. The survey also revealed that high tax rates were a major feature that influenced the performance of SMEs in Uganda. This was further affirmed by (Ivan et al., 2023b) who noted that the poor taxation policies and high taxes levied have generally affected the financial and non-financial development/ performance of SMEs in Uganda.

Balunywa et al. (2017) highlighted that the Uganda government, through its efforts to promote the small and medium businesses, enacted a tax policy to support and promote the performance of SMEs. This tax policy focused on harmonizing tax rates and establishing new tax incentives to promote the small businesses (Ivan et al., 2023a).

Despite efforts by the government of Uganda to enhance the growth, development and performance of SMEs, taxation still remains a major obstacle to the growth of SMEs in Uganda since it has continuously affected the performance of SMEs (Nancy & Prudence, 2024). In addition, most SMEs in Uganda do not survive past their fifth year birthday after inauguration which shows poor performance in the SME sector (Benard, 2023). The deficiencies in the Entrepreneurial performance of SMEs associated with the poor tax policies in Uganda may affect the ability of the seen enterprises to mobilize the required financial and non-financial resources. In addition, the poor performance of SMEs if not immediately addressed may affect the economic growth and development of Uganda since these enterprises contribute to 90% of the private sector production in the economy (Ivan et al., 2023a). This, therefore, prompted the researcher to assess the impact of the taxation policies on the Entrepreneurial performance of SMEs in Uganda (Lydia, Ariyo, et al., 2023).

### **Specific objectives of the study.**

1. To find out the relationship between tax compliance and development of small-scale business enterprises in Lubaga division, Kampala.
2. To determine the relationship between tax rates and the performance of SMEs in Namungoona, Lubaga division, Kampala.
3. To assess the relationship between tax incentives and performance of small and medium enterprises in Namungoona Lubaga division, Kampala

### **Methodology**

The descriptive design was adopted, which aimed at examining the effect of taxation on the performance and development of small and medium scale enterprises in Uganda. The descriptive research design refers to the systematic process of gathering descriptions of existing phenomena in order to describe or explain what is going on (Abiodun & Christopher, 2024). A descriptive research design was adopted for the study since it focuses on the people as well as their attributes which was enable the investigator to understand and examine the influence of taxation on SME development/performance (Jallow et al., 2021). The study population was concentrating on SME owners within Namungoona Lubaga division, Kampala. The study was being limited to Namungoona Lubaga

division since the majority of the SMEs are established in urban areas. Namungoona has a population of 318,447 people with 17,573 registered SMEs (Nafiu et al., 2017).

Basing on the Krejcie and Morgan (2018) sampling table the researcher select a sample size of 377 SME respondents from a population of 1300 registering SMEs with the help of convenient sampling (Rasheed et al., 2022). The study used employs sampling techniques. The author will use the non-probability approach, the items in the population which was don't have a well-defined chance of being selected (Rasheed et al., 2022). Purposive sampling was to be used whereby the researcher used her own decision and experience to determine which SMEs have in-depth information to take part in the study. Self-Administered Questionnaires (SAQ) was be employing to gather data from the study elements in a structure manner (Lu et al., 2013). SAQs with one open ended question per section was designed for SME employees to give additional or express their mind while the rest was close aimed at testing perception using —a five-point Likert scale measuring from Strongly Disagree as response 1,

Disagree as response 2, Not sure as response 3 Agree as response 4 and Strongly Agree as response 5 for easy measurements of variables (Maiga et al., 2021). This was the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the hypotheses (Nafiu et al., 2013). Initially, data was be entered into MS Excel computer program for cleaning. The data was being also imported to SPSS version 23 statistical software for investigation (Nelson et al., 2022). Quantitative data analysis entailed descriptive statistics and inferential statistics. Descriptive statistics involved analysis using frequencies, percentages, mean, charts, and standard deviation (Olanrewaju et al., 2021). The Analysis of central tendency and dispersion based on a 5-point likert scale ranging from strong agree to strong disagree.

Quantitative data was analyzed by reporting of summary results in numerical terms and was presented using a percentage distribution technique by maintaining a specified degree of confidence (Kinyata & Abiodun, 2020). While Qualitative data was analyzed in the form of texts and themes, yet impressions were examined and presented using descriptive methods for in depth analysis to be generated from views of the respondents and to allow the reader to make their opinions freely (Anwar et al., 2022).

**RESULTS**

**Table 1: Responses on tax compliance**

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

I am always part of the team that carries out budgeting process of my employer especially on income tax matters	4.24	.643
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**Source: Primary data**

Table 1 above highlights that the majority of the respondents within the SME sector cannot understand the Ugandan tax system as indicated by the average score of 2.32 (SD = 0.766). This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements.

Most of the respondents revealed that they could not compute the income tax liability of their businesses with ease. This is confirmed by the mean score of 2.31 (SD = 0.684) which shows that the majority of the respondents need assistance to understand how much to pay when to pay according to the size and capital of their businesses (Winny, Kazaara, et al., 2023).

A bigger proportion of the respondents agreed that they always attend taxation seminars and workshops on behalf of their business to update themselves with the tax system as noted by the mean 4.31 (SD = 0.667). The above findings were supported by a respondent during face to face interviews who reported that; URA through the umbrella body KACITA engages the traders to ease provision of taxpayer services, which include tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. For example, we able to learn how to avoid making mistakes which could result in penalties which are avoidable. This is because taxes are costly to businesses; therefore, managing penalties would significantly reduce business costs (Deus, 2023).

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

The payment of levies is not straight forward hence the business has to hire professional consultancy services. This was confirmed by the majority of the respondents (mean = 2.35; SD = 0.950) who revealed that they usually hire someone to file their tax returns for them (Faith et al., 2023).

In addition, most of the respondents agreed (mean = 4.44; SD = 0.641) that they are aware of most tax laws and guidelines about taxation of incomes for SMEs. This means that the majority of the respondents can comprehend their tax acquiescence as noted by tax authorities. The above findings were supported by a respondent who said; “Recently, Uganda Manufacturers Association (UMA) conducted a seminar on Tax Legislation, Tax Compliance and the impact of company tax practices on business development where I was able to know the rights and obligations of my business regarding tax, know the various taxes to which my business may be subjected, application of tax planning techniques without evading tax and breaking the law, and learning the best techniques of tax computation (Lydia, Ariyo, et al., 2023).”

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

The study findings revealed that members of the small and medium businesses could not understand the tax laws and regulations in Uganda which is represented by the mean score of 2.24 and standard deviation of 0.711 (Tasha et al., 2023a). Furthermore, most of the respondents disagreed (mean = 2.45; SD = 0.710) that they can interpret tax laws and compute tax liabilities. This shows that the majority of the respondents do not have sufficient tax knowledge regarding the when to pay taxes and in what proportions.

On whether the small and medium businesses always file tax returns with URA on a timely basis as required by law, the majority of the respondents mean = 4.34; SD = 0.856) agreed that they always file their tax returns on time. The study findings further revealed that most of the respondents know how to treat the expenses incurred in relation to income tax in Uganda which was confirmed by a high average score of 4.19 and standard deviation of 0.856 (Christopher, Komunda, & Milton, 2022).

On average, most of the respondents in the SME sector agreed (mean = 4.02; SD = 0.857) that they always advise management on income tax planning issues. The majority of the respondents noted that they are sure of the incomes /turnover on which they pay income taxes as a firm which is represented by the mean score of 4.15 and relatively low standard deviation of 0.766 (Kazaara & Kazaara, 2023).

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

**Table 2: Correlation matrix for tax compliance and the development of SMEs**

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

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

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

The study findings table 2 above show that tax compliance significantly affects the development of SMEs in Namungoona Lubaga division since p- value (.000) is less than the significance level. The correlation coefficient is (0.595) which implies that there is a moderate positive relationship between tax compliance and the development of SMEs (Nelson et al., 2023). Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the development of SMEs. Thus, the hypothesis: “*Tax compliance significantly affects the development of SME’s in Namungoona Lubaga Division, Kampala.*” is accepted. So, in order to enhance the development of SMEs in Uganda, the government needs to ensure that there is a proper mechanism to ease tax compliance through having a simplified system of taxation, proper tax planning, and functional expertise as well as the ease with the interpretation of tax laws and regulations.

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

**Table 3: Responses on tax incentives**

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

**Source: Primary data**

Table 3 above indicates that for a total of 377 respondents with an average score of 2.09 and a relatively low standard deviation (0.675), most of the respondents disagreed that the tax rates charged are clear in terms of payable taxes. This means that respondents in the SME world are not aware of how much to pay to the tax bodies.

There are diverse taxes imposed on small and medium businesses, which was confirmed by the majority of the respondents (mean = 3.73; SD = 0.502) who agreed that their business pays different taxes depending on the nature and size of business. Most of the respondents agreed (mean = 4.56; SD = 0.388) that the government either increases or decreases tax rate at its own discretion. This means that the government of Uganda can always increase or decrease a tax rate without consulting the parties that will be paying the tax. In addition, this is supported by qualitative data collected from key informant interviews, as one informant had this to say; “Despite the contestations from traders, the government has continued to increase tax rates for instance with a tax increase as a result of the introduction of the specific excise tax alternative; there has been an increase in the prices of goods and services making it more expensive for the customers. |

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

A bigger proportion of respondents agreed that the taxes charged are burdensome to their businesses as shown by the mean score 4.48; (SD = 0.410). This means that the taxes levied from the SMEs are inhibiting development and development of these businesses in Uganda. The above conclusion was supported by an SME proprietor who had this to say; “Many small businesses have continued to evade taxes because they are high and imposes high costs on their businesses yet most of these businesses are struggling to keep operating for instance; some traders evade VAT returns since out there on the streets, the one who is selling at lower prices will eventually make a sale. VAT is 18% addition to the price being paid; this means that if one has to pay all VAT without having considered deductions, this trader will be selling expensive goods and sooner than later will be out of business. | In addition, another respondent stressed that; “Multiple taxations of the same business is a big problem and an obstacle to the development of businesses, for example, a trader in his/her retail shop pays income tax to URA and pays import duty whenever he/she imports small merchandise in association with fellow traders. After all this it is Kampala’s turn, it comes in, and requests for license fees and then the syndrome continue. “This shows that taxes are not only an obstacle to the development of SMEs in Uganda but have also contributed to the collapse of small and medium businesses due to the ever increasing costs of operation associated with taxes which has discouraged development within the SME sector. On whether SMEs pay taxes when it is convenient for them to pay, most of the respondents disagreed as noted by the mean = 2.11; SD = 0.973. This indicates that the tax bodies always require these businesses to meet their tax obligations regularly and on time. The majority of the respondents disagreed that taxes are only charged when the business is operating and hence allows for momentary closures of business.

This was confirmed according to the low mean score of 2.46 (SD = 0.558). The findings further revealed that most of the respondents (mean = 4.35; SD = 0.744) agreed that the SME tax rates consider the scale of operation.

This means that taxes are levied from SMEs depending on their capital size and nature of the business. On whether the tax rates charged are fair to small and medium business owners, most of the respondents disagreed (mean = 2.72; SD = 0.965) which shows that the taxes rates charged from the SMEs are irrational and thus affect the development of these businesses.

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

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

**Correlation results of tax rates and the development of SMEs**

Table 4 shows how tax rates influence the development of SME’s in Namungoona Lubaga Division, Kampala, with the aid of Pearson correlation coefficient.

**Table 4: Correlation matrix for tax rates and the development of SMEs**

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

	Sig. (2-tailed)	.000	
	N	377	377

\*\* Correlation is significant at the 0.01 level (2-tailed).

#### Source: Primary data

The findings in table 4 above revealed that tax rates have a significant effect on the development of SMEs in Namungoona Lubaga division since  $p$  – value (.000) is less than the significance level. The correlation coefficient (0.689) shows a strong positive relationship between tax rates and the development of SMEs in Namungoona Lubaga division. Tax rates have a statistically significant strong positive effect on the development of SMEs in Namungoona Lubaga Division, Kampala, Uganda. Therefore the hypothesis “*Tax rates significantly affect the development of SMEs in Namungoona Lubaga Division, Kampala.*” that was stated is accepted. Therefore, the government of Uganda should carefully set tax rates by ensuring clarity of the tax rates, correct level of taxation and fair tax rates since these play a key role in the development of SMEs in Uganda. Quantitative findings showed that tax rates have a significant influence on the development of SMEs in Namungoona Lubaga division which also corresponded with the qualitative findings which revealed that the high taxes are not only an obstacle to the development of SMEs in Uganda but have also contributed to the collapse of small and medium businesses due to the ever increasing costs of operation associated with taxes.

**Table 5: Responses on tax incentives**

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

#### Source: Primary data

The study findings revealed that the majority of the respondents agreed (mean = 4.39; SD = 0.867) that tax incentives for SMEs have lowered the operational costs associated with the payment of taxes for small and medium businesses. Tax incentives, investments,

and development of SMEs are closely linked. This was confirmed by most of the respondents as highlighted by the mean score of 4.53 and standard deviation of 0.641.

The majority of the respondents (mean = 4.33; SD = 0.795) agreed that tax incentives had attracted private investors to the SME sector. This means that the tax incentives have increased investment in the SME sector and thus improved the development of small and medium businesses. The above findings were corroborated by an interviewee who said; “My business has benefitted from tax exemption of With Holding Tax and we have a tax exemption certificate issued to the business from URA. This is because my business has demonstrated a good track record of paying the taxes on time. This has reduced the tax burden on the business and enabled me to reinvest and expand the business. This implies that tax incentives like withholding tax exemption have had a positive contribution towards that development of SMEs through reducing the tax burden on businesses which has stimulated development in the SME sector.

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

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

—This company would not have survived in these hard times if it were not for the tax holiday that we are benefiting from the government. This tax holiday has reduced our operating costs and enabled us to break-even during these hard times when business is slow.

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

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

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

**The relationship between taxation policies and development of small and medium enterprises**

The findings presented clearly indicated that there was a significant strong negative relationship between development of small scale businesses and the tax policies in Namungoona Lubaga division. This is indicated by the Pearson correlation coefficient  $r = -0.826$  and  $p < 0.05$ . This is interpreted to mean that as more taxes are imposed on SME’s results to lower Development rate of SMEs. Development of SMEs and the tax policy were found to have a significant strong positive relationship ( $r=0.712$ ,  $p < 0.05$ ). This is interpreted to mean that the better the tax policies, the better the development trends for SMEs. The government should therefore come up with good tax policies on small scale businesses if they are to stimulate their development. The types of taxes were found to have a significant moderate positive relationship with the development of SMEs ( $r=0.532$ ,  $p < 0.05$ ). This was interpreted to mean that the different types of taxes affect the development of SMEs to different extents based on their level of sales turn-over among other factors.

**Regression Analysis**

A multiple linear regression analysis was done to examine the relationship of development with tax rates, tax policy and types of taxes.

The adjusted  $R^2$  is the coefficient of determination. This value explains how development of SMEs varied with the tax rates, tax policies and the types of taxes. The model summary table shows that 50.4% of change in development of SMEs can be explained by three predictors namely tax rates, tax policies and the types of taxes an implication that the remaining 49.6% of the variation in development in SMEs could be accounted for by other factors not involved in this study.

R refers to the coefficient of correlation. This value explains the degree of relation between the independent and dependent variables. It can go between -1 and 1.1 indicates that the two variables are moving in unison while at 0 means there exist no correlation. In this study, R is 0.712, which is an indication of a strong positive correlation between the development and the dependent variables namely tax rates, tax policies and types of taxes

Table 6: ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.

Regression	28.938	3	9.646	10.937	.000 <sup>b</sup>
1Residual	492.156	558	.882		
Total	521.094	561			

a. Dependent Variable: Development of SMEs

b. Predictors: (Constant)Tax rate, Tax policy, Types of taxes

Analysis of variance (ANOVA) was done to establish the fitness of the model used. The ANOVA table shows that the F-ratio (F=10.937,  $p=.000$ ) was statistically significant. This means that the model used was a good fit.

**Table 4.6.4: Coefficients of Determination**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	(Constant)	2.019	.781		
1 Tax rate	-.952	.219	.813	2.921	.000
Tax policy	1.989	.185	1.636	3.569	.000
Types of taxes	.615	.271	0.367	4.626	.000

a. Dependent Variable: Growth of SMEs

From the multiple regression results in the table above, the equation

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

$$Y = 2.019 - 0.952X_1 + 1.989X_2 + 0.615X_3$$

Where: The estimated coefficients ( $\beta$ s) show the contribution of each independent variable to the change in the dependent variable. According to the regression equation established, holding all independent factors a constant then development of SMEs will be average (2.019). This constant is significant in the model as it has  $p=.007$  which is less than the 5% level of significance taken for this study. The coefficients table results show that tax rate ( $\beta=.952$ ,  $p=.000$ ) negatively and significantly affected development of SMEs in Namungoona Lubaga division. This is interpreted to mean that keeping all other independent variables constant, a unit increase in tax rate will lead to a 0.952 decrease in development of SMEs. The results also show that tax policy ( $\beta=1.989$ ,  $p=.000$ ) positively and significantly affected development of SMEs at Namungoona Lubaga division. The coefficient is interpreted to mean that a unit improvement in tax policies will lead to a 1.989 increase in development of SMEs all else held constant. Types of taxes ( $\beta= 0.615$ ,  $p=.000$ ) was found to be positively and significantly affect development of SMEs at Namungoona Lubaga division. A unit increase in compliance to different types of taxes lead to a about a unit (0.615) increase in development/performance of SMEs all else held constant.

### Conclusions

#### Tax compliance and the development of SMEs

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

### **Tax rates and the development of SMEs**

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

### **Tax incentives and the development of SMEs**

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

### **Recommendations of the study**

#### **Tax compliance and the development of SMEs**

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

#### **Tax rates and the development of SMEs**

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

#### **Tax incentives and the development of SMEs**

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

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