

**THE EFFECTS OF TAXATION ON THE FINANCIAL PERFORMANCE OF
SMALL AND MEDIUM ENTERPRISES IN NABUTI VILLAGE NSUBE KAUGA
MUKONO**

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**UGANDA CHRISTIAN
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DECLARATION

I declare that I ssabavuma mark am the author of this work and any help I received in preparing it is fully recognized and mentioned in this report. All sources used are clearly cited. I also confirm that I prepared this report specifically to partially fulfill the requirements for the degree of bachelor of business administration at Uganda Christian University.

Signature.....

Date.....

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APPROVAL

I hereby certify that this academic research was conducted under my supervision as the academic supervisor, and has been reviewed and approved.

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SIGNATURE:

A handwritten signature in black ink, appearing to read 'Akinyi Lorraine', written over a horizontal line.

DATE: 09/09/2024

DEDICATION

I dedicate this research report to my family, who guided, supported and mentored me throughout my education to reach this level. Most importantly, thank the almighty God for his guidance and provision in completing this research project

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ABSTRACT

The research looked at the effects of taxation on the financial performance of small and medium enterprise in nabuti village nsube-kauga parish mukono. It mainly explored the different types of taxes which involved income tax, value added tax and local taxes and it also looked at different objectives which included, To find out the effect of income tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono, find out the effect of value added tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono and To find out the effect of local taxes on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono.

The research used a descriptive research design and a random sampling technique to gather data from 52 small and medium enterprises by using these questionnaires, interviews and observations. The findings of the study showed that income tax had a great effect on the profits of small and medium enterprises in nabuti village nsube kauga mukono. The findings also showed that the cash flows of small and medium enterprises were being greatly affected by value added tax. The findings also show that local taxes greatly impacted on the financial stability of the small and medium enterprise in nabuti village nsube kauga mukono. The study then concluded that the taxes mentioned above negatively affected the financial performance of small and medium enterprises.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study presented the background of the study, statement of the problem, objectives of the study, the research questions, scope and the significance of the study.

1.1 Background of the study

According to Krzysztof wach(2020) since 1989 the governments undertook the process of economic transformation that included the formation of the private sector by privatizing the existing state owned companies and promoting the development of entrepreneurship and creation of small and medium enterprises. Nakanyiga (2024) defines taxation as a compulsory payment or movement of resources from private to public sector imposed based on a determined standard and without reference to specific benefits received, in order to achieve some of the nation's economic and social objectives. The main aim for taxation was to create revenue for the government so that it can take care of its expenses says McIntyre and Dallago (2013) According to Didin fatihudin (2018) financial performance referred to the achievement of the company's financial performance outcomes for a certain period of time, covering the collection and allocation of finances measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. These small and medium enterprises faced challenges related to the impact of taxation on their financial performance

Najengo (2017) stated that many different taxes were imposed on the small and medium enterprises in Uganda and these included corporation tax, value added tax, presumption tax and exercise duty. In 1997 the income tax was made and its main aim of this tax was to guide the assessment and computation of taxes (campsey.1997). these taxes could affect the business`s profitability, cash flow and financial stability and yet these are very important for the growth and sustainability of these small and medium enterprises. Many studies have examined the effects of taxation on small and medium enterprises. According to mwangi et al. (2014) his study says that high tax rates and

hard tax processes they reduce the profitability of small and medium enterprises in nabuti village, nsube-kauga mukono . In addition to that kamau (2013) said that repeated and high vat rates affect the cash flow of these small and medium enterprises hence making it difficult for them pay for their expenses

In Uganda, this taxation system has brought about different problems for small and medium enterprises. The Uganda Revenue Authority (URA) implemented different tax policies that are for widening the tax base and increasing compliance. While these policies are important for the country`s development, they also become a burden to these small and medium enterprises more so for those lacking resources to handle these hard tax requirements well. Mukama (2013) said that small and medium enterprises struggled with tax compliance because of high administrative costs and also there inability to fully understand the tax system very well. Although there are challenges that affected the small and medium enterprises, there were also solutions to these challenges such as effective tax management and planning which could help to remove some of the effects that affect the small and medium enterprises. Onyango and ondiek(2015) suggested in there study that small and medium enterprises should involve themselves in proactive tax planning and also seek for professional advises from experts. This approach could be a good way to huddle the tax obligations and also maintain there financial stability.

In conclusion, given the important role of small and medium enterprises in the economy of nabuti village, nsube-kauga mukono, there was need for urgent and detailed research to understand how property tax affects the financial performance of the enterprises. This research could provide insights for policymakers to design more the effective tax policies that can support the growth and expansion and sustainability of small and medium enterprises. It would also help the owners of these enterprises to develop better strategies for managing tax obligations and improve there financial health

1.2 Statement of the problem

Small and medium enterprises are very important for job creation and economic development of nabuti village, nsube-kauga mukono. However, the complex taxation system caused problems to the financial performances of the small and medium enterprises. High tax rates and multiple levels of taxation procedures affected the profitability, cash flow and financial stability of the business. Studies showed that heavy tax burdens and hard tax procedures negatively impacted on the profitability of the business. Muriithi(2017) showed that tax compliance costs, including the time and financial resources spent in order to obey the tax regulations, led to a decline in net income of these businesses hence affecting the potential for expansion and investment.

According to Nduku (2019) these small and medium enterprises always faced cash flow problems because of the adverse VAT payments, which affected their financial planning and operations. The lack of transparency and frequent changes in the local taxes hindered the financial planning of these small and medium enterprises. Adebisi and Gbegi(2013)said that inconsistent local taxation policies led to uncertainty and prevented these small and medium enterprises from forecasting and managing their finances well. Measures were been implemented by Uganda Revenue Authority (URA) in order to expand the tax base. These measures were relevant for nabuti village, nsube-kauga mukono `s development. kiwanuka and Nalukenge(2018) said that administrative burden of tax compliance affected smaller enterprises hence causing financial stress to these businesses. Cumbersome and Wanjohi(2010) said that these effects could be reduced if the businesses could engage in effective tax planning and management, however these practices were not widely used because of limited resources and information

1.3 Purpose of the study

The purpose of the study was to find out the effects of taxation to the financial performance of small and medium enterprises in nabuti village, nsube-kauga mukono.

Specific objectives

1. To find out the effect of income tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono
2. To find out the effect of value added tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono
3. To find out the effect of local taxes on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono

Research questions

1. What is the effect of income tax on the profitability of small and medium enterprise in nabuti village, nsube-kauga mukono?
2. What is the effect of value added tax on the cash flow of small and medium enterprise in nabuti village, nsube-kauga mukono?
3. What are the effects of local taxes on the financial stability of small and medium enterprise in nabuti village, nsube-kauga mukono?

1.4 SCOPE OF THE STUDY

1.4.1 Geographical scope

The study was carried out in nabuti village, nsube-kauga mukono town in mukono district. The area was selected because the researcher lives and studies in the area therefore there is easy collection of data

1.4.2 Content scope

The study focused on small and medium enterprise in nabuti village, nsube-kauga mukono. Mainly the study examined the effects of taxation on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono and was limited to finding out the impact of taxation on the financial stability of small and medium enterprises. To also find out the Impact of taxation on the profitability of the small and medium enterprises. To also find out the impact of taxation on the cash flow of small medium enterprise

1.4.3 Time scope

The study considered a period of 5 years that is to say 2020-2024. This time frame was chosen in order to provide ample time to the researcher to create and collect all the relevant information required from the respondents because it enabled them to share their opinions based on observations made over the period

1.5 SIGNIFICANCE OF THE STUDY

Basically these are the findings of the study

1.5.1 To the researchers; the findings of the study were expected to contribute to the existing literature concerning taxation and its effects caused to the economy of nabuti village, nsube-kauga mukono

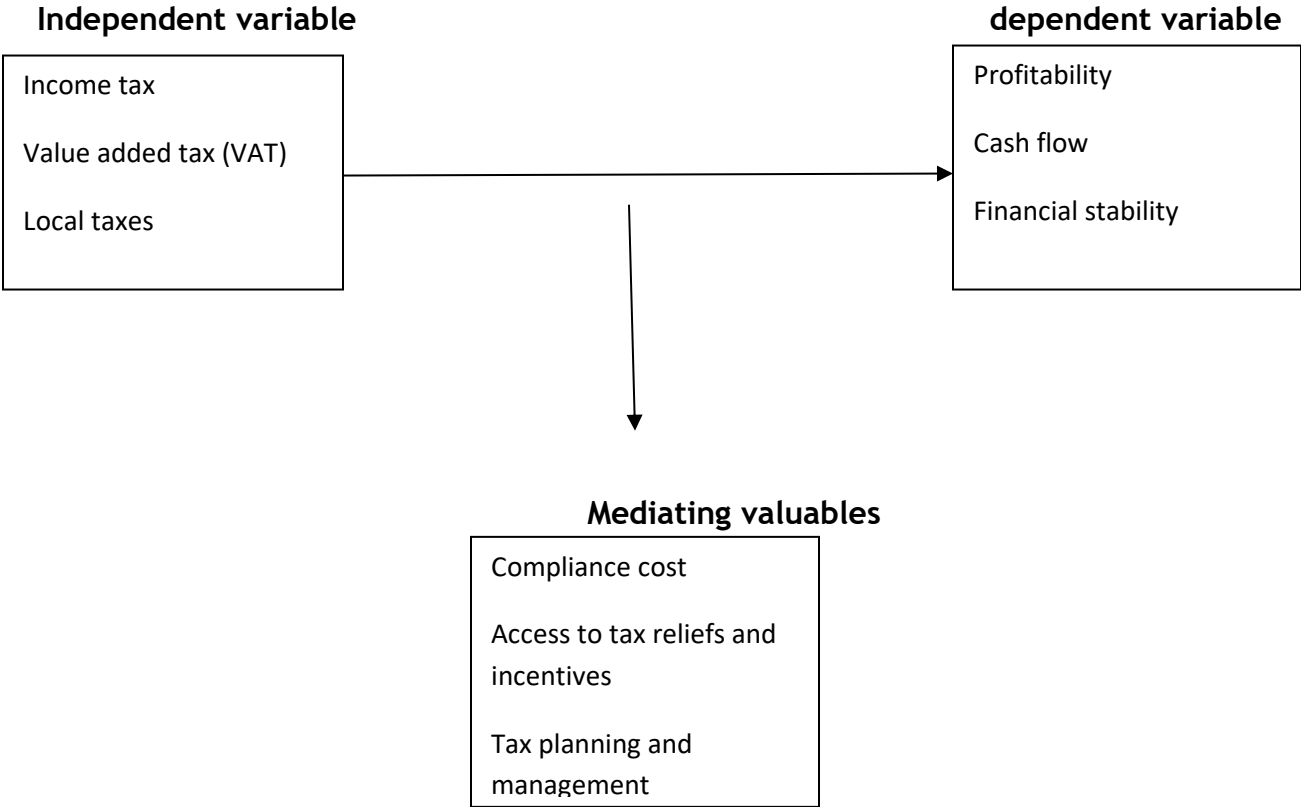
1.5.2 To the government; the study provided guidance on adjusting taxation in order to make it favorable for small and medium enterprise in nabuti village, nsube-kauga mukono

1.5.3 To the tax payers; this study allowed the tax payers to understand the various importance's of paying tax and their role in the development of the nabuti village, nsube-kauga mukono

1.5.4 To the academicians; this study contributed to the academic literature on taxation and small and medium enterprises by providing evidence to the challenges faced by the small and medium enterprises and how they could be solved to better the financial performance of small and medium enterprises in nabuti village, nsube-kauga parish

1.6 CONCEPTUAL FRAMEWORK

The conceptual framework showing the relationship between different variables of the study



Source: adopted from, Nduku,s.(2019) and modified by the researcher (2024)

In this conceptual framework, it illustrated the relationships between the different tax factors such as income tax; value added tax, local taxes and financial performance such as profitability, cash flow and financial stability of small and medium enterprises. These relationships were mediated by compliance cost, access to reliefs and incentives and tax planning and management.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter analyzed already existing literature on the effects of taxation on the financial performance of small and medium enterprises. This chapter showed the different theories that were gathered and put together by different scholars in accordance to taxation. It mainly talked about three things, the effects of income tax on the profitability, the effect of value added tax on cash flow, the effect of local taxes on the financial stability. This evaluation gave a firm foundation on understanding the problems faced by small and medium enterprises because of taxation and the way to solve them.

2.1 TAXATION

According to Nakanyiga (2024) defines taxation as a compulsory payment or movement of resources from private to public sector imposed on the foundation of the determined standard and without reference to specific benefits received in order to finish some of the nation's economic and social objectives. Taxation's main aim is to create revenue for the government so that it can take care of its expenses (McIntyre and Dallago 2013) On the other hand James and Nobes 2012 define taxation as system in which the government inflicts financial charges on the people of the country and the businesses in order to create revenue for the public expenditure. This revenue is important for the proper running of the government and availability of public goods and services. Chen and scott(2014) also define taxation as performing the taxing authority indeed imposing. Basically taxation applies to all types of taxes more so from income tax to estate tax. So the revenue that is collected is always called taxes. Eftekhari(2019) in his study says that taxation has always a problem for the citizens, the people who pay the taxes and the governing government similar from way back since civilization. This problem has created many disputes and many political conflicts for several years

2.2 Effects of income tax on the profitability of small and medium enterprise

According to Armah and Attoh 2015 they define income tax as a major source of the government revenue and it is inflicted on the net income of the citizens and businesses. Small and medium enterprises, income tax is an expenses and it impacts on the net income and financial performance of these small and medium enterprises Income tax and small and medium enterprise profitability, there relationship is versatile. Excessive income tax rates, these lead to reduction of the net profits hence leading to restricting investment and reinvesting opportunities of these small and medium enterprises. Ricardo (18717) says that income taxation is very important for the social wellbeing and the stability of the countries economy also Gashi et al. 2014 in his study, he says that vey high income tax rates they badly affect the profitability of small and medium enterprises because these profits reduce after the reduction of the income tax. To add on those Batrancea et al. 2019 says that the consent costs related to income tax they further decrease the profitability of these small and medium enterprises.

A study by Chittenden et at 2003 shows that small and medium enterprise usually face unequal tax burdens in comparison with bigger enterprises because of their in adequate capacity to better tax strategies. In addition to that Avi-yonah and Margalioth 2007 say in their study that due to the availability of evidence more so from the developed countries, high income tax it suffocates the small and medium enterprises growth and decrease economic growth In nabuti village, nsube-kauga mukono, small and medium enterprise may face different problems for example unavailability of financial management skills and little accessibility to tax advisory services. Additionally Muriithi 2017 says that the local economic environment and tax administration practices play a very crucial role in forming the effects. on the other hand kisakye and ntozi say that elevated tax rates hinder small and medium enterprises from being creative and innovative and also hider them from funding new technologies. Accoding to murugi(2017)elevated income tax rates they decrease the net income of these small and medium enterprises. Hence leading to little capital for expansion

2.3 Effects of value added tax on the financial performance of small and medium enterprises

Atawodi and ojeka, 2012 describes value added tax as a tax that is taxed on the goods and services at every stage of production and distribution. Small and medium businesses collect the tax on the government's behalf hence creating cash flow management problems for these businesses more so for the small and medium enterprises with little liquidity

Small and medium enterprises cash flows are seriously affected by value added tax. The time at which vat payments are made, administrative problems and also the procedure of asking for the input of value added tax these could cause liquidity constraints. Atawodi and ojeka, 2012 say that value added tax abidance inflects financial tension on theses small and medium enterprises more so when they pay value added tax before the customers paying their debts. To add on that Alabede 2012 says in his study that usually small and medium enterprises face problems of managing value added tax because of unavailability of accounting systems and little information on tax regulations. Basically this circumstance normally leads to cash flow challenges hence affecting these small and medium enterprises on their capacity to meet operational expenses like wages and salaries and to reinvest in the growth of the business

In nabuti village, nsube-kauga parish the effect of value added tax on the cash flow may be determined by the organization of the local tax administration. Small and medium enterprise in nabuti village, nsube-kauga parish deal with informal economic activities such as car repairs, street vendor's etc complicating value added tax compliance (Terkper, 2003).

2.4 Effects of local taxes on the financial performance of small and medium enterprises

According to Slemrod and Gillitzer(2014). Local taxes may include different taxes that are imposed by municipal authority's theses include property tax, business licenses and local service fees. The mentioned taxes above help to fund the local public expenses

like health care expenses, education services etc but these can also become a big financial problem to these small and medium enterprises

The financial stability of small and medium enterprise is greatly affected by local taxes due to the increasing operational costs. The available capital of these small and medium enterprises for the enterprises operations and investments are usually reduced by the high local taxes hence leading to financial suffering of these businesses. Slemrod and Gillitzer (2014) say that these local taxes could form different competitive disadvantages for the small and medium enterprise like higher costs and inferior products and services on the market more so when these tax rates vary across different towns. According to Swistak (2016) he says in his study that uncertain local tax policies usually delay the financial planning and stability of these small and medium enterprises hence making hard for them to predict their future expenditure and also handle their cash flow well

Small and medium enterprises in nabuti village, nsube-kauga parishface incompatible tax enforcement and large informal economy hence making it had for them to apprehend with the tax rules and plan finances effectively (Kariuki and Kamau 2014). In nabuti village, nsube-kauga parishlocal taxes greatly affect the financial stability of the small and medium enterprises basing on the local economy and clear tax rules

2.5 Conclusion

Basically this chapter looks at how taxes affect the financial performance of small and medium enterprises putting its focus on income tax, value added tax (vat) and local taxes. It clearly indicates that taxation greatly affects the enterprise profits, cash flow and its financial stability due to various factors which make these factors stronger. However the literature included in this chapter does not show details on how taxation affects the financial performance of small and medium enterprise. So the next chapters will study the effects more in detail hence giving detailed understanding and advice to the policies and practices put in place

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter presented the research methodology that was used to do this research. It investigated the effects of taxation on the financial performance of small and medium enterprises in nabuti village, nsube-kauga mukono. It covered the research design, population and sampling, data collection methods, data analysis techniques, ethical considerations and the limitations of the study.

3.2 Research Design

Creswell, 2014 described a research design as a series of steps done in order to collect, analyze, interpret, and report data in research. It is also referred to as the blueprint of the research. In this research, the research design used included both quantitative and qualitative techniques. The methods were used to give a comprehensive understanding of the effects of taxation on financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono.

The quantitative approach was used in order to evaluate the effects of the taxes on the financial performance of small and medium enterprise. It was applied because of its reliability, particularly when the researcher was using statistics to simplify the findings and also when testing the hypothesis. The researcher also used it in determining the relationship between the two variables. This included gathering of numeric data on value added tax, local tax and income tax and their effects they cause on the cash flow, profitability and financial stability on these small and medium enterprises. The qualitative approach was adapted in order to get more understanding onto the experiences and understating of the owners of these small and medium enterprises in regards to taxation. This included conducting of interviews on these owners in order to gather detailed information

3.3 Population and Sampling

According to mukono district local government, there are over 60 small and medium enterprises in this area. Therefore the population in this research involved the small and medium enterprises in nabuti village, nsube-kauga parish

3.4 Sample size

The researcher used solvin's formula which has a margin error of 5% and determined the sample size as follows

$$n = \frac{N}{1+N(e^2)}$$

So for the population of 60 small and medium enterprises

$$n = \frac{60}{1+60(0.05^2)}$$
$$\frac{60}{1+60(0.0025)}$$
$$\frac{60}{1.15}$$

=52 respondents

Table 1, showing distribution of respondents

category	Target population	Sample size	Sampling method
Retail shops	12	10	Random sampling
Wholesale distributors	8	8	Random sampling
Restaurants	9	8	Random sampling

Salons and barber shops	12	9	Random sampling
Boda boda services	10	9	Random sampling
Mobile phone shops	9	8	Random sampling
total	60	52	

3.5 Data collection methods

This involved two types of data collection methods namely primary data and secondary data. Primary data was gathered through giving out questionnaires to the respondents and interviewing of these respondents. It was very essential because provided accurate information relevant to the research. Secondary data was collected from already existing sources. These sources included scholar books and articles, financial reports of small and medium enterprises, tax records and journals. Its main purpose was to add an additional context to the primary data

3.6 Instruments of data collection

The instruments below were used in collecting data and analyzing it

3.6.1 Questionnaires

In order to collect quantitative data on the effects of taxation on the financial performance of the small and medium enterprise in this area, the researcher developed a questionnaire. It was directly given to the respondents and the results were put to writing by the respondents. This questionnaire involved both closed and open-ended questions. This approach was practically useful for the respondents who were often busy and had little or no time to participate in interviews.

3.6.2 Interviews

Non structured and structured interviews were conducted with the respondents so that qualitative data could be collected and this was done basing on their experiences and views towards taxations. The interviews followed an interview guide which had a

number of questions for the respondents to answer. The interviews were recorded down for future reference

3.6.3 Observation

In the observation method, the researcher used their observation to see what was going on in the area of research and he recorded down findings. The researcher observed how these small and medium enterprises handled taxation and how they paid their taxes. Natural observation was the observation technique that was used.

3.7 Data analysis techniques

3.7.1 Qualitative data analysis

Statistical techniques were used to analyze the quantitative data. To summarize the data that was collected, mean, median, mode, standard deviation were used, which are these are known as descriptive statistics. Another form of statistics that was used is inferential statistics; this involved regression analysis and was used to find out the relationship between taxation and financial performance

3.7.2 Quantitative data analysis

The interviews that were made provided qualitative data and a thematic analysis which was used to analyze the data. This analysis included coding of data and getting key themes that were related to effects of taxation on the small and medium enterprises

3.8 Ethical considerations

3.8.1 Informed agreement

The respondents were well knowledgeable about the purpose of the study, their privileges and also the secrecy of their replies. So before the data was collected the informed agreement was acquired

3.8.2 Confidentially

The secrecy of these respondents was kept by de-identifying their replies and also making sure that the data was securely kept. Were by the only people that could access this raw data were the researcher and his team

3.9 limitations to the study

In this study the researchers recorded the possible problems such as the dependability of the respondents self disclosed information and also the hardness in acquiring of a well balanced sample because there was a chance that some respondents would not reply. So information got from different sources and also doing of comprehensive survey and analysis methods were done in order to handle these problems

3.10 conclusions

In this chapter the research methodology was listed in order to examine the effects of taxation on the financial performance of small and medium enterprise in nabuti village, nsube kauga mukono. The quantitative and qualitative techniques give a solid infrastructure for doing the research objectives. The following chapters gave conclusions and evaluations in accordance with this methodology

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

The chapter presented and talked about the outcomes of the analysis conducted to address the study's specific objectives and considered the reviewed literature. This study used questionnaires to collect the data from the proprietors of these small and medium enterprises in nabuti village nsuube kauga mukono with a number of 52 participants. This data would be presented in tables to ensure clear understanding and interpretation

4.1 findings on demographic characteristics of respondents

The section provided overall background data about the participants including their gender, age, education level type of business and length of the time they have been operating the business. As it is presented in the table below

4.1.1 Gender of respondents

Table2 gender

	Frequency	Percent
Male	28	53.8%
Female	24	46.1%
Total	52	100%

Source; primary data

The results in the table above showed that most participants, making up 53.8% are male while females make up a smaller portion at 46.1%of the total participants. Therefore the study includes more males than females. However both males and females are included in the survey to gather diverse perspectives on the topic being studied

4.1.2 Age of the respondents

Table3; Age

	Frequency	Percent
Below 18 years	10	19%

18-29 years	15	29%
30-39 years	12	23%
40-49 years	8	15%
50 and above	7	13%
Total	52	100%

Source; primary data

The results in this table 4 showed that’s most participants are in the 18-29 age groups, making up 29%. This is followed by those in the 30-39 age groups at 23%, then those of below 18years making up 19%, then those 40-49 age group making up 15% then finally those above 50 years making up 13%. This indicates that there was no age bias, as the information was collected from people of various age groups.

4.1.3 Education level of the respondents

Table 4; level of education

	Frequency	Percent
Secondary level	15	29%
Certificate level	12	23%
Diploma level	10	19%
Bachelors degree	8	15%
Others	7	13%
Total	52	100%

Source; primary data

The results in thus table 5 showed that most participants, at 29% reached at least the secondary education level, while 23% completed at least certificate education level. Also the results showed that 19% of the participants completed at least diploma education level. Also 13% of the participants completed a bachelor’s degree, while 13% had no formal education. This suggested that most of the participants could read and understand the questionnaire easily, although help was provided for those with out formal education

4.1.4 Work experience

Table 5; work experience

	Frequency	Percent
1-2 years and below	18	35%
3-5 years	20	38%
5years and above	14	27%
total	52	100%

Source; primary data

The results in the table 5 showed that most participants made up 38% had a working experience of 3-5 years followed by 35% who had a working experience of 1-2 years and below and then finally 27% of the participants had a working experience of 5 years and above. This suggested that the participants had enough knowledge about the topic being studied since most of them had a good working experience in nabuti village nsube kauga mukono

4.2 THE EFFECTS OF INCOME TAX ON THE FINANCIAL PERFORMANCE

The first research questions aimed at finding out the effects of income tax on the financial performance on small and medium, enterprise in nabuti village. To gather the information needed the participants were asked different questions and these were there response rates and are presented in the tables below

4.2.1 Income tax has a significant effect on the labor costs of business

Table 6 represents respondent’s views on the income tax effects on the labor costs of the business

	Frequency	Percentage
Strongly agree	20	38%
agree	18	35%
Neutral	7	13%
Strongly disagree	3	6%
Disagree	4	8%
Total	52	100%

Source; primary data

According to the study results in table 6, 38% of the participants strongly agreed that the labor costs of small and medium enterprises are affected by income tax, 35% agreed, 13% were

neutral, 8% disagreed and 6% strongly disagreed. This suggested that income tax had an effect on the labor costs of these small and medium enterprises in nabuti village

4.2.2 Income tax rate has affected the business profitability in the past year

Table 7 represents respondent's views on the income tax effects on the business's profitability in the past year

	Frequency	Percentage
Strongly agree	25	48%
agree	15	29%
Neutral	2	4%
Strongly disagree	7	13%
Disagree	3	6%
Total	52	100%

Source; primary data

Based on the study results in table 7, 48% of the participants strongly agreed that profitability of small and medium enterprises is affected by income tax, 29% agreed, 4% neutral 13% strongly disagreed and 6% disagreed. This suggested that income tax had an effect on the business profitability of these small and medium enterprises in nabuti village

4.2.3 Experienced challenges in complying with income tax regulations

Table 8 represents respondent's views on their compliance of income tax regulations

	Frequency	Percentage
Strongly agree	22	42%
agree	20	38%
Neutral	2	4%
Strongly disagree	5	10%
Disagree	3	6%
Total	52	100%

Source; primary data

As stated by the study results in table 8, 42% of the participants strongly agreed that they found challenges in complying with the income tax regulations on small and medium enterprises, 38%

agreed, 10% strongly disagreed, 6% disagreed and 4% were neutral. This suggested that income tax regulations could be hard to for these small and medium enterprises owners to understand and comply with in nabuti village.

4.2.4 Income tax compliance requires significant time and resources from the business

Table 9 represents respondents views on income tax compliance requires significant time an resources from the business

	Frequency	Percentage
Strongly agree	21	40%
agree	17	33%
Neutral	5	10%
Strongly disagree	5	10%
Disagree	4	8%
Total	52	100%

Source; primary data

The study results in table 9 showed that, 40% of the participants agreed that income tax compliance required significant time and resources from the on small and medium enterprises, 33% agreed, 10% are neutral 10% strongly agreed and 8% disagreed. This suggested that income tax compliance required too much time and many resources like cash from the business hence affected the financial performance of the business in nabuti village.

4.2.5 Income tax has affected the business decisions such as expansion

Table 10 represents respondents views on income tax has affected the business decisions such as expansion

	Frequency	Percentage
Strongly agree	22	42%
agree	20	38%
Neutral	2	4%
Strongly disagree	5	10%
Disagree	3	6%
Total	52	100%

Source; primary data

In line with the study results in table 10, 42% of the participant's strongly agreed that income tax had an affect on their business decisions such as expansion and investments, 38% of the participants agreed, 4% of the participants are neutral 10% strongly disagreed and 6% disagreed. This suggested that business decision making could be influenced by income tax hence limiting there expansion goals.

4.3 EFFECTS OF VALUE ADDED TAX ON THE FINACIAL PERFORMANCE

This chapter showed the results on the effects of value added tax on the financial performance of small and medium enterprises. The information that was gathered from the participants was analyzed and interpreted. To gather the information needed the participants are asked different questions and these were there response rates and are presented in the tables.

4.3.1 Vat has a significant effect on the operational costs of the business

Table 11 represents respondent's views on how Vat has a significant effect on the operational costs of the business

	Frequency	Percentage
Strongly agree	18	35%
agree	25	48%
Neutral	0	0
Strongly disagree	4	8%
Disagree	5	10%
Total	52	100%

Source; primary data

Referring to the study results in table 11, 48% of the participants agreed that vat has a significant effect on the operational costs of the business, 35% strongly agreed, 10% disagreed, 8% strongly disagreed and none were neutral. This showed that their operational costs might be greatly influenced by value added tax. Value added tax was mostly likely to increase on their operational costs.

4.3.2 The implementation of vat has affected the sales and revenue

Table 12 represents respondent's views on how the implementation of vat has affected the sales and revenue

	Frequency	Percentage
Strongly agree	27	52%
agree	17	33%
Neutral	5	10%
Strongly disagree	2	4%
Disagree	1	2%
Total	52	100%

Source; primary data

As highlighted by the study results in table 12, 52% participants strongly agreed that the implementation of value added tax had a significant effect on the sales and revenue of the business, 33% disagreed, 10% are neutral, 4% strongly disagreed and 2% disagreed. This showed that their sales and revenue might be greatly affected by value added tax. Value added tax was mostly likely to increase prices leading to decreased demand which greatly affected the business’s income.

4.3.3 Find the process vat collection and remittance a problem

Table13 represents respondent’s views on how they find the process vat collection and remittance a problem

	Frequency	Percentage
Strongly agree	20	38%
agree	16	31%
Neutral	7	13%
Strongly disagree	6	12%
Disagree	3	6%
Total	52	100%

Source; primary data

In reference to the study results in table 13, 38%of the participants strongly agreed that they found challenges in the process of vat collection and remittance, 31% agreed, 13% are neutral 12% strongly disagreed and 6% disagreed. This showed that the process of vat collection and remittance was a great problem to the business. This was a great concern about the administrative burden complexities involved in vat compliance.

4.3.4 Vat compliance affects the cash flow of the business

Table 14 represents respondent's views on how Vat compliance affects the cash flow of the business

	Frequency	Percentage
Strongly agree	30	58%
agree	15	29%
Neutral	0	0
Strongly disagree	4	8%
Disagree	3	6%
Total	52	100%

Source; primary data

As reported by the study results in table 14, 58% of the participants strongly agreed that vat compliance affected their cash flows of the business, 29% agreed, 8% strongly disagreed, 6% disagreed and none of the participants were neutral. This showed that vat compliance greatly affected their businesses negatively in this area. This was because of the timing differences between the vat collection and payment of the tax to the tax authorities.

4.3.5 Vat has impacted on the business pricing strategy

Table 15 represents respondent's views on how Vat has impacted on the business pricing strategy

	Frequency	Percentage
Strongly agree	27	52%
agree	14	27%
Neutral	6	12%
Strongly disagree	3	6%
Disagree	2	4%
Total	52	100%

Source; primary data

According to the study results in table 15, 52% of the participants strongly agreed that vat impacted on their pricing strategies of the business, 27% agreed, 12% are neutral, 6% strongly disagreed and 4% disagreed. This showed that vat greatly affected their businesses pricing

strategies negatively in this area it also showed that vat influences the way these businesses in this area set their prices on the goods and services provided. This led to rising of the prices so that they could be able to accommodate there costs.

The findings indicated that vat mainly impacted on various parts of the financial performance like sales revenue, cash flow and how these prices were set. Many businesses in this area found that vat compliance very difficult hence led to challenges in there operations. So these results suggested that even though value added tax aimed at colleting revenue for the government, it also created many problems for these businesses hence affected their financial decision and operations.

4.4 EFFECTS OF LOCAL TAXES ON THE FINACIAL PERFORMANCE

This chapter showed and explored the results on the effects of local taxes on the financial performance of small and medium enterprises. The information that was gathered from the participants provided how local taxes influenced financial performance so it's interpreted and analyzed. To gather the information needed the participants were asked different questions and these were there response rates and are presented in the tables.

4.4.1 Local taxes have a significant effect on the operational costs of the businesses

Table 16 represents respondent's views on how Local taxes have a significant effect on the operational costs of the businesses

	Frequency	Percentage
Strongly agree	20	38%
agree	18	35%
Neutral	7	13%
Strongly disagree	3	6%
Disagree	4	8%
Total	52	100%

Source; primary data

Referring to the study results in table 16, 38%of the participants strongly agreed that local taxes had a significant effect on the operational costs of the businesses in this area, 35% agreed, 13% were neutral 6% strongly disagreed and 8% disagreed. These showed that local taxes greatly affected their operational costs negatively in this area were by the operational costs increased.

This led to rising of the prices so that they could be able to meet there costs hence led to a decline in demand and also sales.

4.4.2 Local taxes are a problem to the expansion and investment decision of the business

Table 17 represents respondent’s views on how Local taxes are a problem to the expansion and investment decision of the business

	Frequency	Percentage
Strongly agree	18	35%
agree	25	48%
Neutral	0	0
Strongly disagree	4	8%
Disagree	5	10%
Total	52	100%

Source; primary data

In line with the study results in table 17, 48%of the participants agreed that local taxes were a problem to the expansion and investment of the businesses in this area, 35% strongly agreed, 10% disagreed, 8% strongly disagreed and none of the participants were neutral. These showed that local taxes greatly affected their investment and expansion decisions negatively in this area. By this the business wouldn’t be able to grow hence an able to increase their assets

4.4.3 Local taxes have influenced the decision to work from nabuti village

Table 18 represents respondent’s views on how Local taxes have influenced the decision to work from nabuti village

	Frequency	Percentage
Strongly agree	18	36%
agree	19	37%
Neutral	3	6%
Strongly disagree	7	13%
Disagree	5	10%
Total	52	100%

Source; primary data

In reference to the study results in table 18, 37% of the participants agreed that local taxes had influenced their decisions to work from nabuti village, 36% strongly agreed, 13% strongly disagreed, 10% disagreed and 6% were neutral. These showed that local taxes greatly affected their decisions to choose where they were going to work from in an area because they played a vital role on the location of the business more so they looked for a place with lower tax burdens.

4.4.4 Local taxes have affected the ability to compete with other businesses

Table 19 represents respondent's views on how Local taxes have affected the ability to compete with other businesses

	Frequency	Percentage
Strongly agree	30	58%
agree	15	29%
Neutral	0	0
Strongly disagree	4	8%
Disagree	3	6%
Total	52	100%

Source; primary data

Least but last, based on the study results in table 19, 58% of the participants strongly agreed that local taxes had affected the ability of these businesses to compete with other businesses, 29% agreed, 8% strongly disagreed, 6% disagreed and none were neutral. These showed that local taxes greatly affected the ability of these businesses to be able to compete with other businesses in the market because they affected the pricing, costs and overall competitiveness in the market

4.4.5 Local taxes require significant time and resources for compliance

Table 20 represents respondent's views on how Local taxes require significant time and resources for compliance

	Frequency	Percentage
Strongly agree	25	48%
agree	15	29%

Neutral	2	4%
Strongly disagree	7	13%
Disagree	3	6%
Total	52	100%

Source; primary data

Finally, according to the study results in table 20, 48% of the participants strongly agreed that local taxes required significant time and resources for compliance in these businesses, 29% agreed, 13% strongly disagreed, 6% disagreed and 4% are neutral. These showed that local taxes required significant time and resources for compliance in these businesses it drained to much resources from the business more especially for small businesses like boda boda businesses.

The results indicate that local taxes greatly impacted on business activities such as financial results, competitiveness and choices on where the business should be located. In this area, many enterprises found local taxes to be a great problem that required too much time and resources. Many participants said that these taxes impacted on their ability to compete and run smoothly. This showed that local tax policies played a vital role in arranging business strategies and there long success

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarized and explained the findings from the study. It also offered conclusions and suggestions from the policy changes along with recommendations for future research. The main purpose of the study was to find out the effects of the income tax, value added tax and local taxes on the small and medium enterprises in nabuti village nsube kauga mukono.

5.1 summary of the study

5.1.1 Effect of income tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono

The results showed that income tax had a great effect on the profits of small and medium enterprises in nabuti village nsube kauga mukono. According to the findings, the largest percentage Of the respondents agreed that income tax affected their business profitability, many of the respondents said that income tax led to the raise of labor costs hence decrease in the profit margin of the business. Smith (2021) said that high income tax rates made it difficult for these enterprises to record good profits hence limited their chances of growth and expansion.

Additionally, a smaller percentage of the respondents said that they found many problems with following the income tax laws; they said that these laws were complex and also the cost of compliance was high. These costs included training costs, professional costs and administrative costs. These findings were in line with the findings of Brown and Davis (2020) where they said that many of these participants said that too much time and resources were put towards meeting the tax requirements and yet these resources could have been used to meet other business goals like growth and expansion. This implied that to a greater extent income tax affected the business financial performance but also it slowed down business efficiency and decision making.

5.1.2 Effect of value added tax on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono

The results showed that value added tax had a significant impact on the cash flow of these small and medium enterprises. The findings revealed that the majority of the respondents said that compiling with vat rules affected their cash flows and caused financial stress like paying vat before receiving payments from debtors and also potential cash shortages, by doing so it led to a mismatch in cash flow timing. Johnson (2019) said that due to this, it puts pressure onto the business to manage its cash reserves carefully hence resulting into cash shortages. To add on that, a smaller percentage of the respondents said that value added tax raised operational cost which left less cash for other business needs. It also showed that participants thought that value added tax impacted on their sales and revenue negatively due to the high prices and low demand of the business products and services. This implied that to a greater extent compiling with the vat rules affected cash flows but also affected the overall business performance and long term success. These findings were in line with the findings of Lee and Kim (2021).

5.1.3 Effect of local taxes on the financial performance of small and medium enterprise in nabuti village, nsube-kauga mukono

The findings showed that local taxes greatly impacted on the financial stability of the small and medium enterprise in nabuti village nsube kauga mukono. Relating to the findings, the majority of the respondents said that there operational costs raised due to these local taxes. These may include salaries and wages, inventory costs, rent and lease payments, transportation and shipping and many others, this usually affected there pricing strategies and competitiveness. Nguyen (2022) said that the participants believe that their competitiveness in the market with other businesses was determined by these local taxes because these taxes increased there costs hence lowering there profit margin. A smaller percentage of the respondents think that these local taxes hindered them from expanding and making investment decisions for there enterprises. Adam and Robert (2023) said that these local taxes hindered the growth and development of these small and medium enterprises hence caused financial distress to the business.

5.2 Conclusion

The study concluded that the profitability of the small and medium enterprises in nabuti village nsube kauga mukono was greatly affected by the income tax. Due to the tax rates that were high and the rules that are complicated to understand, these take up many and variable resources such as time, money, labor and attention. This led to a low profit margin hence making it difficult for these enterprises to grow and develop themselves. For these businesses in this area to grow financially and size wise, the reduction in tax rates and simplifying the tax rules could be very helpful for them.

It also found out that the cash flow of small and medium enterprises was being greatly affected by value added tax. Usually there is a gap when value added tax that is paid by the business and when the payments are received from the debtors by the business, this normally hinders the business cash flows hence causing financial distress. The sales and income of the business are normally affected by the raised operational cost which is caused by value added tax, this caused these businesses to raise the price in order to meet there operational cost hence led to a decline in demand for their products and services. Giving VAT exemptions to the small enterprises could help on these effects of VAT.

The study also found out that the financial stability of the small and medium enterprises in this area of research were mainly affected by local taxes and this was due to the raised operational costs which lowered there level competitiveness in the market. Also the growth and development decisions are held back due to the raised local tax rates. It could be helpful if the local tax policies are changed in order to improve the financial health of the small and medium enterprises in this area.

5.3 Recommendations

Based on the findings and conclusions, the steps below are suggested to address the effects of taxations on the financial performance of small and medium enterprises on nabuti village nsube kauga mukono.

The study recommends the reducing of income tax rates for small and medium enterprises. This helps to reduce on the financial burden on these enterprises hence retaining more profits. This also helps to increase there profits hence giving them a chance to reinvest and develop there businesses, get more skilled labor that would have been too costly because of the high tax rates

It also recommends the simplifying of income tax compliance process, adhering to the income tax rules sometimes could be had and it takes a lot of time more so for small businesses. So by simplifying the process for example making filling easy, reducing on the paper work, this could help the business to save important time and resources. This can be of importance whereby it makes them focus on important activities and plan for expansion

The study further recommends that there should be flexibility in value added tax payment schedules. Normally the enterprises always make payments for vat before they receive money from there debtors, this leads to cash flow challenges. By accepting flexibility in the payments schedules that align with the enterprise cash flow for example making paying after receiving cash from customers. This helps the small and medium enterprises to eliminate the cash flow gaps and reduce financial distress

Lastly but not least, the study recommends training the tax payers on value added compliance. Various small and medium enterprises find challenges in complying with the vat rules this is due to there complicity. So giving specific training on how they can comply with the rules could be very helpful and this could be done through organizing workshops, online classes and guides. By doing so it helps to make process easy and also reduce on the risks of errors that normally lead to extra costs

Finally, the study recommends that there should be change in the local tax policies to support business. Local taxes always cause many costs onto these enterprises hence impacting on there chances to be competitive in the market. Lowering the tax rates, offering exemptions and also providing simple payment methods all these adjustments in the tax policies could be very helpful to these small and medium enterprises and also boost there financial status hence succeeding in the business they are dealing in.

5.4 Areas for further research

Since this study researched about the effect of taxation on the financial performance of small and medium enterprise in nabuti village nsube kauga mukono . The study recommended that future research should look into how other types of taxes like excise duties affect small and medium enterprises to give a wide view of the tax challenges small and medium enterprises face. Also studying the effectiveness of tax incentives and support programs for small and medium enterprise could provide useful insights for improving policies.

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QUESTIONNAIRE

My name is Ssabavuma mark, a student of Uganda Christian University doing a Degree of Business Administration and majored in Accounting. My research is on the effects of taxation on the financial performance of small and medium enterprises.

My study is part of partial fulfillment the requirement of the university in order to get the degree in bachelors in business administration award. This study is purely for academic purposes in partial fulfillment of the award of BBA so your involvement is therefore optional and your replies are confidential

I would like to thank you for your corporation and readiness to share your views and experiences

SECTION 1: Demographic information

You are required to tick where essential

1. Gender
Male []
Female []

2. Age
Below 18 years []
18-29 []
30-39[]
40-49[]
50 and above []

3. Education level
Secondary level []
Certificate level []
Diploma level []
Bachelors degree []
Others []

4. Work experience
1-2 years and below []
3-5 years []
5 years and above []

5. Position

6. Organization

SECTION 2: EFFECTS OF INCOME TAX ON THE FINANCIAL PERFORMANCE

Please do tick each option using the scale mention below

Scale: SA- strongly agree A- agree N- neutral D- disagree SD- strongly disagree

NO	STATEMENT	STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
01	Income tax has a significant effect on the labor costs of my business					
02	Income tax rate affected the business profitability in the past year					
03	I experienced challenges in complying with income tax regulations					
04	Income tax compliance requires significant time and resources from the business					
05	Income tax affected the business decisions such as expansion					

SECTION 3: EFFECTS OF VALUE ADDED TAX ON THE FINANCIAL PERFORMANCE

Please do tick each option using the scale mention below

NO	STATEMENT	STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
01	VAT has a significant effect on the operational costs of the business					

02	The implementation of VAT has affected the sales and revenue					
03	I find the process of VAT collection and remittance a problem					
04	VAT compliance affected the cash flow of the business					
05	VAT has impacted the pricing strategy					

Scale: SA- strongly agree A- agree N- neutral D- disagree SD- strongly disagree

SECTION 4: EFFECTS OF LOCAL TAXES ON THE FINANCIAL PERFORMANCE

Please do tick each option using the scale mention below

Scale: SA- strongly agree A- agree N- neutral D- disagree SD- strongly disagree

No	statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
01	local taxes have a significant effect on the operational costs of the business					
02	local taxes are a problem to the expansion decision of business					
03	local taxes have influenced the decision to work from nabuti village					
04	local taxes have affected the ability to compete with other businesses					
05	local taxes require significant time and resources for compliance					

THANK YOU FOR YOUR RESPONSE



UGANDA CHRISTIAN UNIVERSITY

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SCHOOL OF BUSINESS

29th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **SSABAVUMA MARK**

Reg. **S21B05/045**

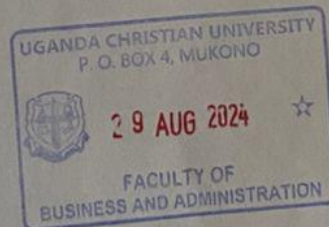
A bachelor's student who is seeking permission from your office to collect data for his dissertation titled

Taxation on the Financial Performance of Small and Enterprises in Nabuti Village -Kauga Mukono

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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