

**THE EFFECTS OF TAX POLICIES ON THE PERFORMANCE OF SMALL AND
MEDIUM SIZE ENTERPRISES IN MUKONO**

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DECLARATION

I **AYEERWOT BRENDA PEACE**, hereby verify that the intellectual property presented in this original composition is strictly my own, and has not been previously submitted for any academic recognition from any institution. Any work or ideas of other scholars that have been utilized have been appropriately acknowledged and referenced.

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Date: *4th September, 2024*

APPROVAL

This certifies that the research on **THE EFFECTS OF TAX POLICIES ON THE PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN MUKONO** was completed under my supervision and is now ready to be submitted to the School of Business at Uganda Christian University.

Signature: *Maureen Natuhwera*

Date: *1st September 2021*

MS. MAUREEN NATUHWERA

(SUPERVISOR)

DEDICATION

In honor of my beloved parents, Mr. and Mrs. Oringa, I present this research with utmost gratitude and respect. Their unwavering love, tireless support, and encouragement have been my driving force throughout my academic journey. Without their unwavering commitment to my education, this research would not have been possible. Therefore, it is my pleasure to dedicate this work to them as a tribute for all their sacrifices and the invaluable role they have played in shaping the person I am today.

ACKNOWLEDGEMENT

I would like to humbly express my deepest gratitude to the divine entity, for blessing me with the incredible gift of life and providing me with the knowledge, wisdom, and guidance that has allowed me to come this far in my journey.

In honor of my beloved parents, Mr. and Mrs. ORINGA, I present this research with utmost gratitude and respect. Their unwavering love, tireless support, and encouragement have been my driving force throughout my academic journey. Without their unwavering commitment to my education, this research would not have been possible. Therefore, it is my pleasure to dedicate this work to them as a tribute for all their sacrifices and the invaluable role they have played in shaping the person I am today.

I express my immense appreciation to my research supervisor, Ms. Natuhwera Maureen, for his unwavering support, guidance, and mentorship throughout my academic journey. Despite his demanding schedule, he generously contributed his time, knowledge, and trust to facilitate my research endeavors. His encouragement and assistance have been invaluable in helping me explore new horizons and discover deeper insights.

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ABSTRACT

This study investigates the impact of tax policies on the performance of small and medium-sized enterprises (SMEs) in Mukono, Uganda. Using a mixed-methods approach, the research explores how tax rates, tax compliance, and tax incentives influence SMEs' financial performance, growth, and sustainability.

This study examines the impact of tax policies on the performance of small and medium-sized enterprises (SMEs) in Mukono, Uganda, with a focus on tax compliance, tax assessment, and performance. The research aims to:

Investigate the effects of tax policies on tax compliance among SMEs in Mukono.

Analyze the relationship between tax assessment and SME performance.

Examine the impact of tax policies on the financial performance and growth of SMEs in Mukono.

A survey of 100 SMEs and in-depth interviews with 50 entrepreneurs reveal significant relationships between tax policies and SME performance. The findings suggest that high tax rates and complex tax compliance procedures hinder SME growth, while tax incentives and simplification of tax procedures enhance performance. The study recommends tax policy reforms to support SME development in Mukono, including reduced tax rates, streamlined tax compliance, and targeted tax incentives. The research contributes to the understanding of tax policy effects on SMEs in developing economies and informs policy decisions to promote entrepreneurship and economic growth in Mukono.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covers the background study, problem statement, research question, general objective, specific objectives, significance of the study, and scope of the study, conceptual framework, and limitation of the study.

1.1 Background to the study

“The cost of civilization, which is a prerequisite for an organized society, is taxation. A well funded administrative framework is necessary for a society to be structured. Therefore, as long as society has had the bare minimum of governmental structures, taxes in all of their forms have existed. Charges is a financial fee levied by the government on individuals, organizations, deals, or assets to earn money for the government” (The 2021 Tax Handbook).

“In the ancient city state of Lagash in modern-day Iraq, clay tablets with the oldest known tax records date back to roughly 6,000 years B.C. The only times this early type of taxes was increased were during difficult times and wars.” THE WEBSITE of the Association of Municipal Assessors of New Jersey (AMANJ)

The early British colonial administrators-imposed taxes on East Africans by requiring them to perform public works projects including building roads, administrative buildings, schools, clearing forests, and other comparable tasks.

“The initial official hut tax was first imposed in 1900. The first uniform tariff agreements were established at this time. Created between Uganda and Kenya. Ugandans began paying customs duty because of this. an indirect tax that involved charging all imports at a rate of 5% ad valorem products headed for Uganda” (Taxation handbook , 2021)

Alabi, David, and Aderinton (2019) assert that “SMEs are among the most significant factors driving sustainable development in the contemporary world, especially in emerging nations”. Tax rates are classified as progressive, regressive, or proportional (flat). Whereas proportional tax

systems apply a fixed rate, progressive tax systems impose increased tax rates on higher income levels.

“Regressive tax schemes disproportionately burden lower-income individuals, regardless of their income people. Tax laws frequently provide provisions for tax breaks, deductions, and exemptions to support particular industries or activities. They also entail making administrative tools to guarantee compliance and efficiently collect taxes. This comprises the establishment of tax authorities, tax return filing procedures, enforcement actions, and fines for failing to comply. In 2019”, Aribaba et al.,

Most governments around the globe rely mostly on taxes as their main source of funding in order to offer their citizens public services. The public, businesses, and the economy as a whole view tax policy discussions and decision-making as crucial because of the variety of the effects it has on all of them.. Therefore, the structure and functionality of the tax system has a contribution to inequality, hence the government's job is to make sure that It seeks a just tax structure to ensure that residents' welfare and income are distributed fairly. “Neutrality, sufficiency, and simplicity are other crucial standards that must be taken into account. while creating and putting into effect a tax policy. The subject of taxation has received considerable attention from scholars”. Adams (2010).

Ojeka (2020) argues that “tax policies for SMEs should take into account the income and specific needs of business owners. For a tax system to be effective, it must feature suitable rates and efficient tax collection agencies. Taxes on small businesses should be relatively low, and efforts to tackle corruption and tax evasion should be strengthened. Well-designed tax policies can directly benefit SMEs and also encourage their compliance and growth”.

Supporting this perspective, Aribaba et al. (2019) highlight several issues affecting SMEs’ tax compliance, such as high tax rates, inefficiencies, excessive collection fees, and low tax receipts. Additionally, Eragbhe and Omoye (2019) and Igbinoia and Okoye (2020) point out problems like double taxation, lack of tax advisory services, poor tax planning, and high taxation costs. Ojeka (2011) further notes that reduced tax burdens allow SMEs to invest more in new projects and expand their businesses.

Oladipupo and Obazee (2019) highlight that the burden of multiple tax collections adversely impacts the survival of SMEs and that a business's size significantly influences its capacity to meet

tax obligations. They conclude that the prevalence of multiple taxes impedes the survival and growth of SMEs, a conclusion echoed by Ocheni and Gemade (2019).

“A firm's financial performance is a monetary indicator of the outcomes of its operations and policies. The company's growth in sales, profits, return on assets (ROA), return on investment (ROI), shareholder value, and accounting profitability are all indicators of these outcomes. Return on Assets (ROA) is a metric for efficiency that assesses how well a company generates income using the resources (assets) at its disposal.” R. C. Higgins (2012)

“Quantitative measures of a company's performance include cash flow metrics like free cash flow over sales, revenue growth, and profitability metrics like gross profit margin, net margin, and examples of returns on sales, equity, economic value added, return on equity less cost of equity, and return on capital employed. Using ratios is one method managers use to keep an eye on an organization's financial matters. Simply said, ratios are the correlations between two financial balances or financial computations that set our baseline and help us gauge how well a business is doing financially. By depending on financial statements, ratios also broaden the scope of the conventional approach to evaluating financial performance” (Saliha, 2011).

“SMEs are seen as critical for economic growth of the country, according to Htega (2007), adding to Uganda's GDP by 75% and making up 90% of the private sector. These companies also create employment, estimated at 2.5 million, raise living standards, and maintain social and political stability. However, prior taxation studies have noted that despite significant reforms, a number of SMEs in developing nations remain noncompliant with taxes” (James, Barbour & Stern, 2007; Ayoki 2007; Terker, 2003). “This is because the tax administration finds it difficult to locate these businesses, even though they pay less in taxes than they should” (Ahmed & Braithwaite, 2005).

"Because they lack independence and tax competence, many SME taxpayers are unaware of the domain of tax professionals" (European Commission, 2007; Nakiwala, 2010). “One of the main characteristics of SMEs, according to MOF & MOR (2007), is the increased owner engagement in day-to-day management and the lower degree of tax experience of the specialists, which necessitates their seeking expert advice” (Bertolini, Borgia & Siegel, 2010; Slerod, 2005).

1.2 Problem Statement

Like other poor nations, Uganda depends heavily on taxes to fund its government. "SMEs serve as a source of employment, innovation, competition, and economic dynamism to the economy. Taxes collected from SMEs enhance economic development of the country" (Bateman 2013). However, the tax policies and high tax charges of about 30% are imposed on the profits made by businesses like those that SMEs accompanied with untimely and favorable tax, administration policies, reforms, uncoordinated introduction of taxes has resulted into costly tax compliance which directly affect the sustainable growth of SMEs in Uganda, causing rise in unemployment rates, limited revenue collections which slows down economic growth and development in the country.

This call for thorough research on the effect of tax policies on the growth of SMEs.

1.3 Purpose of the study

To establish the effect of tax policies on the growth of SMEs.

1.4 Objectives of the study

- I. To identify the effect of tax policies on the performance of SMEs in Mukono
- II. To determine the effect of tax compliance on the performance of SMEs.
- III. To examine the effect of tax assessment on the performance of SMEs.

1.5 Research questions

- I. What are the effects of tax policies on the performance of SMEs in Mukono?
- II. What are the effects of tax compliance to the performance of SMEs?
- III. What are the effects of tax assessments on the performance of SMEs?

1.6 Scope of the study

The scope shows what the research study circles around.

1.6.1 The subject scope.

The study cycled around the effects of the tax policies on SMEs in Mukono district

1.6.2 Time Scope

The study was carried out in a period of four months. This was in the last semester of the course between May and October.

1.6.3 Geographical Scope

The proposed study was conducted in Mukono Uganda. The study focused on collecting data from Small and Medium Enterprises (SMEs) operating within Mukono, and the analysis of the data to be collected was restricted to the SMEs operating in this area. By focusing on one specific location, the researcher was able to gain a deeper understanding of the impact of tax policies on the performance of SMEs operating in Mukono.

1.7 Significance of research

To the policy makers, the study provided additional information that could be useful information to formulating new policies or improving the existing ones. The study can also be used in the implementation of existing policies or reforms on the taxes charged on small and medium size businesses by the policy makers. These include the government and tax authorities i.e. URA.

The finding will also assist government to know how many people pay taxes. They will help the ministry of Finance and Economic Development to agree with the government to amend tax laws and make them friendly to the small and medium size businesses

1.8 Limitations/Underlying assumptions

Due to some issues like confidentiality, the researcher failed to receive some important information from the respondents. But the researcher used different techniques like creating a friendly environment in order to get the needed information.

The other limitation arised was financial problems yet research needed some funding but the researcher used her savings and money from parents to fund the research costs.

The study also faced challenges in obtaining accurate and complete data from Small and Medium Enterprises (SMEs) regarding the effects of tax policies on their performance. The researcher ensured to have a large sample in order to ensure accuracy

The study also had time constraints, which limited the amount of data that was collected and analyzed. The researcher was given this research extra time

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The literature on tax laws and small business performance is highlighted in this section. The section's foundation is a documentary evaluation of literature on the study variables with the goal of informing readers about the gaps that still exist and how to fill them. Review of relevant research on the variables especially connected to determining tax administration and growth of SMEs will be covered. The study will emphasize on investigating the relationship between tax laws and the expansion of small and medium-sized enterprises (SMEs), figuring out the relationship between tax breaks and SMEs' growth, and investigating the relationship between tax administration and SMEs' growth.

2.1 Definition of key terms

Charge. This is the mandatory tax that the government imposes on the earnings of employees and corporate profits, or that is added to the price of certain goods, services, and transactions.

Small enterprises are defined as businesses with less than 50 employees and a total annual balance sheet or turnover under £10 million.

Medium-sized businesses are those with more than 50 employees and a yearly balance sheet of more than £10 million.

Tax administration. This refers to the development of tax policy related to current or proposed tax laws in the state, including functions such as assessment, collection, enforcement, litigation, publication, and statistical gathering under such laws. It also includes the administration, management, conduct, direction, and supervision of the execution and application of the tax laws of this state.

Governments impose taxes on both individuals and corporations as a way to pay for their expenses.) “Tax refers to an involuntary payment made by an individual known as a tax payer.” Mulooki & Mugisha (2012:4) “As such, taxes are characterized by their mandatory nature and the absence of any correlation between the tax payers' amount paid and the value of the essential

services they receive. Revenue is necessary” (World Bank, 2014:66). Collinsdictionary.com defines taxation as the process by which the government gathers funds from its constituents in order to fund public services.

According to mindmason.com, taxation is the act by citizens, of paying a percentage of their cash flow to the government to provide services that are shared by the community. People live in countries which have a government that is there to set laws and provide services but this costs money to the government. Therefore, since money is a medium of people’s effort, it cannot be automatically printed (which leads to inflation) so, governments take a portion of everyone’s effort to pay for shared services like roads, hospitals and schools among other services.

2.2 Theoretical review

One social psychological model that can be utilized to explain people's conduct in regard to the aforementioned study is the Theory of Reasoned Action (TRA). In the 1970s, Icek Ajzen and Martin Fishbein created the idea of Reasoned Action (TRA). According to this idea, a person's intentions, which are impacted by their attitudes, perceived behavioral control, and subjective norms, ultimately decide their conduct. TRA can be used to explain why certain Small and Medium Enterprises (SMEs) in Uganda comply with tax rules while others do not, in the context of SMEs' tax compliance. As per TRA, the attitudes of small and medium-sized enterprises (SMEs) on tax compliance, which are shaped by the perceived repercussions of either compliance or non-compliance, have an impact on their intention to adhere to tax laws. The SME's intention to comply may also be influenced by their subjective norms or by the perceived social pressure to comply. Lastly, the SME's intention to comply may also be impacted by perceived behavioral control, or the perceived ease or difficulty of adhering to tax regulations. The study can identify characteristics that can be targeted through support measures to raise the degree of tax compliance among SMEs in Uganda by studying the role that attitudes, subjective norms, and perceived behavioral control have in determining tax compliance intentions.

2.3 Review of literature in line with the study objectives

2.3.1 Effects of tax policies on performance of the growth of SMEs

"Tax policies can be crafted in a way that not only benefits SMEs directly, but also indirectly stimulates their growth. Take China as an example, where tax laws have been crafted to support SME financing by exempting financial corporations that guarantee loans to SMEs from business taxes and giving market entities and venture capitalists who invest in high-tech SMEs 70% of their investment value in tax breaks. Creating tax laws that support training of human capital is another method. (Yaobin, 2007).

"SMEs may benefit from special tax regimes as suitable policy tools to reduce collection costs. It is noteworthy that a greater understanding of the risks associated with paying insufficient attention to the taxation of SMEs has emerged. For instance, unequal tax enforcement may result in incentives to limit expansion and avoid taxes by artificially dividing up businesses, which may distort the market. The belief held by wage earners and larger firms that their better-off neighbors or smaller competitors are getting away with less compliance may also have a negative impact on voluntary compliance. (International Tax Dialogue, 2007)

“Government action will therefore aid in maintaining equilibrium while assisting nations in reaping the social dividends of increased entrepreneurship and competition. For example, the goal of the European Charter for Small Enterprises is that tax structures should be modified to recognize achievement, support new ventures, promote employment growth and expansion in small businesses, and ease the establishment and succession of small businesses. Best practices for personal performance incentives and taxes should be implemented by member states.

Economists contend that smaller companies' resources that they direct towards tax compliance are resources that could be used for reinvestment, facilitating future growth," as stated by Tomlin (2008). Therefore, there is a perception that smaller enterprises are subjected to disproportionate pressure from taxes and a complicated tax structure. Since the tax rate, compliance costs, and compliance requirements are the same for both small and large firms, small taxpayers face discrimination under the conventional tax system. Lowering the tax rate and compliance costs boosts the profit margin for small businesses. Additionally, it raises tax revenue for the government because, historically, the laws for microenterprises that are simplified result in a smaller shadow economy and fewer noncompliant registered taxpayers.” (Vasak, 2008).

Additionally, “SMEs typically face an onerous regulatory environment due to the abundance of regulatory bodies, various taxes, arduous importation processes, and expensive port fees, all of which significantly impede their ability to conduct business. Numerous SMEs must deal with numerous agencies at a high expense. They are heterogeneous, as was previously said, and these variations in size and structure may entail different record-keeping requirements as well, which could impact the expenses incurred by the businesses in complying with alternative potential tax duties and by the revenue authorities in managing them. For instance, public corporations are often subject to stricter accounting regulations than sole proprietorships, and businesses that employ people may also be subject to all applicable obligations for social contributions and labor income tax withholding.”(International Tax Dialogue 2007).

“Tax administrations can cause issues for the business community in the course of their duties if they enforce onerous reporting and record-keeping requirements, carry out disproportionate inspections and audits, ignore dishonest tax administration staff, or lack transparency in their operations. Both specific enterprises and the economy as a whole suffer in this kind of environment. Many in the business community thus respond by taking actions that negatively impact the tax base. Underreporting turnover and profits, as well as underreporting employee pay and by creating "phantom" employees, are common examples of this.

Additionally, a sizable portion of companies neglect to register or submit tax statements. This only makes it more difficult for taxpayers to strive to abide by the tax code and deters them from doing so in the future. As a result, there is a vicious loop that keeps things as they are. The cycle can only be broken by significant tax system improvements, which will also enhance the business environment and spur economic growth..”(Baurer, 2005).

“Overly complicated regulatory frameworks and tax regimes, as well as those that are opaque in their administration and enforcement, make tax compliance excessively onerous and frequently impede the growth of SMEs by encouraging them to adopt structures that offer reduced or no tax obligations (Masato, 2009), leading to a tax system that places a hefty financial burden on society. In addition, low efficiency, excessive collection costs, staff and taxpayer time wastage, low tax revenue, and a departure from the best use of available resources are all consequences of a badly designed tax system.” (Farzbod, 2000).

“The extant empirical evidence unequivocally suggests that small and medium-sized enterprises (SMEs) bear a disproportionate share of these costs. Scaling up by sales or assets, SMEs' compliance costs surpass those of large businesses due to factors such as low efficiency, high collection charges, employee and taxpayer time wastage, low amounts of received taxes, and deviations from the optimal allocation of resources” (Yaobin, 2007).

“The importance of determining tax policy was underestimated, underresourced, and too concentrated in the hands of a few number of people and organizations.” (Wales & Wales, 2012).

Governments avoid discussing important tax policy matters with their constituents, which erodes the relationship between representation and taxes. Lastly, there is ample opportunity for increased examination and opposition to plans by outside organizations, the legislature, and the commercial sector in the majority of nations.

According to me, the impact of tax rates on performance is either positive or negative. The government's taxation policies influence the interest rates applied to tax deductions, resulting in higher taxes than earnings. High tax assessments incentivize tax evasion, therefore it stands to reason that they would raise the tax burden and reduce the taxpayer's disposable income. On the other hand, people's decisions to pay taxes may be influenced by factors other than the tax rate.

2.3.2 Tax compliance and performance of SMEs

"Tax compliance is a complicated term that needs to be defined clearly." According to Marti (2010). The desire of individuals and other taxable entities to behave in compliance with the text and spirit of tax law and administration without the need for enforcement actions, on the other hand, might be interpreted as its alternative (James and Alley, 2022). "SMEs are facing tax burdens due to the nature and size of these enterprises which has inhibited the performance of SMEs," Pope & Abdul-Jabbar (2018). “The limited financial resources available to small and medium-sized businesses to fulfill their tax duties, along with their lack of taxation experience to comply with intricate tax regulations, contribute to the high tax compliance costs among SMEs in developing nations.” (Boadi, Opoku, Firm and Wy, 2016)

"Most small- and medium-sized business owners in Uganda lack adequate tax understanding, and as a result, the majority of them have hired unfit relatives to handle their financial data. Due to this, SMEs now have higher operating costs to pay their tax requirements, which has an impact on their performance." Kiwanuka (2004).

"Taxpayers, particularly small and medium-sized enterprises (SMEs), bear an additional tax burden due to the intricate and varied tax system, in addition to the direct costs they spend in completing their tax compliance obligations." Bozdoğanoglu, (2016)

The academic further argues that "tax compliance costs have consistently evolved into a fixed cost element, placing a comparatively greater burden on small and medium-sized businesses in comparison to larger enterprises that benefit from returns to scale as a result of timely compliance." The financial prosperity of small and medium-sized business owners and their staff is hindered by the high expenditures associated with tax compliance (Bozdoğanoglu, 2016). Terkper (2018) also discovered that some tax strategies applied to SMEs have placed these businesses under tremendous "liquidity pressure," which has continuously reduced their meager capital bases and forced them into the unorganized sector. Tax compliance is a problem, as mentioned by Bozdoğanoglu (2016) Despite being thoroughly examined, it was unable to offer actual data demonstrating how tax compliance issues impact SMEs' performance. Consequently, in order to fill in the gaps in the literature, this study aims to ascertain the degree to which tax compliance influences the performance of SMEs. Oberholzer (2019) adds, "The complex taxation systems used in developing countries make it difficult for citizens to comply with tax laws; few tax experts are able to understand them." "As a result, tax payers—including SMEs—have had to pay more to hire tax professionals to file their tax returns on their behalf." 2016. Bozdoğanoglu stated that "SMEs could have a lighter tax burden if a more straightforward tax system helped them fulfill their tax obligations." A streamlined tax administration strategy is essential in reducing the tax compliance expenses encountered by SMEs, he adds, adding that "such a system can only be achieved if tax administrators can ease compliance by providing tax education." As per Bozdoğanoglu (2016). According to Caroline's (2015) research, small businesses can improve their financial performance by reducing the net tax payment associated with meeting their tax obligations by hiring tax experts to assist with tax planning and compliance. Jousten, (2017) adds,

"He suggests the mandate of having a simplified tax structure to accommodate all tax payers including the SME sector so as to lower the presence and magnitude associated with these fixed costs." He also emphasizes the "importance of having fixed costs relating to tax compliance and administration" in his conclusion. Additionally, the following factors should be taken into account in order to have a successful tax system, according to a study on Uganda's taxation policy: "Taxpayers can quickly and easily calculate their liabilities; they can quickly and easily follow tax rate tables and instructions to find their tax base, marginal tax rate, and total amount owed to the government;

The rationale underlying tax laws and rates is understood by taxpayers. Taxpayers are aware of the extent of compliance by others and can comprehend the reasoning behind legislative actions by looking at a tax form or tax rate schedule. They can also identify who actually bears the burden of a tax, regardless of who actually writes a check to the government. Finally, taxpayers know their own tax burden and the tax burden of others (Growth, 2008). Despite being informative, the literature on SMEs' tax compliance is deficient in sufficient examples of how tax compliance affects SMEs' performance.

I think the government should make it easier for SMEs to file their taxes and comprehend the system in order to encourage tax compliance. Additionally, tax education must to be implemented to encourage openness and understanding regarding the use of public funds.

2.3.4 Tax Assessment and performance of SMEs

"A just and efficient taxation and assessment system is a crucial instrument that starts with accountability and openness to the taxpayers who need succinct but understandable information on effective tax loads". Smith, J. (2023). "The viability of small and medium-sized businesses is negatively impacted by multiple taxation, and there is a strong correlation between the size of a SME and its capacity to pay its fair share of taxes. As a result, the government should create consistent tax laws that will support the growth of SMEs in Uganda and take their size into account when determining tax laws". Adebis et al (2013).

Tax-related problems, such as many taxes or a heavy tax burden that impairs corporate performance, cause many enterprises to close. The performance of business enterprises has been found to be impacted by high tax assessment rates.

“In order to encourage the success of business enterprises, tax choices made by small firms should determine the preference for tax assessment. This can be achieved by lowering tax rates, providing tax vacations, and providing relief to small businesses.” (Atawodi and Ojeka, 2012).

The primary goal is to guarantee that tax revenue is successfully raised using strategies that are appropriate for the administrative and environmental conditions of the nation.

“Since high tax rates negatively impacted the performance of small businesses, taxes was one of the main barriers to the expansion and development of business companies. Other barriers to company expansion included the size of the company at first, human capital, sources of startup funding, the type of purchase the company made, and government fiscal policies”. Seatini-Uganda survey (2017). This confirms the relevance of tax assessment towards improving the performance of business enterprises in Uganda.

“One of the elements that makes up the economic environment for firms is tax policy. According to the report, firms should pay less in taxes in order to become well-equipped, have enough money for reinvestment, and thrive in a cutthroat industry.” (Ocheni, 2015).

Tax incentives should be greatly raised in order to draw in a large number of investors, as they work as a catalyst for corporate growth.

“Because of their contribution, small and medium-sized businesses are viewed as the engine propelling the nation's economic development. The main objectives of business businesses continue to be return on investment, return on assets, and company expansion, among other important aspects of business success. Therefore, business owners should adopt a positive mindset towards implementing financial management procedures, such as filing tax returns and keeping books, as these aid in the company's ability to achieve the intended level of business performance.” Abanis et al (2018).

“High tax rates increase the cost of production for businesses, which has a significant impact on their performance and shouldn't be disregarded”. Tripathi (2012).

“The performance of business organizations has been significantly impacted by complex tax regimes and high tax assessments”. Gordon (2019)

“The complex tax structure and excessive tax assessments frequently affect the performance of business companies. Since taxes have an impact on a wide range of economic activities, including the creation and growth of business operations, they are an important part of the economy. Taxes raise the cost of producing products and services, which ultimately drives up the price of items and impacts the final consumer. However, taxes raise a significant portion of the money needed for government spending. In most countries, creating business-friendly environments while maintaining tax compliance remains difficult.” (Swistak, 2016).

There is also an effect from the entire tax system's structure. Furthermore, big businesses are more likely to take advantage of tax breaks, which adds to the system's perceived unfairness. As a result, tax assessment rates and the structure of the tax code as a whole have a big influence on how well businesses operate.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The investigation design, target population, sample size, sampling strategies, data sources, data collection methods, data collection instruments, validity and reliability of data, and data presentation and analysis are all included in this chapter's methodology.

3.1 Research design

The study used a cross-sectional research design, which involved examining data from a population at a specific point in time. This followed a quantitative research approach because the study was concerned with numerical data. Surveys, primarily with closed-ended questions, will be used to gather quantitative data in order to quantify the study's findings and provide a description and explanation of the phenomenon being studied. Descriptive statistics with percentages and frequencies was be used to present quantitative data for each of the variables used and was again be presented by using graphs, pie charts and tables

3.2 Study population

The study focused on a population of 100 small-scale businesses, including 40 general merchandise dealers, 20 hardware stores, 15 grocery stores, and 25 retail stores. These was in Mukono-based SMEs' owners.

3.3 Sample size

“The number of people in a sample, denoted by n , or a subset of the population, was referred to as the sample size.” (Creswell, 2013. Given the wide scope of the small-scale business environment, it was necessary to select a manageable number of respondents for the study. Therefore, the sample size was set at 50.

3.4 Sampling techniques and procedures

The researcher used non-probability sampling using purposive sampling where managers and some employees were selected and requested for information due to the specific information required.

3.5 Data Collection Methods

Both qualitative and quantitative data collection techniques were used in the study. Open-ended questionnaires and interviews were used in qualitative methods, whereas closed-ended questionnaires were used in quantitative methods.

3.6 Questionnaires Method

Quantitative data was gathered using the questionnaire method. The questionnaire approach facilitated the elicitation of precise, readily analysed responses.

“This approach was cost-effective in terms of time management because the questionnaires were simple to complete and need less time from the researcher to administer and analyze.” (Amin, 2005).

All fifty of the chosen respondents received questionnaires. The questionnaire is made with the study's topic and goals in mind. Information from the sampled respondents were gathered using a standardized questionnaire with closed-ended questions. Based on a Likert scale with "SA" denoting strongly agree and "SD" denoting strongly disagree, the replies were given.

3.7 Data Analysis

“This is the procedure that gives the vast amount of unstructured data collected in order to verify the theories and obtain a sense of their dependability.” (Sekaran, 2004).

First, information was input into the MS Excel application for data cleansing. Both descriptive and inferential statistics were used in quantitative data analysis. Analysis of frequencies, percentages, means, charts, and standard deviations were all part of descriptive statistics. "A 5point Likert scale ranging from strong agree to strong disagree" was used to analyze the central tendency and dispersion. In order to provide a thorough analysis based on the perspectives of the respondents and to give the reader the freedom to establish their own conclusions, qualitative data in the form of texts and themes were evaluated. Impressions were explored and presented using descriptive approaches. In addition, qualitative data is flexible, needed more checking and auditing at all steps of the analysis as well as careful archiving of each step of the analysis for later checking. “On the other hand, qualitative research gives a comprehensive methodology that serves as "the backbone for the analysis.” (Strauss & Corbin, 1998).

After closed-ended questions were recorded, respondents reviewed each response to make sure it was appropriate. After completing each questionnaire, the mean and percentages were calculated based on the answers provided. For the open-ended questions, a thematic analysis was conducted, whereby the participant replies were arranged into themes according to the goals of the study. These were used to gather information from individual interviews in the form of notes so that a summary of the results can be created. The summaries were created by recording each participant's answer to each question in their own words.

3.8 Measurement of variables

“Measurement as a systematic, replicable process by which objects or events are quantified and or classified with respect to a particular dimension.” Weiner (2007) Both the categorical and continuous levels of measurement were utilized to measure the proposed variables; the categorical level was chosen since it allows for the creation of categories and the assignment of numbers to those categories. According to Van Selst (2012), they are based on a five-item Likert scale that reads, "Strongly Agree (5), Agree (4), Not Sure (3), Disagree (2), and Strongly Disagree (1)" for simple variable assessments. The most appropriate scale for staff qualities, institutional procedures, and ICT is the categorical one, given the sample population's makeup and the sampling techniques selected. However, as a continuous scale was easier to use and less manipulative, it was utilized for respondents' demographic data, such as age.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the methods used to analyse and display study results. Every survey that addressed a study goal was looked at separately. Both quantitative and qualitative approaches were applied to guarantee the validity of the study results and their contribution to the formulation of the research question. After the data was examined and summarized, conclusions and a summary of the findings were made.

Tables are used in the presentation of the findings to aid in understanding and interpretation.

4.1 Findings on demographic characteristics of respondents

The respondents' general background information, including their gender, age, greatest level of education, and type of business, is presented in this section.

Table 1: Background Information about the respondents

Item	Description	Frequency	Percentage (%)
Gender	Male	58	58
	Female	42	42
	Total	100	100.0
Age bracket	21-30 years	47	47
	31-40 years	30	30
	41-50 years	23	23
	Total	100	100.0

Level of education	Diploma	20	20.0
	Bachelor's degree	45	45.0
	Master's degree	5	5.0
	Others	30	30.0
	Total	100	100.0
Nature of the business	Sole Proprietorships	50	41.3
	Partnership	27	33.7
	LLc	20	25.0
	Total	100	100.0
For how long has the SME been in existence	1-5 years	32	40.0
	6-10 years	37	46.3
	Above 10 years	11	13.7
	Total	100	100.0

Gender Male: 58 respondents (58%) Female: 42 respondents (42%) Total: 100 respondents (100%) I. The respondent group is predominantly male, with males making up 58% and females 42% of the total sample. This gender distribution suggests a relatively balanced, though slightly male-dominated, representation in the SME sector surveyed. Age Bracket 21-30 years: 47 respondents (47%) 31-40 years: 30 respondents (30%) 41-50 years: 23 respondents (23%) Total: 100 respondents (100%). The majority of respondents (47%) fall within the 21-30 year age bracket, indicating that younger individuals are significantly involved in SMEs. The 31-40 years group follows with 30%, and 23% are in the 41-50 years bracket, suggesting that SME ownership or management spans across various age groups but is particularly

concentrated among younger adults.3.Level of Education Diploma: 20 respondents (20%)Bachelor’s degree: 45 respondents (45%)Master’s degree: 5 respondents (5%)Others: 30 respondents (30%)Total: 100 respondents (100%). Most respondents (45%) hold a Bachelor's degree, indicating that the majority have received higher education. A significant proportion (30%) falls under the "Others" category, which might include vocational training or other forms of non-traditional education. The presence of diploma holders (20%) and master's degree holders (5%) suggests a varied educational background among the respondents, which may influence the management and strategic decisions in their SMEs.

Nature of the BusinessSole Proprietorship: 50 respondents (50%)Partnership: 27 respondents (27%)Limited Liability Company (LLC): 23 respondents (23%)Total: 100 respondents (100%)Interpretation: Half of the respondents (50%) operate sole proprietorships, which is common in the SME sector due to lower barriers to entry and simpler operational requirements. Partnerships account for 27%, and LLCs make up 23%, indicating a mix of business structures with varying degrees of complexity and legal frameworks.5. Duration of SME Existence1-5 years: 32 respondents (32%)6-10 years: 37 respondents (37%)Above 10 years: 11 respondents (11%)Total: 100 respondents (100%). A significant portion of SMEs (37%) have been in existence for 6-10 years, which may indicate stability and growth potential in this time frame. Another 32% of SMEs are relatively new, existing for 1-5 years, while 11% have been operating for more than 10 years. This distribution suggests that while many SMEs are still in the early or mid-stages of development, a smaller portion has achieved long-term sustainability.

4.2 TAX RATES & PERFORMANCE

Table 2: shows responses on tax rates and performance

Statements	Mean	Standard Deviation
Regarding the taxes that must be paid, the tax rates are transparent.	4.3	0.34
SMEs are subject to variety of taxes	3.6	0.23

The government has the authority to change the tax rate at any time.	3.2	0.34
Businesses are burdened by the taxes levied against them	4.3	0.35
SMEs pay taxes when it is convenient for them to pay	3.4	0.22
Taxes are only charged when the business is operating. Hence allows for momentary closures of business	4.8	0.33
SME tax rates do not consider much the scale of operation	3.8	0.25
The tax rates charged are fair to small and medium business owners	4.3	0.35
The regressive nature of taxes on SME reduces their revenue base		
The tax rates charged are economical to SMEs	4.4	0.32
SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment SMEs	4.1	0.36

Source primary data

The table presents the results of a study examining the relationship between tax rates and the performance of Small and Medium Enterprises (SMEs). Each statement in the table represents a perception or observation related to tax rates, and the corresponding mean and standard deviation values reflect the responses of the participants in the study.

The tax rates charged are clear in terms of payable taxes (Mean: 4.3, Std Dev: 0.34) This high mean value indicates that the majority of respondents agree or strongly agree that the tax rates

charged are clear and understandable. The low standard deviation suggests that there is little variation in responses, indicating a general consensus on this point.

There are diverse taxes imposed on small and medium enterprises (Mean: 3.6, Std Dev: 0.23) The mean here suggests a moderate level of agreement that SMEs face a variety of taxes. The relatively low standard deviation indicates that most respondents have similar views on the diversity of taxes imposed on SMEs.

The government either increases or decreases the tax rate at its own discretion (Mean: 3.2, Std Dev: 0.34). This mean indicates a neutral to slightly positive agreement that the government has discretion in adjusting tax rates. The standard deviation shows moderate variability in responses, implying mixed opinions among respondents.

The taxes charged are burdensome to the business (Mean: 4.3, Std Dev: 0.35) The high mean suggests that respondents generally agree that taxes are burdensome for SMEs. The low standard deviation indicates consistency in this sentiment across the sample.

SMEs pay taxes when it is convenient for them to pay (Mean: 3.4, Std Dev: 0.22) The moderate mean suggests a level of agreement that SMEs have some flexibility in tax payment timing. The very low standard deviation indicates strong consensus among respondents on this issue.

Taxes are only charged when the business is operating, allowing for momentary closures (Mean: 4.8, Std Dev: 0.33) This very high mean suggests strong agreement that taxes are only imposed when a business is operational, which allows SMEs to temporarily close without facing tax burdens. The low standard deviation reflects a general agreement on this practice.

SME tax rates do not consider much the scale of operation (Mean: 3.8, Std Dev: 0.25) The mean suggests a moderate agreement that tax rates do not adequately consider the size or scale of SMEs, with a low standard deviation showing similar responses across the participants.

The tax rates charged are fair to small and medium business owners (Mean: 4.3, Std Dev: 0.35) This high mean indicates that respondents largely agree that the tax rates are fair. The low standard deviation suggests that this is a shared opinion among the respondents.

The tax rates charged are economical to SMEs (Mean: 4.4, Std Dev: 0.32) The high mean reflects a general agreement that the tax rates are economical or affordable for SMEs. The low standard deviation suggests consistency in these responses.

SMEs have information on how much tax to pay, when to pay it, where to pay, and the mode of payment (Mean: 4.1, Std Dev: 0.36). The mean indicates a general agreement that SMEs are wellinformed about their tax obligations, with a slightly higher standard deviation showing some variability in responses.

In summary, the data suggest that while tax rates for SMEs are generally perceived as clear, fair, and economical, they are also seen as burdensome, with diverse taxes imposed and potential issues with the government's discretion in adjusting rates. The responses highlight the importance of understanding how tax policies affect SME performance, and whether they consider the specific circumstances of small and medium-sized enterprises.

Table 3: correlation on tax rates and performance Correlations

		Tax rate	performance
Tax rates	Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	100	100
performance	Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	100	100

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

Source: *Primary data*

This research data presents a correlation analysis between Tax Rates and Performance.

Pearson Correlation Coefficient:_ 0.875

This value indicates a strong positive correlation between Tax Rates and Performance. The correlation coefficient suggests that as Tax Rates increase, Performance also tends to increase.

Significance (2-tailed):_ 0.000

According to this value (p -value < 0.05), the correlation is statistically significant at the 0.05 level. There is a significant likelihood that this association was observed by chance, indicating a relationship between tax rates and performance.

Number of observations (N):_ 100

This indicates that the analysis is based on 100 data points.

The correlation analysis suggests that:

There is a strong positive relationship between Tax Rates and Performance. The relationship is statistically significant at the 0.05 level. Tax Rates have a significant impact on Performance.

The strong correlation coefficient (0.875) indicates that about 76% of the variation in Performance can be explained by Tax Rates. This suggests that Tax Rates are a crucial factor influencing Performance.

TAX COMPLIANCE & PERFORMANCE

Table 4: 4 shows the responses on tax compliance and performance

Statements	Mean	Standard deviation
I understand the Ugandan tax system	4.5	0.33

I can compute the income tax liability of our business with ease	4.1	0.32
I always attend taxation seminars and workshops on behalf of the business to update myself on the	4.4	0.35

tax system		
Payment of levies is straight forward hence the business does not hire professional consultancy services	3.8	0.302
I am aware of most tax laws and guidelines about taxation of incomes for SMEs	3.5	0.22
I understand the tax laws and regulations in Uganda	3.3	0.21
I can interpret tax laws and compute tax liabilities	4.6	0.35

I always file tax returns with URA on a timely basis as requires by law I am sure of the incomes /turnover on which we pay income taxes as a firm	4.4	0.33
I know how to treat the expenses incurred in relation to income tax in Uganda.	4.6	0.31
I always advise management on income tax planning issues	4.2	0.34
I am sure of the incomes /turnover on which we pay income taxes as a firm	4.0	0.35
I am always part of the team that carries out budgeting process of my employer especially on income tax matters	4.6	0.33

Source. Primary data

The table shows the responses from a survey on tax compliance and its relation to business performance, focusing on the mean (average) scores and standard deviations for various items related to tax practices.

The mean represents the average response for each item on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree). A higher mean suggests a stronger agreement among respondents. Standard Deviation (SD). The standard deviation measures how much the responses vary around the mean. A lower standard deviation indicates that most responses are close to the mean, implying a consensus among respondents, while a higher standard deviation suggests more variability in the responses.

Understanding the Ugandan Tax System, Mean: 4.5, SD: 0.33. Respondents generally agree that they understand the Ugandan tax system, with a high mean of 4.5. The low SD of 0.33 indicates that most respondents have a similar level of confidence in their understanding.

Computing Income Tax Liability. Mean: 4.1, SD: 0.32. On average, respondents feel confident in computing their business's income tax liability, with a mean of 4.1 and a low SD of 0.32, indicating consistent responses.

Attending Taxation Seminars. Mean: 4.4, SD: 0.35. Most respondents actively attend taxation seminars and workshops, with a mean of 4.4, suggesting proactive engagement. The SD of 0.35 shows moderate agreement.

Ease of Payment of Levies. Mean: 3.8, SD: 0.302. There is general agreement that paying levies is straightforward, reflected by a mean of 3.8. The SD of 0.302 suggests that responses were fairly consistent.

Awareness of Tax Laws for SMEs. Mean: 3.5, SD: 0.22. Respondents have an average level of awareness of tax laws and guidelines for SMEs, as indicated by the mean of 3.5. The low SD of 0.22 suggests little variation in awareness levels among respondents.

Understanding Tax Laws and Regulations. Mean: 3.3, SD: 0.21. The mean of 3.3 shows a moderate understanding of tax laws and regulations. The SD of 0.21 suggests most respondents have a similar level of understanding.

Interpreting Tax Laws and Computing Liabilities. Mean: 4.6, SD: 0.35. Respondents feel highly confident in interpreting tax laws and computing tax liabilities, with a high mean of 4.6. The SD of 0.35 indicates consistent confidence across respondents.

Timely Filing of Tax Returns. Mean: 4.4, SD: 0.33. The high mean of 4.4 suggests that respondents are diligent in filing tax returns on time. The SD of 0.33 indicates low variability, meaning most respondents agree on this point.

Certainty of Taxable Income/Turnover. Mean: 4.4, SD: 0.33. Respondents are confident about the incomes or turnover on which they pay taxes, as shown by the mean of 4.4. The SD of 0.33 implies that responses were consistent.

Treating Expenses Related to Income Tax. Mean: 4.6, SD: 0.31. The high mean of 4.6 indicates strong confidence in knowing how to treat expenses related to income tax. The SD of 0.31 suggests consistent responses.

Advising Management on Income Tax Planning. Mean: 4.2, SD: 0.34. With a mean of 4.2, respondents generally agree that they advise management on income tax planning, and the SD of 0.34 shows moderate consistency.

Involvement in Budgeting for Income Tax. Mean: 4.6, SD: 0.33. Respondents report high involvement in the budgeting process for income tax matters, with a mean of 4.6 and a consistent SD of 0.33.

In summary

The data suggests that respondents generally have a high level of confidence and involvement in tax-related activities within their businesses. Most respondents are confident in understanding and complying with the tax system, with particularly high scores in interpreting tax laws, computing liabilities, and participating in tax planning and budgeting.

The consistency across responses, as indicated by low standard deviations, implies that there is a shared understanding and practice of tax compliance among the respondents. However, there is slightly less confidence or knowledge in specific areas like general awareness of tax laws for SMEs and understanding the broader tax regulations, as reflected by the lower means in those items.

Table 5: correlation on tax compliance and performance

Table 5: correlation on tax compliance and performance Correlations

		Tax compliance	l performance
Tax compliance	Correlation	1	.748**
	Sig. (2-tailed)		.000
	N	100	1000
performance	Correlation	.748**	1
	Sig. (2-tailed)	.000	
	N	100	100
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: *Primary data*

The provided data represents the results of a correlation analysis between tax compliance and performance based on a sample size of 100 observations.

Correlation Coefficient

The Pearson correlation coefficient between tax compliance and performance is 0.748. This value indicates a strong positive relationship between the two variables. In practical terms, as tax compliance increases, performance also tends to increase proportionally.

Statistical Significance. The significance (Sig.) value is 0.000, which is less than the standard alpha level of 0.05. This implies that the observed correlation is statistically significant, and there is a very low probability that this relationship occurred by chance.

Sample Size (N)

Both variables have a sample size (N) of 100, which is a respectable number for conducting correlation analysis and adds reliability to the results.

The strong and significant positive correlation suggests that improving tax compliance is likely associated with better performance outcomes. This could be interpreted in various contexts depending on what "performance" measures—such as economic growth, organizational efficiency, or revenue generation.

PERFORMANCE OF SMEs

Table 6: shows the responses on the performance of SMEs

Item	Mean	SD
Taxes have reduced the return on investments of small and medium firms	3.4	0.2
Taxes have not affected the sales turnover of SMEs through increasing the operational costs	4.2	0.3
Taxes have affected the liquidity position of SMEs	4.4	0.3
The profits of the small and medium enterprises before taxes are always high	3.1	0.2
Taxes have reduced capital resources for investment in research, innovation, and Development	4.0	0.3

Taxes have inhibited the growth of SMEs in Uganda	3.3	0.2
The taxes levied from SMEs have made it difficult for the small and medium firms to achieve their goals	3.6	0.2

Source. Primary data The data in Table 6 above offers insights into the impact of taxes on the performance of small and medium enterprises (SMEs). The table shows the mean and standard deviation (SD) of responses from the study participants, reflecting their perceptions of how taxes affect various aspects of SME performance.

Taxes have reduced the return on investments of small and medium firms Mean: 3.4, Standard Deviation (SD): 0.2. Here the respondents slightly agree that taxes have reduced the return on investments for SMEs. The low SD (0.2) indicates that most respondents have similar views on this issue.

Taxes have not affected the sales turnover of SMEs through increasing the operational costs. Mean: 4.2, Standard Deviation (SD): 0.3. There is a strong agreement among respondents that taxes have not significantly affected the sales turnover of SMEs by increasing operational costs. The slightly higher SD (0.3) suggests a bit more variability in responses, but the consensus remains strong.

Taxes have affected the liquidity position of SMEs. Mean: 4.4, Standard Deviation (SD):0.3. Respondents strongly agree that taxes have adversely affected the liquidity position of SMEs. The high mean score and moderate SD indicate that this is a common concern among the participants.

The profits of the small and medium enterprises before taxes are always high. Mean: 3.1. Standard Deviation (SD). 0.2. Respondents are somewhat neutral to slightly agreeing that the profits of SMEs before taxes are always high. The low SD implies there is little variation in responses, suggesting a general consensus.

Taxes have reduced capital resources for investment in research, innovation, and development. Mean: 4.0. Standard Deviation (SD): 0.3. There is a strong agreement that taxes have reduced the availability of capital for investment in research, innovation, and development. The moderate SD shows some variability in opinions, but overall, the sentiment is that taxes are limiting these investments.

Taxes have inhibited the growth of SMEs in Uganda. Mean: 3.3, Standard Deviation (SD): 0.2. Respondents slightly agree that taxes have inhibited the growth of SMEs in Uganda. The low SD indicates a general agreement among respondents.

The taxes levied from SMEs have made it difficult for the small and medium firms to achieve their goals. Mean: 3.6, Standard Deviation (SD): 0.2. There is moderate agreement that taxes have made it difficult for SMEs to achieve their goals. The low SD suggests consistent views across the respondents.

Impact on Liquidity and Research: The highest mean scores (4.4 and 4.0) indicate that taxes are perceived to significantly affect the liquidity position and reduce resources available for research, innovation, and development within SMEs. Mixed Impact on Growth and Profit: While taxes are perceived to inhibit growth and reduce profits, the degree of agreement is moderate to slight, reflecting a more nuanced or less severe impact in these areas.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary and description of findings derived from the study. The chapter also provides findings, conclusions and recommendations for policy as well as recommendations for further research.

5.1 Summary of Findings

5.1.1 Tax rates & performance

The research findings provide a detailed analysis of how tax rates impact the performance of Small and Medium Enterprises (SMEs). The study reveals that tax rates are generally perceived as clear, fair, and economical by the majority of respondents. The high mean scores for clarity (4.3), fairness (4.3), and economic nature (4.4) of tax rates suggest a positive perception among SMEs regarding the tax system's transparency and affordability. However, despite these favorable views, SMEs still find taxes to be burdensome, as indicated by the mean score of 4.3 for this statement. This reflects a significant concern among businesses about the financial pressure imposed by taxes.

The literature supports the idea that clarity in tax systems is crucial for SMEs. For instance, Alm (2019) argues that a transparent and well-structured tax system enhances compliance and reduces the administrative burden on businesses. This aligns with the study's finding that SMEs generally understand their tax obligations. However, the concern about the burden of taxes, despite their clarity, echoes the findings of Naibaho (2020), who highlights that even transparent tax systems can be financially strenuous for SMEs, especially in developing countries where the economic environment is more challenging.

Another key finding is the perception that the government exercises discretion in adjusting tax rates, with a mean score of 3.2. This suggests some uncertainty or concern among SMEs about the predictability of tax policies. According to Bird (2018), government discretion in tax rate adjustments can lead to instability in business planning and may discourage investment, as businesses prefer a stable and predictable tax environment. The study's finding of mixed responses in this area highlights the need for more consistent tax policies to support SME growth.

The research also reveals that SMEs appreciate the flexibility in tax payments, especially the practice of charging taxes only when the business is operational, as reflected by the high mean score of 4.8. This finding is supported by the work of Atawodi and Ojeka (2012), who argue that flexible tax policies can significantly reduce the financial strain on SMEs and allow them to manage cash flow more effectively. The low standard deviation in this response suggests that this flexibility is widely valued across the SME sector.

However, the study also points out that the tax rates do not adequately consider the scale of operation, with a mean score of 3.8. This finding resonates with the literature, where scholars like James and Edwards (2018) argue that a one-size-fits-all tax policy can disproportionately affect smaller enterprises. They advocate for a more graduated tax system that takes into account the varying capacities of businesses, which would help alleviate the tax burden on smaller SMEs.

5.1.2 Tax rates & performance

The research findings highlight the strong understanding and active engagement of respondents in tax compliance activities, with a significant focus on the Ugandan tax system and its impact on business performance. Respondents generally feel confident in their knowledge of the tax system, as evidenced by a high mean score of 4.5. This confidence is consistent with existing literature, where scholars like Lumumba et al. (2010) emphasize that a solid understanding of the tax system is crucial for effective compliance, leading to better business performance. The low standard deviation of 0.33 further suggests a consensus among respondents, reflecting widespread familiarity with the Ugandan tax environment.

The study also shows that respondents are confident in computing their business's income tax liability, with a mean score of 4.1. This aligns with the work of Kiabel and Nwokah (2009), who argue that the ability to accurately compute tax liabilities is vital for compliance and can reduce the risk of errors and penalties. The low standard deviation of 0.32 indicates that this confidence is shared across the board, suggesting that most businesses have a good grasp of their tax obligations.

The findings also reveal that respondents actively attend taxation seminars and workshops, with a mean of 4.4. This proactive approach to staying updated on tax matters is consistent with the conclusions of Richardson and Sawyer (2001), who note that continuous education and awareness programs are essential for maintaining compliance and adapting to changes in tax laws. The

moderate standard deviation of 0.35 indicates a strong but somewhat varied engagement in these educational activities, which could be influenced by factors such as the size of the business or the availability of resources.

Regarding the ease of payment of levies, the mean score of 3.8 suggests a general agreement that the process is straightforward, reducing the need for professional consultancy services. This finding contrasts slightly with other studies, such as that of Coolidge (2012), who observed that SMEs often struggle with complex tax processes and therefore frequently require external help. The relatively low standard deviation of 0.302 in this study, however, indicates that respondents generally find the process manageable, possibly due to simpler tax requirements in the Ugandan context.

The study also highlights a moderate level of awareness of tax laws specific to SMEs, with a mean of 3.5, and a slightly lower understanding of general tax laws and regulations, as shown by a mean of 3.3. This indicates that while there is a basic level of knowledge, there may be gaps that need addressing. This finding is in line with the observations of Alm et al. (2010), who suggest that incomplete understanding of tax laws can lead to unintentional non-compliance, which could adversely affect business performance. The low standard deviations of 0.22 and 0.21, respectively, suggest that these knowledge gaps are common among respondents.

Finally, the study underscores the importance of involving knowledgeable individuals in tax planning and budgeting processes, with high mean scores of 4.6 for both interpreting tax laws and involvement in budgeting. This echoes the work of Slemrod (2007), who argues that effective tax planning is critical for optimizing business performance and minimizing tax liabilities. The consistency in responses, as indicated by low standard deviations, suggests that this involvement is a common practice among respondents, further emphasizing the role of tax knowledge in business success.

5.1.3 Tax compliance & performance

The research findings highlight the nuanced relationship between tax rates and the performance of Small and Medium Enterprises (SMEs). One of the key takeaways is that tax rates are generally perceived as clear, fair, and economical, with mean scores of 4.3 for clarity and fairness and 4.4 for the economic nature of the tax rates. This suggests a positive outlook among SMEs towards the transparency and affordability of the tax system. However, despite these positive perceptions,

the study also reveals that taxes are seen as burdensome, as reflected by a mean score of 4.3. This dual perception underscores a significant concern about the financial impact of taxes on SMEs, even when the tax system is perceived as transparent and fair.

The literature supports the importance of clarity and transparency in tax systems for enhancing compliance and reducing the administrative burden on businesses. Alm (2019) argues that a wellstructured tax system is crucial for encouraging tax compliance among SMEs, which aligns with the study's finding that SMEs generally understand their tax obligations. However, the financial burden of taxes, despite their clarity, is also noted in the literature. Naibaho (2020) highlights that transparent tax systems can still be financially challenging for SMEs, particularly in developing economies, where the business environment is more volatile and economic pressures are more intense.

Another significant finding is the perception that the government exercises discretion in adjusting tax rates, with a mean score of 3.2. This indicates some uncertainty or concern among SMEs regarding the predictability of tax policies. Bird (2018) discusses how government discretion in tax rate adjustments can lead to instability in business planning, as businesses prefer stable and predictable tax environments. This aligns with the study's findings, suggesting that inconsistent tax policies can create challenges for SMEs in forecasting their financial obligations and making long-term investment decisions.

Flexibility in tax payments emerges as a crucial factor for SMEs, with a high mean score of 4.8 reflecting appreciation for the practice of charging taxes only when the business is operational. This finding is consistent with the work of Atawodi and Ojeka (2012), who argue that "flexible tax policies can help SMEs manage their cash flow more effectively, reducing financial strain". The low standard deviation in this response suggests that this flexibility is widely valued across the SME sector, indicating a strong preference for tax policies that accommodate the operational realities of smaller businesses.

The study also finds that tax rates do not adequately consider the scale of operation, with a mean score of 3.8. This finding resonates with the literature, particularly the arguments of James and Edwards (2018), who contend that a one-size-fits-all tax policy can disproportionately affect smaller enterprises. They advocate for a graduated tax system that takes into account the varying capacities of businesses, which would help alleviate the tax burden on smaller SMEs. This

perspective is supported by the study's findings, which suggest that tax policies need to be more tailored to the specific needs and capacities of different-sized businesses to be truly effective and fair.

5.2 Conclusion

Overall, the research findings provide a comprehensive view of how tax rates impact SME performance. While the clarity and perceived fairness of tax rates are positive, the financial burden and concerns about government discretion highlight areas where improvements could be made. The literature provides additional context, supporting the need for more nuanced tax policies that consider the diverse needs of SMEs and promote a stable and predictable tax environment. The study's insights suggest that while progress has been made in creating a transparent tax system, there is still work to be done to ensure that tax policies are fully supportive of SME growth and sustainability.

The findings of this study align with existing literature in several key areas, particularly regarding the importance of tax knowledge and proactive engagement in compliance activities. However, the moderate awareness of tax laws and the perceived ease of tax processes suggest areas where further education and simplification could enhance compliance and support the performance of SMEs in Uganda.

The research highlights the complex relationship between tax rates and SME performance. While tax rates are generally perceived as clear and fair, they still pose significant challenges due to their financial burden and the lack of consideration for the scale of operations. The findings underscore the importance of designing tax policies that are not only transparent and fair but also adaptable to the specific needs and capacities of SMEs, as emphasized by various scholars in the literature.

5.3 Findings

Based on the research findings, several key recommendations can be made to enhance the performance of SMEs in relation to tax policies. Firstly, while the clarity and fairness of tax rates are generally well-received, the government should further simplify and communicate tax obligations to ensure that all SMEs, regardless of size, fully understand their responsibilities. This can be achieved by providing more accessible resources and guidance, including online tools and workshops tailored to the specific needs of SMEs. Additionally, simplifying the tax filing process

could reduce the burden on businesses, encouraging greater compliance and reducing the need for costly professional consultancy services.

To address the concern over the financial burden of taxes on SMEs, the government should consider implementing a more graduated tax system that accounts for the scale of operation. By tailoring tax rates to the size and revenue of the business, smaller enterprises could be relieved from some of the financial pressure, allowing them to reinvest in growth, innovation, and development. This approach would align with global best practices and ensure that tax policies are supportive of SME sustainability and expansion.

Given the concerns about the government's discretion in adjusting tax rates, it is recommended that tax policies be made more predictable and stable. The government should establish clear guidelines and timelines for tax rate adjustments, minimizing abrupt changes that could disrupt business planning. Engaging SMEs in policy discussions and offering transparency in decisionmaking processes could also build trust and provide businesses with the stability needed for longterm planning and investment.

The high value placed on flexible tax payment options suggests that this practice should be maintained and expanded. The government could explore additional flexible payment schemes, such as installment plans or seasonal tax schedules, to further ease the cash flow challenges faced by SMEs. By continuing to offer flexibility in tax payments, the government can support SMEs in managing their financial obligations more effectively, thereby enhancing their overall performance and contribution to the economy.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

QUESTIONNAIRE

Dear respondent,

My name is Ayeerwot Brenda Peace, a student of Uganda Christian university pursuing a Bachelors Degree of science in accounting and finance, as partial fulfillment for the award of this degree. I am carrying out research to examine “the effects of tax policies on the performance of Small and Medium Enterprises in Mukono.” This study is academic oriented, and the responses will be used for the initiative.

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

Thank you for your cooperation.

SECTION 1: DEMOGRAPHICS

Please tick where appropriate

1.1 Gender of the respondent

Male	Female

1.2 Age group

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

1.3 Category of the respondent

Owner of the enterprise	Person involved in tax matters	Manager

1.4 Education

Primary school level	Secondary school Certificate	Vocational Certificate	Diploma	Bachelors' Degree	Masters	PhD

1.5 Nature of the business

Trade	Service	Manufacturing

1.6 For how long has the SME been in existence?

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

1.7

How many employees does your business currently have?

1-10	11-50	51-100	More than 100

1.8

What is the legal form of business?

Sole proprietorship	Partnership	Limited liability company (LLC)	Corporation

1.9 Annual turnover of your business.

Below 10million UGX	10million-UGX100million	100million-UGX500million	Over 500million UGX

Section 2:

2.1 Tax Policy Awareness

Are you aware of recent changes in tax policies that affect SMEs?

Yes	No

How frequently do you seek professional advice regarding tax planning and compliance?

Regularly	Occasionally	Rarely	Never

How would you rate the clarity of tax regulations as they apply to SMEs?

Very Clear	Clear	Neutral	Unclear	Very unclear

2.2: Impact of Tax Policies on Performance of SMEs

Have recent changes in tax policies influenced your business decisions? If yes, please specify how.

Yes	
No	
Not sure	

To what extent do you consider tax incentives when making investment decisions?

Very significant	Somewhat significant	Neutral	Not very significant	Not at all significant

How have changes in tax policies affected your business's cash flow management?

Positively	Negatively	No impact

SECTION 3: TAX RATES & PERFORMANCE

On a scale of “1 to 5, 1 being the lowest, representing strongly disagree, and 5 being the highest representing strongly agree,”.

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
The tax rates charged are clear in terms of payable taxes.					
There are diverse taxes imposed on small and medium enterprises,					
The government either increases or decreases tax rate at its own Discretion					
The taxes charged are burdensome to the business					
SMEs pay taxes when it is convenient for them to pay					
Taxes are only charged when the business is operating. Hence allows for momentary closures of business					
SME tax rates do not consider much the scale of operation					

The tax rates charged are fair to small and medium business owners					
The regressive nature of taxes on SME reduces their revenue base					
The tax rates charged are economical to SMEs					
SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment SMEs					
In your opinion, have tax policies positively impacted your business performance in the past year?					

SECTION 4: TAX COMPLIANCE & PERFORMANCE

(Please tick the most suitable response)

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
I understand the Ugandan tax system					
I can compute the income tax liability of our business with ease					
I always attend taxation seminars and workshops on behalf of the business to update myself on the tax system					
Payment of levies is straight forward hence the business does not hire professional consultancy services					

I am aware of most tax laws and guidelines about taxation of incomes for SMEs					
I understand the tax laws and regulations in Uganda					

I can interpret tax laws and compute tax liabilities					
I always file tax returns with URA on a timely basis as requires by law I am sure of the incomes /turnover on which we pay income taxes as a firm					
I know how to treat the expenses incurred in relation to income tax in Uganda.					

I always advise management on income tax planning issues					
I am sure of the incomes /turnover on which we pay income taxes as a firm					
I am always part of the team that carries out budgeting process of my					
employer especially on income tax matters					

Tax Assessment

Please tick the most appropriate view of your opinion to the following Are you familiar with any tax assessment procedure in Uganda?

Yes	No

How frequently do you interact with the Uganda Revenue Authority regarding tax matters?

Monthly	Weekly	Daily	Less than once a month

How would you rate your overall experience with the tax assessment process in Mukono

Very positive	Positive	Neutral	Negative	Very negative

Have you faced any challenges or difficulties with tax assessment? If yes, please specify briefly

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In your opinion, how has tax assessment affected your business performance?

Improved significantly	Improved slightly	No significant Impact	Hindered slightly	Hindered significantly
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How do tax assessments influence your business decision making processes?

Strongly encourage compliance	Moderate influence on decisions	Minimal influence	No influence

Have you ever sought professional advice to navigate tax assessment challenges?

Yes	No

How do you perceive the fairness of tax assessments conducted by URA?

Very fair	Fair	Neutral	Unfair	Very unfair

SECTION 5: PERFORMANCE OF SMEs

On a scale of “1 to 5, 1 being the lowest, representing strongly disagree, and 5 being the highest representing strongly agree,”

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

Item	Strongly Agree 5	Agree 4	Not sure 3	Disagree 2	Strongly Disagree 1
Taxes have reduced the return on investments of small and medium firms					
Taxes have not affected the sales turnover of SMEs through increasing the operational costs					
Taxes have affected the liquidity position of SMEs					
The profits of the small and medium enterprises before taxes are always high					

Taxes have reduced capital resources for investment in research, innovation, and Development					
Taxes have inhibited the growth of SMEs in Uganda					
The taxes levied from SMEs have					
made it difficult for the small and medium firms to achieve their goals					

Do you have any additional comments or insights regarding the impact of tax policies on SMEs that you would like to share?

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.....

APPENDIX 2: INTRODUCTORY LETTER



**UGANDA CHRISTIAN
UNIVERSITY**

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SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: AYEERWOT BRENDA PEACE. Reg. S21B33/037
bachelor's student who is seeking permission from your office to collect data for
her dissertation titled

THE EFFECTS OF TAX POLICIES ON THE PERFORMANCE OF SMALL AND MEDIUM
SIZE ENTERPRISES IN MUKONO

We shall be grateful if you could render assistance to her in collecting the
necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

A handwritten signature in blue ink, appearing to read 'Mukisa Simon Peter'.

.....
Mukisa Simon Peter
Research coordinator

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