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THE IMPACT OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL-SCALE BUSINESSES IN MUKONO CENTRAL DIVISION.

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S DEGREE OF SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

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DECLARATION

I, Bagonza Kevin, hereby declare that this Research Report has been written by me and has never been submitted in for any award of degree in this University or any other institution of higher learning. All information presented is as a result of my personal work and where references have been used, due acknowledgement has been made.

Signed ....

Date 10/04/2026

APPROVAL

This is to certify that this research dissertation has been written under my supervision and is now ready for submission with my approval

Signature.................................. Date....10/04/2026.....................

Ms. Lorraine Akinyi

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ABSTRACT

This study examined the impact of taxation on the financial performance of small-scale businesses in Mukono Central Division, Uganda. The study specifically focused on evaluating the effect of tax compliance, tax rates, and tax administration on the financial performance of small-scale businesses.

The study adopted a cross-sectional research design, which enabled the collection of data from respondents at a single point in time. The study population consisted of 150 owners and managers of small-scale businesses operating within Mukono Central Division across sectors such as retail trade, hospitality, manufacturing, and services. Using Krejcie and Morgan's (1970) sample size determination table, a sample of 108 respondents was selected through stratified random sampling to ensure representation from the different business categories. Primary data were collected using structured questionnaires, while secondary data were obtained from relevant literature, reports, journals, and government publications. Data were analyzed using the Statistical Package for Social Sciences (SPSS), employing descriptive statistics such as frequencies, percentages, and means, as well as inferential statistics including correlation and regression analysis. The findings of the study revealed that tax compliance positively influences the financial performance of small-scale businesses by promoting proper financial record keeping, transparency, and improved access to financial opportunities. The results also showed that tax administration significantly affects business performance, where efficient, transparent, and simplified tax procedures enhance compliance and reduce operational burdens on businesses. In addition, the study established that tax rates have a substantial impact on financial performance, as high tax rates reduce profitability, limit reinvestment opportunities, and constrain business growth.

The study concluded that taxation policies play a crucial role in shaping the financial performance and sustainability of small-scale businesses. While tax compliance and effective tax administration can enhance financial management and stability, excessive tax rates can negatively affect profitability and growth potential. The study therefore recommends improving tax awareness among business owners through education and training programs, simplifying tax administration procedures to reduce compliance costs, and implementing balanced tax policies.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presented the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope, significance, and limitations of the study.

1.1 Background of the study

Globally, taxation has continued to play a critical role in enhancing economic growth and improving financial performance for both small and large businesses. Recent studies such as OECD (2023) and World Bank (2022) have revealed that effective tax policies will promote business sustainability, improve government revenue collection, and enhance economic development. However, these studies also indicate that excessive tax rates and administrative complexities will negatively affect small-scale enterprises by reducing their profitability and survival rate.

On the African continent, taxation remains a major source of government revenue, yet the World Bank (2022) highlights that in many African countries, tax systems will continue to face challenges such as weak enforcement mechanisms, high rates of informality, and limited taxpayer education. A study by AfDB (2023) emphasizes that while taxes are essential for financing development projects across Africa, small-scale businesses will remain vulnerable to heavy tax burdens, which may stifle their growth and financial performance.

In East Africa, reports from the East African Community (EAC, 2023) indicate that the region will continue to harmonize tax policies to improve cross-border trade and business performance. Nevertheless, small-scale businesses in Kenya, Tanzania, Rwanda, and Uganda will still face challenges such as fluctuating tax rates, inadequate awareness of tax regulations, and administrative inefficiencies, all of which will negatively affect their profitability and sustainability.

Specifically for Uganda, the Uganda Revenue Authority (URA, 2024) notes that taxation will remain a key source of government revenue. However, small-scale businesses will continue to complain about high tax rates, limited tax education, and complex administrative procedures. Recent studies such as Kariuki (2023) and Muwonge (2022) show that these factors will lead to reduced financial performance, business closures, and poor compliance among small enterprises.

At the local level in Mukono Municipality, preliminary observations indicate that many small-scale businesses will continue to struggle with multiple taxes, frequent tax audits, and fluctuating tax policies. This situation will prompt the need for an empirical study to assess how taxation will affect the financial performance of small-scale businesses in Mukono Central Division.

1.2 Statement of the problem

Taxation being essential for raising government revenue and financing public services, small-scale businesses in Mukono Central Division will continue to experience declining financial performance. Reports from URA (2024) and Muwonge (2022) show that increasing tax rates, lack of tax awareness, and multiple levies affect the profitability and sustainability of small enterprises. Many businesses face reduced returns on assets and some close down, creating a gap that this study will seek to address by investigating the effect of taxation on the financial performance of small-scale businesses in Mukono Central Division.

1.3 Purpose of the study

The purpose of the study was to evaluate the effect of taxation on the financial performance of small-scale businesses in Mukono Central Division.

1.4 Objectives of the study

The study aimed to:

i. To evaluate the effect of tax compliance on the financial performance of small-scale businesses in Mukono Central Division.

ii. Examine the effect of tax rates on the financial performance of small-scale businesses.
iii. Evaluate the effect of tax administration on the financial performance of small-scale businesses in Mukono Central Division.

1.5 Research questions

i. What is the effect of tax compliance on financial performance of SMEs?
ii. What is the effect of tax rates on the financial performance of small-scale businesses?
iii. What is the effect of tax administration on the financial performance of small-scale businesses in Mukono Central Division?

1.6 Scope of the study

1.6.1 Subject scope

The study focused on the impact of taxation on the financial performance of small-scale businesses in Mukono Central Division. This scope was chosen because small-scale enterprises are the backbone of Uganda's economy and understanding how taxation affects them may help in designing policies that support their sustainability.

1.6.2 Geographical scope

The study was carried out in Mukono Central Division, Mukono District, located in the central region of Uganda about 24 kilometers from Kampala City. This area was selected because it hosts a large concentration of small-scale businesses that contribute significantly to local economic development.

1.6.3 Time Scope

The study focused on small-scale businesses that have been in existence for more than five years that is 2018-2025.This period was selected because businesses with more years of operation may provide reliable information about the effects of taxation on their financial performance.

1.7 Significance of the Study

The findings of this study will be important to various stakeholders.

First, the study will contribute to existing literature on taxation and small-scale business performance. Future scholars and researchers will use the findings as a reference point for further research on taxation and financial performance in developing economies.

Second, the study will benefit policymakers and tax authorities by providing evidence-based recommendations for designing tax systems that balance revenue generation with small business growth and sustainability.

Third, business owners will benefit by gaining insights into how taxation affects their operations and financial performance, enabling them to plan and manage their tax obligations effectively.

Finally, the study will guide development partners and non-governmental organizations that support small-scale businesses in designing capacity-building programs focused on tax education and compliance.

CHAPTER TWO

LITERATURE REVIEW

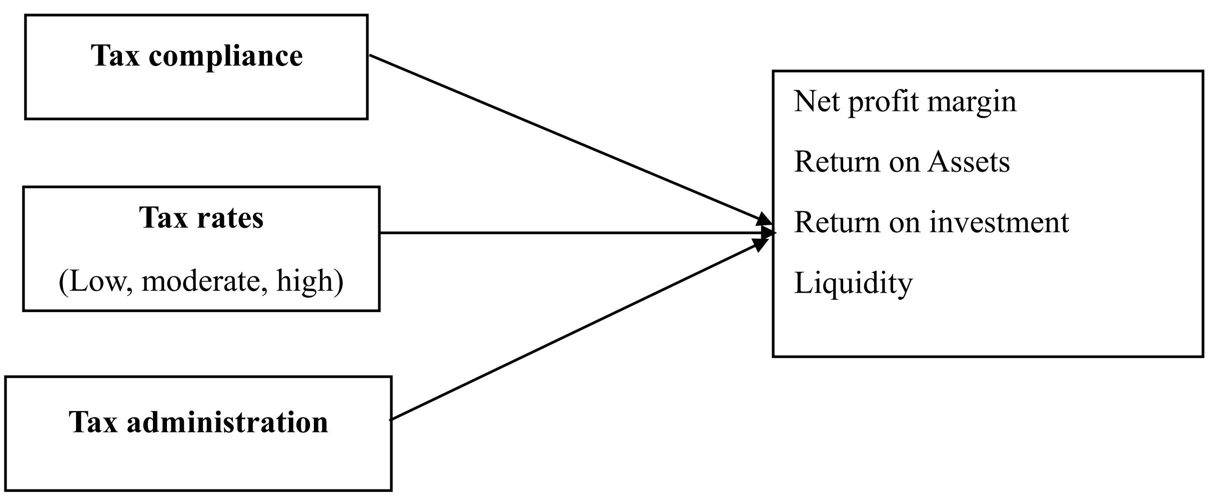
2.0 Introduction

This chapter presented a review of existing literature related to taxation and its impact on the financial performance of small-scale businesses. It focuses on the study objectives by reviewing empirical and theoretical studies relevant to tax compliance, tax rates, and tax administration in relation to financial performance. The chapter begins with the conceptual framework that illustrates the relationship between independent and dependent variables, followed by the theoretical framework guiding the study. This literature review helps for understanding how effective taxation policies and practices influence the financial performance of small-scale businesses in Mukono Central Division.

2.1 Conceptual Framework

Independent variable **Dependent variable**

Taxes **Financial performance**



Source: Adapted from Nyabwanga *et al*. (2012)

The conceptual framework illustrates the relationship between taxes (independent variable) and financial performance (dependent variable) of businesses. Specifically, it highlights three key tax-related factors tax compliance, tax rates, and tax administration that collectively influence how well a business performs financially. Tax compliance reflects the extent to which businesses adhere to tax laws and regulations, ensuring timely and accurate tax payments, which can reduce penalties and foster financial stability. Tax rates represent the proportion of income or profits payable as tax, where excessively high rates may reduce profitability, while fair and predictable rates can enhance investment and growth. Tax administration encompasses the efficiency, transparency, and fairness of tax collection processes; efficient systems reduce administrative burdens and compliance costs, improving business liquidity and performance.

2.2 Theoretical Framework

This study is anchored on the Agency Theory developed by Jensen and Meckling (1976). The theory explains the relationship between principals (owners) and agents (managers or representatives) in which the agents are entrusted to make decisions on behalf of the principals. Agency Theory emphasizes accountability, transparency, and the alignment of interests between the two parties to minimize conflicts and ensure effective performance. In the context of taxation, the relationship extends to taxpayers (agents) and the government (principal), where taxpayers are expected to act in compliance with the legal and fiscal responsibilities imposed by the government.

In relation to this study, tax compliance reflects the agent's (business's) willingness to fulfill obligations to the principal (government) by paying taxes accurately and on time. When businesses comply with tax regulations, they minimize agency conflicts, avoid legal penalties, and maintain a positive relationship with regulatory authorities. Such compliance enhances operational stability and supports long-term financial performance by fostering a trustworthy business environment.

Furthermore, tax rates influence the extent to which agents are motivated to comply. High or unfair tax rates can create agency problems, as businesses may feel overburdened and seek to evade taxes to protect their own interests. Conversely, fair and reasonable tax rates align the interests of the government and businesses, encouraging voluntary compliance and ensuring that both parties benefit government through revenue collection and businesses through sustainable profitability.

Similarly, tax administration plays a critical role in reducing agency costs. Transparent, efficient, and consistent tax administration fosters trust and cooperation between the government and taxpayers. Simplified procedures, timely communication, and effective monitoring systems help ensure that agents fulfill their responsibilities efficiently, thereby improving organizational financial performance and reducing the likelihood of non-compliance.

Therefore, the Agency Theory underpins this study by demonstrating how effective tax compliance, equitable tax rates, and transparent tax administration help align the interests of businesses and the government. When this relationship is well managed, small-scale enterprises can enhance financial performance, maintain legitimacy, and contribute to national economic development.

2.3 The effect of tax compliance on the financial performance

Several studies in Uganda and elsewhere show that tax compliance has a measurable effect on the financial performance of small and medium enterprises (SMEs).

In Nakawa Division, Kampala, a study on Tax Administration and Financial Performance of SMEs found that tax compliance has a moderate positive effect on financial performance (correlation coefficient ≈ 0.689, $p < 0.001$). The implication was that businesses that comply more fully with tax requirements tend to show better profitability, likely because compliance reduces risk of penalties and helps maintain good standing for access to formal financial services

In Mukono District, Taxation Policies and Financial Performance of SMEs in Mukono Central Division (Mukama, 2025) reported that tax awareness (which influences compliance) is significantly positively associated with financial performance ($\beta_1 = 0.35$, $p = 0.001$). This suggests that when business owners understand their tax obligations, when they comply, financial outcomes improve.

Another relevant finding comes from Effect of taxes on small scale businesses in Uganda: Case study of Nakawa Division (Nakato, 2022). The study showed that tax compliance increases with the length of time a firm has been operating. But even then, taxation (including compliance requirements) can hinder business goals for example by creating cash flow constraints. Nevertheless, the study also found that compliance has a statistically significant positive influence on performance when control mechanisms (for understanding obligations, timing, and legal clarity) are in place.

In a more local context, Taxes and Financial Performance of Small-Scale Businesses in Bugujju Mukono Central Division (Atuhaire, 2024) investigated the relationship between tax compliance and financial performance among small-scale businesses. The study found that compliance has a positive correlation with financial performance. Businesses that regularly file and remit on time, maintain proper documentation, and avoid penalties tend to show better profit margins and more predictable cash flows.

These findings together suggest that tax compliance contributes to improved financial performance of small businesses by reducing uncertainty, avoiding penalties, improving access to formal financial systems, and enhancing the ability to plan and reinvest.

However, there are also challenges reported in literature. Some studies point out that although compliance has benefits, the cost of compliance (in time, resources, possibly hiring accountants or tax agents) may offset some of the gains, especially for very small businesses with low revenue bases. This is noted, for instance, in Uganda’s Tax System Is a Drain on Small Businesses (Adrienne Lees, 2025) where smaller firms bear disproportionately high compliance costs relative to their turnover.

2.4 The impact of tax rates on the financial performance of small-scale businesses

In Mukono Central Division, the study Taxation Policies and Financial Performance of SMEs in Mukono District (Mukama, 2025) reported that tax rates are among the most impactful variables. The study finds that higher tax rates are significantly negatively associated with net profit and growth when they are perceived as burdensome; but in contexts where rates are moderate and matched to business capacity, tax rates show a strong positive predictive relationship with financial performance likely because fair and stable rates enable planning.

(Higenyi, 2023) found that income tax rates have adversely affected net profit margins. Majority of respondents were unsatisfied with rates that are based heavily on sales turnover; high rates reduce profitability. The study recommended that income tax rates for SMEs be adjusted to reflect business size, profitability, and seasonality.

In Kampala, Taxation Policies and SME Growth in Uganda: A Case Study of Small Businesses in Kampala (2025) explored how tax rates (along with complexity of tax procedures) negatively affect business profitability. The regression results indicated that higher tax rates significantly reduce profitability for SMEs.

Ssabavuma, 2024, looked at income tax, VAT, and local taxes and found that all of these tax types have negative effects on profits and cash flow when rates are high, especially in low-margin businesses.

These studies consistently show that high or poorly designed tax rates reduce profitability, dampen growth, and may discourage investment. However, some findings also suggest that stability and predictability of tax rates matter: if rates are stable and transparent, even somewhat high rates may be manageable; unpredictable changes tend to harm small businesses more.

Recent empirical work in Uganda has underscored the role of tax rates versus tax incentives in determining SMEs' growth trajectories. For example, a study in Nakawa Division by Nakato (2022) found that while high tax rates significantly reduce SME performance, especially for those operating at thin profit margins or in seasonal sectors, the presence of tax incentives (such as reduced rates or allowances) mitigates much of this negative effect. SMEs that qualify for incentives report higher growth in turnover and are more likely to reinvest profits.

Another strand of research examines how tax rates interact with compliance costs and administrative burden**.** The "Effect of Taxation on the Profitability of SMEs in Kampala District" (Metropolitan International University, 2025) shows that SMEs facing high tax rates *and* complex compliance procedures suffer disproportionately, because the fixed cost of compliance (record keeping, hiring tax consultants, time spent) eats into their margins. In particular, small firms often have much less capacity to manage these burdens, making rate increases more harmful for them than for larger firms.

There is also evidence that perception of fairness and stability of tax rates plays a nontrivial role. In the study "Tax Fairness and Voluntary Tax Compliance in Uganda" (Omwima & Matovu, 2024), SMEs were more willing to comply (which in turn improves their financial performance by reducing penalties, avoiding costly audits, etc.) when tax rates were perceived as equitable, transparent, and not changing abruptly. Conversely, sudden hikes or arbitrary interpretations lead businesses to underreport, avoid formal registration, or even relocate operations to informal sectors.

Comparative cases from neighbouring districts reinforce these patterns. For example, the "Impact of Taxation on SMEs in Naalya-Kira Municipality, Wakiso District" (2023) found that local taxes, license fees, and other levies combined with national income taxes create a cumulative rate burden that often exceeds what SMEs can sustain. Many businesses reported that they would prefer lower rates even with fewer exemptions than high rates with many but unclear exceptions.

Beyond Uganda, studies in Zimbabwe (Lowveld / Chiredzi District) show very similar dynamics: high tax rates reduce profitability, but the negative effect is amplified when coupled with poor tax knowledge and weak infrastructure (which increase indirect costs). The study found that tax burdens impacted cash flow, reducing capacity for investment, paying workers, and maintaining operations in downturns.

Finally, some studies point to non-linear effects of tax rates on performance. The work by Kintu, Buyinza, and Kiwala ("Tax Administration and Entrepreneurial Performance: A Study of SMEs in Uganda") reports that moderate tax rates are positively associated with entrepreneurial performance perhaps because moderate taxation signals legitimacy, avoids penalties, and allows firms to operate within formal credit systems. However, beyond certain thresholds, further increases in tax rates yield diminishing returns or even reverse the positive impact. Thus, policy design should consider these thresholds to avoid crossing into the range where marginal negative effects dominate.

2.5 The effect of tax administration on the financial performance of small-scale businesses

Tax administration refers to how taxes are collected and enforced, the procedures, the bureaucracy, the clarity of laws, taxpayer services, incentives, penalties, digital systems, etc. Many studies show that tax administration deeply affects financial performance.

A key recent study in Uganda is Do tax administrative interventions targeted at small businesses improve tax compliance and revenue collection (URA, 2024). It reports that interventions such as expanding the taxpayer register & conducting education programmes, as well as a new electronic filing system for presumptive tax, significantly increased the number of small business taxpayers filing returns and increased tax revenues. These changes help firms by giving clearer guidance and reducing compliance costs. Improved administration thus supports financial performance via decreased uncertainty and lower transaction costs.

In Tax Administration and Financial Performance of SMEs in Nakawa Division, Kampala (Emurwon, 2024), tax administration practices (timeliness of assessments, clarity of guidelines, fairness of audits) were found to have a statistically significant, moderately strong positive effect on SMEs' financial performance. When administration is efficient, small businesses waste less time and resources in resolving tax issues, thus preserving margins.

From Mukono itself, The Effects of Taxation on the Financial Performance of Small-Scale Businesses in Bugujju, Mukono Central Division (Asekenye, 2024) revealed that challenges in tax administration such as unpredictable tax liabilities, rigid payment schedules (e.g., quarterly payments), and lack of clarity in regulatory changes negatively affect cash flows and profitability. Small businesses struggle when their administration demands do not align with their cash flow cycles.

Mukama, 2025 observed that businesses that experienced clearer, simpler administrative rules had better ability to budget taxes, avoid fines or penalties, and manage cash flow. Complexity, delays, and poor customer support in administration were associated with poorer financial performance.

These studies together suggest that good tax administration clear guidelines, timely and predictable compliance requirements, supportive digital systems, taxpayer education, and fair enforcement helps improve financial performance of small-scale businesses by reducing compliance costs, reducing penalties, improving liquidity and cash flow, and enabling better planning.

2.6 Conclusion

From the reviewed literature, it is evident that taxes influence the financial performance of small-scale businesses in multiple intertwined ways, with tax compliance, tax rates, and tax administration each having significant effects. Good tax compliance, supported by awareness and fairness, tends to be positively associated with profitability and financial stability, although the cost of compliance may burden very small firms. High tax rates or poorly calibrated tax rates often reduce net profits and limit growth, especially in low-margin small businesses, while stability and matching rates to business scale help mitigate these negative effects. Similarly, effective tax administration characterized by clarity, predictability, support, and simplified procedures reduces uncertainty and transaction costs, thereby supporting better financial performance. However, gaps remain as few studies focus narrowly on Mukono Central Division with all three variables together in recent years, and there is limited evidence on longitudinal effects or granular data on cash flow and seasonal impacts, which this study aims to address by examining small-scale businesses in Mukono Central comprehensively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presented the methodology that was employed in examining the impact of taxes on the financial performance of small-scale businesses in Mukono Central Division. It covered the research design, study population, sample size, sampling techniques, sources of data, data collection methods, data collection instruments, data analysis and presentation, and ethical considerations.

3.1 Research design

The study adopted a cross-sectional research design. This design allowed for the collection and analysis of data at a single point in time from selected respondents. It was appropriate because it enabled the researcher to assess how different aspects of taxation such as tax rates, tax compliance, and tax administration affect the financial performance of small-scale businesses without manipulating any variables.

3.2 Study population

The study population consisted of owners and managers of small-scale businesses operating within Mukono Central Division. According to records from the Mukono Municipal Commercial Office (2024), there are approximately 150 registered small-scale businesses within the division. These will include businesses in retail trade, hospitality, manufacturing, and services.

3.3 Sample size

Since it was not be feasible to study the entire population due to limitations of time and resources, a representative sample was selected. The sample size was determined using Krejcie and Morgan's (1970) table, which recommends a sample size of 108 for a population of 150.

Table 3.3: Sample size distribution

Category	Examples of businesses	Population	Sample Size
Retail Businesses	Supermarkets, boutiques, stationery shops, and hardware stores	50	36
Hospitality Businesses	Hotels, restaurants, bars, and lodges	30	22
Manufacturing Businesses	Bakeries, furniture workshops, beverage producers, and metal fabricators	40	29
Service Providers	Salons, internet cafés, consultancy firms, and repair services	30	21
Total		150	108

The study population comprised 150 businesses, from which a representative sample of 108 respondents will be drawn using proportional allocation. The categories were divided according to the major sectors of small and medium enterprises (SMEs) expected to operate in the study area.

Retail businesses included supermarkets, boutiques, stationery shops, and hardware stores that mainly focus on the sale of consumer goods. Hospitality businesses comprised hotels, restaurants, and bars that will provide food, accommodation, and leisure services. Manufacturing businesses will consist of small-scale producers such as bakeries, furniture makers, beverage producers, and metal fabricators. Lastly, service providers covered enterprises such as salons, internet cafés, consultancy firms, and repair service providers that focused on intangible service delivery.

This categorization ensured that the sample adequately represents the diversity of business types in the study area, allowing for a more comprehensive analysis of the research variables across different economic sectors.

3.4 Sampling technique

The study employed a stratified random sampling technique to ensure representation from different categories of small-scale businesses, namely retail, hospitality, manufacturing, and service sectors. After stratification, simple random sampling will be used to select respondents within each category. This method helped to minimize selection bias and enhance the representativeness and reliability of the results.

3.5 Sources of data

The study relied on both primary and secondary data sources.

3.5.1 Primary data

Primary data was obtained directly from business owners and managers through the use of structured questionnaires. This data was vital in capturing the respondents' opinions, experiences, and perceptions regarding how taxes influence the financial performance of their businesses.

3.5.2 Secondary data

Secondary data was obtained from existing literature, including Uganda Revenue Authority (URA) reports, municipal records, published journals, books, and other relevant documents. This data helped in providing background information and supporting the analysis of primary findings.

3.6 Data collection instruments

The study used a questionnaire as the main instrument for data collection.

3.6.1 Questionnaire

The questionnaire consisted of both closed and open-ended questions designed to collect information on different aspects of taxation (tax rates, tax awareness, and tax administration) and their impact on financial performance (profitability, return on assets, and liquidity). The use of questionnaires was appropriate because they allowed the collection of data from a large number of respondents within a short time while ensuring anonymity and minimizing interviewer bias.

3.7 Data analysis and presentation

After data collection, responses was checked for completeness, coded, and entered into the Statistical Package for Social Sciences (SPSS) for analysis. Descriptive statistics such as frequencies, means, and percentages were used to summarize demographic information and key variables. Inferential statistics, including correlation and regression analysis, was applied to determine the relationship between taxes and financial performance of small-scale businesses. The analyzed data was presented in tables, charts, and graphs to enhance clarity and ease of interpretation.

3.8 Ethical considerations

The study observed strict ethical standards to protect the rights and well-being of participants. The researcher sought informed consent from all respondents, explaining the purpose of the study and assuring them of confidentiality and anonymity. Participation was voluntary, and respondents were free to withdraw at any stage without any penalty. The study avoided causing physical or psychological harm to participants, and all findings were reported honestly, accurately, and objectively (Saunders, Lewis, & Thornhill, 2009)

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents and discusses the data collected from 108 respondents using structured questionnaires. The results are organized according to the study objectives and presented using tables, frequencies, and percentages.

4.1 Response rate

Table 4.1: Response rate

Description	Number
Questionnaires distributed	108
Questionnaires returned	108
Not returned	0

Response rate = (108/108) × 100 = **100%**

A 100% response rate strengthens the reliability and validity of the findings (Amin, 2005).

4.2 Demographic characteristics of respondents

4.2.1 Gender of respondents

Table 4.2: Gender distribution

Gender	Frequency	Percent (%)
Male	60	55.6%
Female	48	44.4%
Total	**108**	**100.0%**

Source: Primary data

The study sample comprised more males (55.6%) than females (44.4%), indicating that men slightly dominate small-scale business ownership in the study area.

4.2.2 Age group of Respondents

Table 4.3: Age Distribution

Age Group	Frequency	Percent (%)
21–30 years	38	35.2%
31–40 years	34	31.5%
41–50 years	21	19.4%
Above 50 years	15	13.9%
Total	**108**	**100.0%**

Source: Primary data

The findings in Table 4.3 show that the study sample was composed of respondents from a wide range of age groups. The largest proportion of respondents (35.2%) fell within the 21–30 years age bracket, indicating that most participants were relatively young adults. This suggests that the study involved individuals who are likely to be at the early stages of their professional or economic activities, which may have influenced their level of engagement with the subject under investigation. The 31–40 years age group accounted for 31.5% of the respondents, making it the second largest category. This group represents mature adults who are often actively involved in employment, decision-making, and family responsibilities. Their high representation implies that the study captured views from individuals with substantial experience and stability.

Respondents aged 41–50 years constituted 19.4% of the sample. This shows that a notable portion of the participants were middle-aged adults, who could provide insights based on long-term exposure to workplace systems, financial decisions, or community-related issues depending on the study context. The smallest group comprised respondents above 50 years, representing 13.9% of the sample. Although fewer in number, this group still provided valuable contributions grounded in extensive life and career experience. The age distribution demonstrates a well-balanced sample with representation from younger, middle-aged, and older adults. This diversity enhances the reliability of the study findings by ensuring that perspectives from different age cohorts are adequately reflected.

4.2.3 Education level of respondents

Table 4.4: Education Level

Education Level	Frequency	Percent (%)
Primary	6	5.6%
Secondary	22	20.4%
Certificate	16	14.8%
Diploma	28	25.9%
Bachelor’s	27	25.0%
Master’s	6	5.6%
Others	3	2.8%
Total	**108**	**100.0%**

Source: Primary data

The results in Table 4.4 indicate that respondents had varied levels of education, demonstrating a generally well-educated sample. The largest proportion of respondents had attained a Diploma qualification (25.9%), closely followed by those with Bachelor’s degrees (25.0%). This suggests that more than half of the respondents (50.9%) possessed post-secondary professional or university-level education, implying a relatively high level of literacy and professional exposure among the study participants.

Secondary-level graduates constituted 20.4%, while 14.8% of the respondents held Certificate qualifications. This shows that a substantial number of respondents had at least some form of formal training beyond primary education. Respondents with Primary education and those with Master’s degrees each accounted for 5.6%, indicating the presence of both low-level and advanced-level educational backgrounds within the sample. A small proportion (2.8%) reported belonging to other unspecified educational categories.

The distribution suggests that the study attracted participants with diverse academic backgrounds, although the majority had attained post-secondary education. This level of educational attainment may positively influence respondents’ ability to understand and provide accurate information relevant to the study.

4.2.4 Type of business

Table 4.5: Business type

Business Type	Frequency	Percent (%)
Retail	40	37.0%
Hospitality	18	16.7%
Manufacturing	15	13.9%
Service provider	28	25.9%
Others	7	6.5%
Total	**108**	**100.0%**

Source: Primary data

The results in Table 4.5 show that retail businesses form the largest share of the surveyed enterprises, with 40 respondents (37%), indicating that retail trade is the most common business activity likely due to its lower start-up capital requirements and prevalence in urban and peri-urban areas. Service providers follow with 28 respondents (25.9%), reflecting the increasing demand for service-oriented activities such as salons, repairs, and professional services. Hospitality businesses account for 18 respondents (16.7%), pointing to a moderate presence of restaurants, lodges, and related ventures in the area.

Manufacturing enterprises represent a smaller proportion, with 15 respondents (13.9%), possibly due to the higher capital, machinery, and technical skills required to operate in this sector. Only 7 respondents (6.5%) were engaged in other unspecified business activities. Overall, the findings indicate that the business environment in the study area is dominated by retail and service sectors, while manufacturing and hospitality remain less represented a pattern typical of SMEs in many Ugandan urban settings.

4.2.5 Number of years in operation

Table 4.6: Years in business

Years in operation	Frequency	Percent (%)
1–5 years	62	57.4%
6–10 years	30	27.8%
11–15 years	10	9.3%
Over 15 years	6	5.6%
Total	**108**	**100.0%**

Source: Primary data

The results in Table 4.6 show that the majority of the surveyed businesses are relatively young. Most enterprises 62 out of 108 respondents (57.4%) have been in operation for 1 to 5 years**.** This indicates a vibrant and growing entrepreneurial environment, where many businesses are still in their early stages of establishment. It may also suggest high business turnover or a continuously expanding market attracting new entrants.

The second-largest group comprises businesses that have operated for 6 to 10 years, accounting for 30 respondents (27.8%)**.** These enterprises have survived beyond the start-up phase, showing moderate stability and the ability to adapt to market conditions. Their presence indicates a mix of both new and moderately experienced businesses within the study area.

A smaller proportion of respondents 10 businesses (9.3%) reported operating between 11 and 15 years**.** This group represents more established enterprises with significant operational experience, likely having developed resilience and a steady customer base over time. Only 6 businesses (5.6%) have been in operation for over 15 years, showing that long-standing enterprises make up the smallest portion of the sample. This could point to challenges affecting long-term business survival or a generally youthful business sector with fewer very old enterprises.

The distribution suggests that the business environment is dominated by relatively new and emerging enterprises, with fewer long-established firms. This pattern may influence business performance, stability, and adoption of new systems such as digital tools or managerial practices.

Table 4.7: Effect of tax compliance on financial performance

Statement	Mean	Std. Deviation
Tax compliance promotes proper record keeping and financial accountability in small businesses.	4.21	0.88
Regular tax compliance builds a positive business reputation and improves customer confidence.	4.10	0.94
Compliance minimizes risk of penalties and fines, improving profitability.	4.32	0.73
Tax compliance enables access to government programs and financial support.	3.98	0.92
Proper tax compliance enhances transparency in financial operations.	4.15	0.85
Tax compliance encourages accurate financial reporting for better decision-making.	4.18	0.89
Failure to comply negatively affects financial performance.	4.25	0.81

Source: Primary data

Table 4.7 presents the descriptive statistics on the effect of tax compliance on the financial performance of small businesses. The results show consistently high mean scores, indicating strong agreement among respondents regarding the positive role of tax compliance. The statement "Compliance minimizes risk of penalties and fines, improving profitability" recorded the highest mean (Mean = 4.32, SD = 0.73), suggesting that respondents strongly believe that avoiding penalties and fines significantly boosts business profitability. This implies that adherence to tax regulations reduces unnecessary financial losses and supports stable financial performance.

The findings further show that failure to comply negatively affects financial performance (Mean = 4.25, SD = 0.81), reinforcing the idea that non-compliance exposes businesses to financial risks such as penalties, legal sanctions, and reputational damage. Similarly, respondents agreed that tax compliance promotes proper record keeping and financial accountability (Mean = 4.21, SD = 0.88) and encourages accurate financial reporting for better decision-making (Mean = 4.18, SD = 0.89). These results suggest that tax obligations motivate businesses to maintain organized records and transparent financial systems, which contribute to improved internal control and informed managerial decisions.

In addition, the statement that proper tax compliance enhances transparency in financial **o**perations had a high agreement level (Mean = 4.15, SD = 0.85), indicating that compliance fosters openness and financial integrity within enterprises. Respondents also agreed that regular tax compliance builds a positive business reputation and improves customer confidence (Mean = 4.10, SD = 0.94), demonstrating that customers tend to trust formal, compliant businesses. The lowest mean score was observed for the statement “Tax compliance enables access to government programs and financial support” (Mean = 3.98, SD = 0.92), although still above average. This suggests that while respondents recognize the benefits of compliance for accessing government financial support, the perception is slightly less strong compared to other advantages.

The results indicate that tax compliance is perceived as a vital contributor to good financial performance, promoting accountability, reducing risk, improving reputation, and enhancing profitability among small businesses.

Table 4.8. Effect of tax rates on financial performance

Statement	**Mean**	**Std. Deviation**
High tax rates reduce profitability of small-scale businesses.	4.35	0.76
Reasonable tax rates encourage business growth and stability.	4.05	0.91
Increased tax rates discourage investment and expansion.	4.22	0.84
Fair tax rates improve the ability to meet operational costs.	3.96	0.97
High tax burdens affect retention of sufficient working capital.	4.30	0.79
Lower tax rates boost revenue generation and financial performance.	4.18	0.88
Unstable tax rates create uncertainty in financial planning.	4.27	0.83

Source: Primary data

The results in the table show respondents' perceptions of how tax rates influence the financial performance of small-scale businesses. Overall, the mean scores are generally high, indicating strong agreement with most statements. The statement that high tax rates reduce profitability registered one of the highest mean scores at 4.35, with a low standard deviation of 0.76. This implies that most respondents consistently believe that heavy tax obligations significantly erode business profits. Similarly, the view that high tax burdens affect the retention of sufficient working capital also received a high mean of 4.30, showing that many business owners feel that high taxes limit their ability to maintain adequate cash for operations.

Respondents also agreed that unstable tax rates create uncertainty in financial planning, reflected in a mean score of 4.27. This suggests that inconsistent or unpredictable tax changes make it difficult for small businesses to plan their finances effectively. The statement that increased tax rates discourage investment and expansion also received a high level of agreement, with a mean of 4.22. This indicates that frequent or high tax increments may hinder business growth initiatives.

Lower tax rates were perceived to boost revenue generation and financial performance, reflected in a mean value of 4.18. This demonstrates that respondents believe that reduced tax burdens enable businesses to reinvest more of their earnings. Additionally, the idea that reasonable tax rates encourage business growth scored a mean of 4.05, although the slightly higher standard deviation of 0.91 suggests some variation in responses.

Lastly, the statement that fair tax rates improve the ability to meet operational costs had the lowest mean at 3.96. While still indicating agreement, this suggests that respondents moderately believe that fair tax policies can ease operational pressures, although opinions here were slightly more varied as shown by a standard deviation of 0.97.

The above results show a strong consensus that high or unstable tax rates negatively affect profitability, working capital, investment, and financial stability, whereas lower and reasonable tax rates are perceived to enhance business performance and growth.

Table 4.9. Effect of tax administration on financial performance

Statement	Mean	Std. Deviation
Efficient tax administration simplifies tax payment and saves time.	4.12	0.89
Delays and inefficiencies increase business operational costs.	4.28	0.82
URA provides adequate support and information for compliance.	3.85	1.02
Simplified tax filing systems improve compliance and performance.	4.20	0.86
Transparent tax collection enhances trust between taxpayers and URA.	3.98	0.95
Complex tax procedures discourage voluntary compliance.	4.26	0.79
Fair and consistent tax administration promotes better financial management and growth.	4.15	0.84

Source: Primary data

The results in Table 4.9 reveal insights into the effect of tax administration on the financial performance of businesses. The statement regarding efficient tax administration simplifying tax payment and saving time received a mean score of 4.12, with a standard deviation of 0.89. This indicates that respondents generally agree that when tax procedures are straightforward and time-efficient, businesses can allocate more resources to operational activities rather than spending excessive time on tax compliance. The relatively low standard deviation suggests that this view is shared consistently among most respondents.

Respondents also strongly agreed that delays and inefficiencies in tax administration increase business operational costs, as reflected by a mean score of 4.28 and a standard deviation of 0.82. This underscores the perception that bureaucratic hurdles or slow processing of tax matters can lead to increased expenses for businesses, thereby negatively affecting financial performance.

The provision of adequate support and information by the Uganda Revenue Authority (URA) for compliance had a slightly lower mean of 3.85, with a standard deviation of 1.02. This suggests that while some respondents find URA's guidance helpful, there are mixed experiences, with certain businesses possibly encountering challenges in accessing clear or timely information.

Simplified tax filing systems were seen to enhance compliance and overall performance, scoring a mean of 4.20 and a standard deviation of 0.86. This highlights the importance of user-friendly systems that make it easier for businesses to fulfill their tax obligations, which in turn can positively influence financial outcomes.

Transparency in tax collection received a mean score of 3.98, with a standard deviation of 0.95, indicating that respondents generally agree that visible and accountable tax processes foster trust between taxpayers and URA. However, the slightly higher standard deviation reflects some variance in perceptions, potentially due to differing experiences with transparency in practice.

Complex tax procedures were identified as a deterrent to voluntary compliance, with a mean of 4.26 and a standard deviation of 0.79. This suggests that intricate or cumbersome processes may discourage businesses from fully complying with tax obligations, leading to potential financial and legal risks.

Finally, fair and consistent tax administration was perceived as a promoter of better financial management and growth, evidenced by a mean of 4.15 and a standard deviation of 0.84. Respondents generally agreed that predictability and fairness in tax administration support sound financial planning and sustainable business growth. The findings indicate that effective, transparent, and simplified tax administration has a significant positive impact on the financial performance of businesses, while inefficiencies and complexity can hinder compliance and increase operational costs.

CHAPTER FIVE

DISCUSSION OF KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions, and recommendations arising from the study on tax policies and the financial performance of small and medium-sized businesses (SMBs) in Mukono District Central Division. The chapter begins with a discussion of the key findings based on the study objectives and links them with existing literature. It then provides conclusions drawn from the findings and proposes recommendations that can guide policymakers, business owners, and other relevant stakeholders in improving the financial performance of SMBs through appropriate tax policies.

5.2 Discussion of the key findings

5.2.1 Effect of tax Compliance on the financial performance of SMBs

The findings of the study revealed that tax compliance plays an important role in influencing the financial performance of small and medium-sized businesses. Businesses that consistently comply with tax requirements tend to experience improved financial organization, reduced legal risks, and stronger operational stability. Compliance encourages proper financial record keeping, which enables businesses to track their income and expenses accurately and make informed financial decisions.

These findings are consistent with the views of Adom et al. (2014), who argue that tax compliance enhances the credibility and legitimacy of businesses within the formal economic sector. When businesses comply with tax obligations, they are more likely to gain trust from financial institutions, investors, and regulatory authorities. Similarly, Graham et al. (2014) suggest that compliance contributes to improved transparency and accountability in financial reporting, which strengthens overall financial management practices.

The results also align with the arguments of Hanlon and Heitzman (2010), who emphasize that tax compliance can support long-term business sustainability by reducing exposure to penalties and legal complications. Businesses that comply with tax regulations are better positioned to plan their finances effectively and avoid unexpected costs arising from non-compliance. In addition, Desai and Dharmapala (2006) note that transparent tax behavior strengthens corporate governance and promotes better financial discipline within organizations.

Furthermore, compliant businesses often have better opportunities to access formal financial services, government programs, and institutional support. This observation is supported by existing literature which indicates that financial institutions and government agencies are more willing to support businesses that demonstrate compliance with statutory obligations. Therefore, tax compliance not only protects businesses from legal challenges but also contributes to improved financial performance through enhanced credibility, better financial management, and access to growth opportunities.

5.2.2 Effect of tax administration on the financial performance of SMBs

The study further established that tax administration significantly influences the financial performance of small and medium-sized businesses. Efficient, transparent, and supportive tax administration systems help businesses comply with tax regulations more easily and reduce the administrative burden associated with tax obligations. When tax procedures are clear and accessible, businesses are able to allocate more resources to productive activities rather than dealing with complex regulatory requirements.

These findings are consistent with the work of Coolidge (2012), who explains that complicated tax administration systems increase compliance costs and place unnecessary financial pressure on small businesses. Excessive administrative procedures can lead to delays, inefficiencies, and increased operational expenses, which negatively affect business profitability. Similarly, Kirchler et al. (2008) highlight that complex tax systems often discourage voluntary compliance, particularly among small enterprises that may lack the resources to navigate complicated procedures.

The study findings also align with the broader perspective that transparent and fair tax administration promotes a cooperative relationship between taxpayers and tax authorities. When tax institutions provide clear guidance, consistent regulations, and efficient services, businesses are more likely to comply voluntarily and maintain stable financial operations. This viewpoint is supported by Kirchler et al. (2008), who emphasize that trust between taxpayers and tax authorities plays a crucial role in promoting voluntary compliance and improving economic performance.

Additionally, effective taxpayer education and support services are essential components of a well-functioning tax administration system. Previous studies suggest that when tax authorities provide clear information, training, and advisory services to businesses, compliance levels improve and administrative burdens decrease. Therefore, improving the efficiency and accessibility of tax administration systems can significantly enhance the financial performance of small businesses by reducing compliance costs and fostering a supportive regulatory environment.

5.2.3 Effect of tax rates on the financial performance of SMBs

The study also found that tax rates are a critical factor influencing the financial performance of small and medium-sized businesses. High tax rates tend to reduce business profitability by increasing operational costs and limiting the amount of income available for reinvestment and expansion. When businesses are required to allocate a substantial portion of their revenue to tax payments, their ability to invest in growth opportunities, innovation, and workforce development becomes constrained.

These findings are supported by Bruce and Deskins (2012), who argue that high tax burdens can discourage entrepreneurial activity and reduce the growth potential of small businesses. When tax obligations consume a large share of business revenue, firms may struggle to maintain adequate working capital and financial stability. Similarly, Djankov et al. (2010) note that high tax rates can reduce business competitiveness by limiting the financial flexibility needed for investment and operational expansion.

The results also correspond with the observations of Chittenden et al. (2003), who explain that the impact of taxation on businesses varies depending on the size, industry, and financial capacity of firms. Smaller businesses often face greater challenges in absorbing tax costs compared to larger firms, which typically have more resources and financial buffers. As a result, excessive taxation may disproportionately affect small enterprises and hinder their long-term sustainability.

The findings emphasize that tax rates play a crucial role in shaping business performance, investment decisions, and financial planning. A balanced tax system that considers the financial capacity of small businesses is essential for promoting entrepreneurship, supporting business growth, and strengthening the contribution of SMEs to economic development. Governments must therefore design tax policies that achieve revenue generation objectives while maintaining an enabling environment for business sustainability and competitiveness.

5.3 Conclusions

5.3.1 Tax compliance and financial health

The study concludes that tax compliance is a key driver of financial health for SMBs. Awareness of tax obligations promotes proper record keeping, accountability, and transparency, which reduce the risk of penalties and enhance profitability. Compliance also strengthens investor confidence and access to financial support, facilitating growth and sustainability.

5.3.2 Tax administration criteria

Complex, inefficient, or inconsistent tax administration imposes heavy financial and administrative burdens, reducing profitability and limiting business growth. Conversely, transparent, simplified, and consistent tax administration fosters compliance, operational efficiency, and sustainable financial performance. Policymakers should strive to create a balanced system that supports SMEs while enforcing regulatory requirements.

5.3.3 Tax rates

High or unstable tax rates negatively impact SMBs by reducing profitability, limiting cash flow, discouraging investment, and creating financial uncertainty. Lower or reasonable tax rates encourage reinvestment, innovation, and long-term growth. Tax policy is thus a critical instrument for shaping an enabling environment for SMEs and promoting overall economic development.

5.4 Recommendations

To strengthen the financial performance of small and medium businesses (SMBs), it is essential to enhance tax awareness and education. This can be achieved through targeted training programs, workshops, webinars, and advisory services that improve business owners' understanding of tax laws, compliance requirements, and available incentives. Encouraging proactive tax planning enables SMBs to minimize liabilities, optimize cash flow, and make better-informed financial decisions, ultimately supporting their growth and sustainability.

Simplifying tax administration is another key recommendation. Streamlining tax procedures, introducing user-friendly filing systems, and reducing bureaucratic delays can significantly lower compliance costs for SMBs. Providing consistent taxpayer support, maintaining transparent processes, and establishing fair dispute resolution mechanisms further encourage voluntary compliance, reducing the burden of taxation on small enterprises and fostering a positive relationship between businesses and tax authorities.

Finally, adopting balanced and reasonable tax rates while promoting transparency and fairness in tax policies can create an enabling environment for SMBs to thrive. Introducing lower or tiered tax rates for start-ups and small businesses, alongside incentives such as research and development credits, training subsidies, and capital investment deductions, eases financial pressures and encourages reinvestment. Clear communication of obligations, equitable enforcement, and predictable policies build trust between businesses and tax authorities, ensuring taxation is perceived as fair and supporting overall financial stability, competitiveness, and economic contribution.

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QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

I am Bagonza Kevin, a student of Uganda Christian University pursuing a Bachelor's Degree in Accounting and finance. I am conducting a research study titled "The Impact of Taxation on Financial Performance of Small-Scale Businesses in Mukono Central Division."

The purpose of this questionnaire is to collect data to fulfill the requirements for the award of the above degree. I kindly request you to answer the following questions honestly. The information provided will be treated with the highest level of confidentiality and used strictly for academic purposes.

SECTION A: Demographic information

(Please tick √ the appropriate box)

1. **Gender of the respondent**

   ☐ Male ☐ Female

2. **Age group of the respondent**

   ☐ 21–30 years ☐ 31–40 years ☐ 41–50 years ☐ Above 50 years

3. **Level of education**

   ☐ Primary ☐ Secondary ☐ Certificate ☐ Diploma ☐ Bachelor's

   ☐ Master's ☐ Others (specify)……………………………………

4. **Type of business**

   ☐ Retail ☐ Hospitality ☐ Manufacturing ☐ Service provider ☐ Others (specify)……………………………………

5. **Number of years in operation**

   ☐ 1–5 years ☐ 6–10 years ☐ 11–15 years ☐ Over 15 years

SECTION B: Impact of taxation on financial performance

(Tick √ the response that best represents your opinion using the scale below)

Scale:1 = Strongly Disagree 2 = Disagree 3 = Not Sure 4 = Agree 5 = Strongly Agree

A. The effect of tax compliance on financial performance

Statement	**1**	**2**	**3**	**4**	**5**
Tax compliance promotes proper record keeping and financial accountability in small businesses.					
Regular tax compliance builds a positive business reputation and improves customer confidence.					
Compliance with tax obligations minimizes the risk of penalties and fines, improving profitability.					
Tax compliance enables access to government programs and financial support for small businesses.					
Proper tax compliance practices enhance transparency in business financial operations.					
Tax compliance encourages accurate financial reporting, which improves decision-making.					
Failure to comply with tax obligations negatively affects the financial performance of small businesses.					

B. The effect of tax rates on Financial Performance

Statement	5	4	3	2	1
High tax rates reduce the profitability of small-scale businesses.					
Reasonable tax rates encourage business growth and financial stability.					
Increased tax rates discourage investment and expansion of small businesses.					
Fair tax rates improve the ability of businesses to meet operational costs.					
High tax burdens affect the ability of businesses to retain sufficient working capital.					
Lower tax rates can boost revenue generation and financial performance.					
Unstable tax rates create uncertainty that affects financial planning and budgeting.					

C. The effect of tax administration on Financial Performance

Statement	5	4	3	2	1
Efficient tax administration simplifies the process of paying taxes and saves time.					
Delays and inefficiencies in tax administration increase business operational costs.					
The Uganda Revenue Authority (URA) provides adequate support and information to help small businesses comply with tax requirements.					
Simplified tax filing systems improve compliance and financial performance.					
Transparent tax collection procedures enhance trust between taxpayers and URA.					
Complex tax administration procedures discourage voluntary compliance.					
Fair and consistent tax administration promotes better financial management and growth.					

Thank you for your cooperation

Your participation is highly appreciated.