THE IMPACT OF TAXES ON THE PERFORMANCE OF MICRO ENTERPRISES: A CASE STUDY OF NSUUBE-BUGUJU PARISH MUKONO TC DIVISION

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DECLARATION

I, Owoko Emmanuel Jerome declare that this research report is presented in its original form and has not been submitted to any University or institution of learning for any academic award.

Signature………………………………………

…. Date 15/08/2024

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Owoko Emmanuel Jerome

S21B33/019

APPROVAL

This is to certify that this Research Dissertation titled "The impact of taxes on the performance of Micro Enterprises: A case study of Nsuube-Buguju Parish, Mukono TC Division" **has been done under my supervision and submitted for examination with My approval.**

Signature………………………………………. **Date** 03/9/24

…………………………………….. MR. AHABWE ALEX

DEDICATION

I dedicate my study to my family, particularly my parents, Mr. Robert Omita, who guided, encouraged, and mentored me all the way through my schooling and into college. Above all, I am grateful to God for providing the direction and resources I needed to finish my dissertation.

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I offer the at most gratitude to Mr. Ahabwe Alex, who has supervised me thoroughly and guided me throughout the entire process.

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The entire community of micro enterprise owners and managers in Buguju village, Nsuube-Buguju Parish, Mukono TC Division, I am so grateful for allowing me to get all I needed for my research to be successful.

Lastly, I thank God who has given me good health and strength to carry out the research right away from the beginning to the end and successfully.

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ABSTRACT

The study went out to investigate the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division. The study flowed following these three objectives: the relationship between tax rates and the performance of Micro Enterprises, secondly, the relationship between tax incentives and the performance of Micro Enterprises and lastly, the relationship between tax compliance and the performance of Micro Enterprises in Buguju.

The study was carried out using explanatory research design where quantitative research approach was utilized. Stratified sampling method and purposive sampling method was used to get a sample of 80 respondents who were Micro Enterprises owners and managers of the selected businesses dealing in segmented businesses and assorted merchandize in Buguju village, and these responded to the questionnaires that were used to collect data.

The study found that tax policies have a big influence on the growth and sustainability of micro enterprises. It is also encouraging to see that most respondents concurred that the tax rates were explicitly stated and that the organizations running the Micro Enterprises were aware of the tax payment procedures. However, it raises issues with the perception that taxes are unsupportable by many Micro Enterprise owners, primarily because they are regressive, which has an impact on the bases from which revenues are drawn. In addition, the region's micro enterprises' capacity to grow and flourish is hampered by the apparent lack of tax incentives for them. Therefore, tax compliance is essential to Micro Enterprises' success. In fact, there is a positive association between the performance of Micro Enterprises and their owners' consistent

timely filing of

returns, payment of taxes, and adherence to tax legislation.

In the end, it produced a lengthy list of suggestions aimed at promoting and reducing the tax burden on micro-enterprises. These included streamlining tax laws, developing targeted tax incentives, enhancing tax education initiatives, changing regressive tax laws, fostering greater collaboration between tax authorities and micro-enterprises, offering regular policy reviews, and even appointing a tax ombudsman specifically for micro-enterprises. By lowering taxes, offering incentives, educating Micro Enterprises, and promoting collaboration, policymakers can further foster this atmosphere and help these businesses grow, innovate, and comply with regulations—thereby addressing some of their very particular problems.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study is about the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division. This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significant of the study and conceptual framework.

1.1 Background of the study

A tax is an involuntary levy imposed by government agencies on the capital, income, and consumption of its constituents. To raise money, it deducts personal income from corporate profits, dividends, interest, discounts, and royalties from the company's earnings. According to Bello et al. (2013), it is also assessed against capital gains, petroleum profits, business profits, and capital transfers. Because of this, taxes constitute an essential imposition or transfer of resources from the private to the public sector in a predetermined way and regardless of any gain obtained in order to achieve one or more of the state's economic and social objectives. The primary goal of taxes is to generate income for the government so that it can account for its spending, as well as further advanced by McIntyre and Dallago (2013).

An enterprise that combines the definitions of a medium-sized and small-scale business into one is called a micro enterprise. One significant factor in the industrialization and economic growth of developing nations is microenterprise. (McIntyre and Dallago (2013); Mead and Liedholm (2018); HELMSING AND KOLSTEE (2013).)

This will highly depend on the level of taxation, its administration, and also penalties that arise from non-compliance. The higher the tax rate, or the greater the effort, will be to meet the demands of taxation as well as checking how such requirements are met in terms of collected taxes, the lower the initiative will be for

such microenterprises to perform well. Every tax policy must, therefore, aim at striking a tricky balance between the tax rate and compliance costs through tax administration with respect to economic

development.

International studies into the taxation of Micro Enterprises provide that, rather than being neutral in terms of their influence on Micro Enterprises and Micro Enterprise decisions, tax systems often provide incentives for Micro Enterprises to incorporate and to distribute income in the form of capital, particularly in the form of capital gains, which are often lower-taxed are found by studies of taxation of Micro Enterprises within The Organization for Economic Cooperation and Development (OECD) and The Group of Twenty (G20) countries (Yaobin, 2017). Additionally, some tax systems can disproportionately affect Micro Enterprises relative to large enterprises to the extent that they treat profits and losses asymmetrically (unevenly), are biased toward debt over corporate equity, and possess relatively high compliance costs. Governments take many measures to reduce these impacts, providing tax preferences and simplification measures targeted at Micro Enterprises (Holban, 2017).

These companies make up a sizable portion of the market economy in the majority of industrialized nations: their GDP share ranges from 50% to 67%. A few instances of their work are as follows: 50–53% in Great Britain, 50–54% in Germany, 52–55% in the USA, 57–60% in Italy, and 63–67% in France (Small Business in Ukraine, 2017). Thus, the Micro Enterprises sector accounts for as much as 50–60% of government income (Small Business in Ukraine, 2017). Therefore, the potential productivity of the Micro Enterprises sector increases with the percentage of small and medium-sized enterprises in the economy.

The governments of some African developing nations have also implemented a variety of initiatives aimed at promoting the growth of microenterprises and the private sector. For example, it was estimated that in Tanzania, microenterprises contributed at least 30% of the GDP (IPP Media, 2012). According to Olunele & Emilie (2012), the Tanzanian government formally creates and carries out a significant number of tax policies concerning the creation of jobs, the improvement of infrastructure, and the generation of income through the establishment of new microenterprises and/or the improvement of the efficiency and competitiveness of the microenterprises that are currently in operation.

More specifically, because perceived benefits exceed perceived costs, the majority of small businesses in Africa, including Nigeria, prefer to stay in the informal sector. Companies seldom ever see their taxes paid at work, and the high expense of compliance deters them from complying. Furthermore, because resource-constrained revenue authorities sometimes find it more expensive to monitor and collect taxes from small businesses than from them, it deters the government from obtaining money from these businesses (Stern and Barbour 2015).

Approximately 90% of the production in the private sector in Uganda is produced by micro-enterprises, which are also considered to be the backbone of the country's economy. The National Small Business Survey of Uganda, 2017, states that microenterprise continues to be a major driver of job creation and a vital means of generating income for the underprivileged. In Uganda, the majority of enterprises are small-scale, locally owned and run by individuals or families, with only a few people working at a single site. Since Uganda was a British colony, the Bank of Uganda, 2022 discloses that Uganda's tax structure is based on the British system. The same thing happened to other colonies abroad, and under British rule, everyone in East Africa was subject to the same tax system. Tax concerns have never been easy for Uganda's little enterprises. In fact, it would be uncommon to end a conversation without hearing complaints and concerns about the intricate and/or unclear tax laws, high tax rates, and the total lack of an integrated fiscal strategy that accounts for local taxes, social taxes, and other levies in relation to the overall tax burden placed on Uganda's business community. Baurer (2015).

1.2 Problem statement

Taxation estimates the amount of resources Micro Enterprises allocate towards innovation, research and development, fostering long-term productivity gains. Proper taxation systems applied on the Micro enterprises comprising of tax incentives, low tax rates, and reduced tax penalties for non-compliance greatly contributes the improved performance of Micro Enterprises.

According to one study, tax compliance, tax rate, and tax incentive appear to be statistically significant and have a beneficial impact on microenterprises' performance.

The research also recommended bolstering tax incentives to support newly established small and medium-sized businesses in order to boost the performance of microenterprises in the economy. Nakato and Grace (2022) suggested further strengthening the tax system, which can aid microenterprise taxpayers in meeting their tax duties. The study called for designing effective tax rates not based on taxable profits demarcated in the law but rather an economic measure that includes the impact of the tax base.

However, taxes are designed primarily to impact Micro Enterprises' performance through lost revenue from URA-closed business locations, capital loss from URA-imposed fines on Micro Enterprises that fail to pay their taxes, and loss of machinery and equipment due to late tax remittance. Overall, business performance was mediocre because most companies could adequately cover their costs, had adequate inventory, low taxpayer awareness, and a variety of issues were faced (Bukulu Julius, 2023). This research extensively examines the operations of microenterprises, a crucial segment of the industrial sector. It takes into account how the tax system affects microenterprises' capacity to grow per capita income and make a greater contribution to economic growth.

1.3.1 General Objective

The general objective of the study is to investigate the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division.

1.3.2 Specific objectives of the study

This study is guided by the following specific research objectives:

i. **To examine the relationship between tax rates and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division.**

ii. **To establish the relationship between tax incentives and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division.**

iii. **To examine the relationship between tax penalties from non-compliance and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division.**

1.4 Research questions

The study is aimed at answering the following questions:

i. **What is the relationship between tax rates and the performance of Micro**

Enterprises in Nsuube-Buguju Parish, Mukono TC Division?

ii. **What are the relationship between tax incentives and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division?**

iii. **What is the relationship between tax penalties from non-compliance and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division?**

1.5 Scope of the study

1.5.1 Content Scope

The study focuses on investigating the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division, Mukono Municipality. It is limited to; examining the relationship between tax rates and the performance of Micro Enterprises, establishing the relationship between tax incentives and the performance of Micro Enterprises and examining the relationship between tax penalties from non- compliance and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division

1.5.2 Geographical scope

The case study has an area of 236,040.0 km² and a density of 181.0 people/km². Buguju is located in the region of Central Region. Central Region's capital Kampala (Kampala) is approximately 18 km / 11 mi away from Buguju (as the crow flies) (Places in Uganda - Places in the world 2015). This study is carried out in different Micro Enterprises located in Nsuube-Buguju Parish, Mukono TC Division, Mukono district of Central region of Uganda. It is chosen because it is the second largest Municipality in Uganda in terms of population meaning that there are a lot of Micro Enterprises established in this area facing a challenge of taxation that are hindering the performance of their businesses.

1.5.3 Time scope

The research data is focused on a time range of one year, from August 2023 to August 2024 because it gives enough time for me to know all about the impact of taxes in the whole Buguju. The review of the report and documents focused at a range of 2012-2024.

1.6 Significance of the study

To scholars and future researchers, the findings of the study are expected to contribute

to the existing literature about taxes and their influence on Micro Enterprises and the economy as a whole.

To the tax authority and government, the study will guide them in adjusting tax policies so that they suit requirements of small and medium businesses.

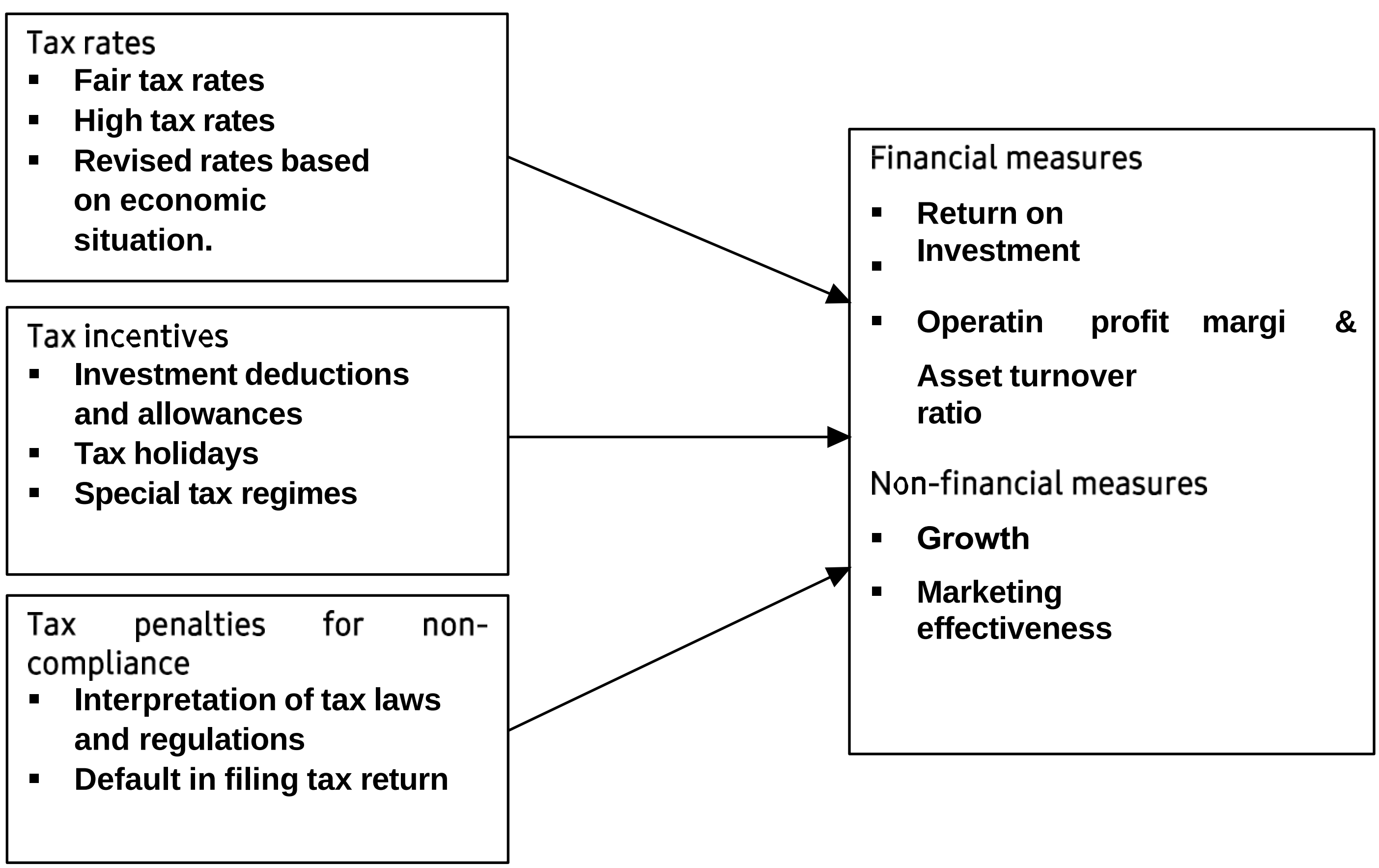
The accomplishment of the study will enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with a lot of precision and proficiency.

1.7 Conceptual framework

Figure 1: Conceptual framework

Independent variable　　　　　　　　　　Dependent variable

TAXES　　　　　　　　　　PERFORMANCE OF Micro Enterprises



Source: *Adopted from (Tusubira & Nkote, 2013; Vaaij 2015) and modified by the*

The association between the independent variable, tax rates, and the dependent variable, Micro Enterprise performance, is justified by the conceptual framework mentioned above. Tax rates, which include taxation rates' clarity, accuracy in terms of level and justice, are used to measure taxes in the current study. Additional topics include investment tax deductions, allowances, tax holidays, and special tax regimes. Lastly, there is the need to comply with tax laws and regulations, which includes tax planning, a simplified tax system, functional expertise, and the interpretation of tax laws and regulations. Micro-enterprise performance is assessed using a combination of financial and non-financial metrics. On the other hand, a few financial metrics are growth, marketing efficacy, return on investment, return on assets, operational profit margin, and asset turnover ratio. Non-financial metrics include growth, employee happiness, marketing effectiveness, and return on investment, whereas some financial indicators include return on investment, return on assets, operating profit margin, and asset turnover ratio.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter outlines the several schools of thinking on taxes and performance of Micro Enterprises. This chapter listed the several ideas on taxes that have been proposed by different academics. The researcher emphasized the findings of many writers about the influence of taxes on the growth of micro enterprises in order to address the study questions outlined in the first chapter.

2.1 Concept of Taxes

Taxation, as defined by Atkeson & Burstein (2005), is the process by which governments charge their citizens and business organizations to pay for their expenditures. One tool used by governments to promote or prohibit particular economic behaviors is taxation. For example, subtracting the interest paid on house mortgage loans from the personal or family taxable income results in more construction and jobs. See also tax principles

Chen & Scott (2004), on the other hand, define taxation as the act of a taxing body actually enforcing tax. All forms of taxes, including income, gift, and inheritance taxes, are collectively referred to as taxes. It is commonly referred to as an act, and any revenue obtained is typically referred to as "taxes." It may also be used to characterize taxes as an abstract idea, a specific sum of money that has been collected, or even actual money that has been received in return for paying taxes. Although the first usage of the term mentioned above is the most prevalent, all of these applications are regarded as valid. The ability to impose taxes is one of the

main powers the government

has over the general populace.

Since the dawn of civilization, taxes have presented challenges for both the government and the taxpayer, according to Eftekhari (2009). For a considerable amount of time, the issue's benefits and drawbacks have been deeply ingrained, generating significant debate and bitter political struggle. According to their significance, a number of economic theories have been put forth to operate an efficient tax system. However, according to Gabay, Remotin, and Uy (n.d.), taxation is the process by which the sovereign, through its legislative body, imposes taxes to cover government expenses. It is also a way for the government to raise revenue under the law, with the intention of using it to further the welfare and protection of its citizens. In contrast, tax is the term used to describe the government's collection of a portion of individual and organizational income under legal authority. According to Iwuji (2005), a tax is a legally mandated payment that the government withholds from an individual's or an entity's earnings, assets, or transactions in order to support governance. The progressive, regressive, and proportional tax systems are the three main categories of tax structures. A tax is considered proportional when it is levied against a taxpayer in an amount that corresponds to an indirect share of his income. Conversely, a greater rate is applied by the progressive tax to individuals with higher earnings, while a larger rate is applied by the regressive tax to those with lower incomes.

2.2 Concept of Micro Enterprises

There isn't a single, globally recognized definition of a small business. Different definitions of a small-scale enterprise have been adopted at various points in time by writers, scholars, and policy officials. A small scale firm can be defined in a variety of ways, including the number of employees, the amount invested in equipment and plant, and the sales turnover.

In Uganda, an enterprise or firm is considered small-scale if it employs less than five people, but not more than fifty, has assets valued at less than Ugshs 50 million (US$ 30,000), excluding land, buildings, and working capital, and generates between Ugshs. 10 and Ugshs 50 million (US$ 6,000 and 30,000) in revenue annually. A company classified as medium-sized is one that employs 50–100 people. There

are still certain

traits that need development. Since this study was conducted in Uganda, it adopted the concept of small-scale firms from that country.

Micro-enterprises are a dynamic and relative notion. Micro-Enterprises demonstrate the concepts of evolution, creativity, and unpredictability. Thus, a thorough comprehension of Micro-Enterprises would necessitate a thorough familiarity with its aspects. According to Aderemi (2003), Micro Enterprises in Uganda are often tiny, family-run businesses that provide basic goods and services. They typically lack organizational and managerial frameworks, with urban micro enterprises typically having more structure than their rural counterparts. One of the most common characteristics of Micro Enterprises in Uganda is this.

Additionally, Micro Enterprises typically use labor-intensive production methods and function as suppliers to bigger manufacturing companies, with a strong reliance on locally produced raw materials for their operations. Additionally, they need less starting capital than larger businesses. Since the manager oversees both the employee and the employer, choices made by them are likely to be subjective. In most Micro Enterprises, the employee-employer interaction is informal.

Heterogeneity is another feature of the Micro Enterprise sector in most nations; tiny retail stores, highly compensated professionals, and large manufacturing companies are all part of it. The organizational structure of micro enterprises is also likely to differ from that of sole proprietorships, small corporations, public or private, professions, partnerships, and companies with or without workers. One common outcome of this characteristic is that the enterprise's record-keeping duties will vary.

2.3 Relationship between taxes and performance of Micro Enterprises

Examining the correlation with the growth of Micro-Enterprises entails more than only examining tax rates. Taxation is now more important than ever in promoting innovation, growth, and investment as well as in simplifying global commerce and improving mobility. The primary goals of Micro Enterprises are to minimize the administrative load while adhering to accounting and bookkeeping regulations, which includes analyzing the causes and effects of doing business in the unofficial

sector. Overall, Kolstad et al.

(2006) provided evidence that taxation is viewed as a significant issue by businesses of all sizes. Taxation has therefore demonstrated a route that impacts small and medium- sized businesses.

According to Tomlin (2008), smaller businesses therefore waste money on tax compliance that could be utilized for investments in the company in order to spur future growth. Small businesses are therefore disproportionately affected by taxation and a very convoluted tax structure. Since both large and small businesses paid equivalent taxes and were subject to identical compliance procedures and expenditures, the normal tax system also discriminates against small taxpayers. Small businesses see an improvement in their profit margin when they lower their tax rates and compliance costs. Because the revised standards for a Micro Enterprise are expected to decrease the size of the shadow economy and the number of non-complying registered taxpayers, it simultaneously increases the government's revenue from taxes. As per Vasak (2008).

Besides, micro-enterprises typically have to operate in a highly regulated environment with a large number of pertinent regulatory authorities, many taxes, onerous importation processes, and expensive port fees, all of which significantly hinder their ability to conduct business. Numerous microbusinesses have incurred significant expenses managing numerous agencies. They are diverse, as was already said, and these variations in base and structure may entail different record-keeping obligations as well, which might impact the expenses incurred by the businesses in complying with alternative potential tax obligations as well as the revenue authorities in administering them. For instance, large publicly traded enterprises are subject to stronger accounting regulations than proprietorships; also, businesses that hire employees must cope with various labor income tax and social contribution withholding rules.

In addition to making tax compliance unsustainable, an overly onerous regulatory framework and tax regime, or one that lacks transparency in its operations and implementations, also frequently skew developments within Micro Enterprises, as they tend to take on forms that either present no tax burden at all or a minimal tax burden. In a sense, this establishes a tax regime that places significant financial

burdens on society. Ineffective tax administration results in low tax revenue generation, inefficiencies, and

high collection costs. It also takes a lot of time for employees and taxpayers to complete tax returns. They also don't make the greatest use of the resources that are available. In addition, there is empirical evidence to support the notion that Micro enterprises bear a disproportionate amount of the costs due to inefficiencies, exorbitant collection costs, staff and taxpayer time waste, inadequate tax revenue collection, deviance from the ideal resource allocation, and numerous other factors. For bigger organizations, for instance, the Micro-Enterprise compliance expenses become more substantial when scaled by sales or assets. (Farzbod, 2000, Weichenrieder, 2017 and Yaobin, 2017).

According to Gordon and Dawson (2017), taxes are a way for the government to take money away from the private sector, which Micro Enterprises might otherwise use. As a result, the public sector gains more buying power per unit of production than the private sector. They went on to argue that one of the most common objections to a high income tax is that it takes away the motivation for business owners and employees to put in more effort and produce better results.

Micro enterprises engage in tax planning, according to the World Bank Symposium (2011), in order to reduce their tax liabilities and so boost their buying power. The government takes money from individuals and businesses through taxes that they would otherwise use to fund the private sector. The demand for units of items in the private sector is decreased by this decline in buying power. 2017 saw Gordon and Dawson.

Microenterprises are extremely important to national economies, hence taxes becomes a problem. With specific tax regulations, government initiatives for microenterprises can be tailored to take a cautious approach that addresses market inefficiencies and the disproportionately high compliance obligations encountered by the microenterprise sector. While designing taxes regulations to stimulate the development, innovation, and expansion of micro companies, governments must take into account the variety of the micro enterprise sector and the unique obstacles that micro enterprises and their owners face.

2.4 Relationship between tax rates and the performance of Micro Enterprises

The general consensus is that evasion is mostly caused by high tax rates, which further impedes the growth of micro enterprises. Tax evasion incentives depending on marginal tax rates Due to the fact that these govern the benefits from avoidance as the total of the sums avoided. Because they incentivize the payee to do so, high personal income tax rates are a significant contributor to tax evasion. As a matter of fact, onerous and intricate tax rules and regulations may even encourage tax avoidanceFor most organizations, conducting legal business is incredibly time-consuming and unproductive. Not only are rich nations like the USA concerned about high taxes, but so are Kenya and other less developed nations in Africa and Latin America. The high rates of taxes on microbusinesses across Africa, and specifically in Uganda, call for increased focus on study areas intended to address the overall effects of taxation on microbusinesses. Osambo (2009) investigated taxation practices in five nations: the United States, the Gambia, Nigeria, South Africa, and Kenya. Derwent (2010) found that a growing tax burden poses a serious risk to the growth of microenterprises.

Several studies have looked at the effect of tax rates on Micro Enterprise profitability. Lower tax rates are typically correlated with higher after-tax profitability for Micro Enterprises. Research by De Mooij and Ederveen (2008) found that a reduction in corporate tax rates led to higher profitability among Micro Enterprises in European countries. This increase in profitability allows Micro Enterprises to allocate more resources to reinvestment, expansion, and innovation, enhancing their competitiveness in the market.A study by Liu and Altshuler (2013) found that high tax burdens were associated with lower profitability among US manufacturing Micro Enterprises. The reduction in after-tax profits resulting from higher tax rates limits the financial resources available for investment, which can impede Micro Enterprise growth and innovation.

As a result, effective tax rates are a crucial tool for businesses looking to extract condensed but accurate information on effective tax loads. Therefore, while evaluating the success of their firm, business owners are very interested in the evaluation of post- tax indications (Lambersen, 2007). However, Vicari deduces that

the effective tax rate

may be formulated to be unaffected by profit, which legally may be considered taxable but may be associated with an economic measure that takes the tax base's influence into account. Because the tax rate is the same for small and large businesses, micro enterprises face discrimination in a normal tax system, which drives up the expenses of operating tiny businesses. Due to this, the expansion of micro enterprises has been skewed, with the majority of small businesses becoming businesses that pay no taxes at all or lower taxes than before.

According to Atawodi & Ojeka (2012), tax preferences for small firms should be taken into consideration when determining the appropriate tax rate. This may be achieved by lowering tax rates, providing small businesses with tax holidays, and providing other reliefs. The ultimate goal is to guarantee that tax revenue is raised in a way that is appropriate for the nation's administrative capacity and environment.

Furthermore, high tax rates raise the cost of production for Micro emterprises, which has a significant impact on their performance and should not be disregarded, according to Mungaya, Mbwambo, and Tripathi's study, "The Impact of the Tax System on the Growth of Micro Enterprises -Evidence from Micro Enterprises". An further contribution to this comes from Oludele and Emilie (2012), who proposed that the microenterprise sector's performance has been negatively impacted by high tax rates and complicated tax structures.

The majority of Uganda's small companies did not pay their taxes because they could not afford the high tax rates that were being imposed, according to the 2015 National Small companies Survey of Uganda report (FSD Uganda, 2015). In addition, Baurer (2005) noted that it is uncommon to encounter small enterprises complaining about the complex tax system with its ambiguous tax regulations and high tax rates, which have impeded their ability to expand. The payment of municipal service taxes was mentioned as one of the additional justifications for not filing taxes. These include of, but are not restricted to: not knowing that they must pay taxes, the tax body not being able to collect from them, not making enough money to force them to do so, among others

Higher tax rates may increase compliance costs and administrative hassles for Micro

Enterprises, reducing profitability. Most Micro Enterprises have insufficient resources and ability to comply with complicated tax regulations and compliance requirements. The time and resources spent on tax compliance can divert focus away from key corporate activities, reducing productivity and profitability. A study by Pomeranz (2015) analyzed the impact of tax compliance costs on Micro Enterprise profitability in developing countries. The findings revealed that higher compliance costs were associated with reduced profitability among Micro Enterprises, as these costs impose a burden on financial resources and limit reinvestment opportunities.

2.5 Relationship between tax incentives and the performance of MicroEnterprises

Any exemption or relief from taxes that is given to a person or business with the intention of lessening the effect of taxes and opening up opportunities for investment and savings is referred to as a tax incentive. Governments all throughout the world have made this sort of incentive available in an effort to draw investors for the advancement of the economy. In order to assist efficient tax systems in developing nations, the IMF, OECD, UN, and World Bank addressed the governance of tax incentives in their joint report to the G-20 in 2011. Governments have employed tax incentives, which often take the form of exemptions, tax holidays, credits, investment allowances, and preferential tax rates, as tools to provide incentive action in connection to a certain economic aim. Furthermore, various tax incentives were instituted and executed for the business economy's sectors, such as tax holidays, import duty exemptions, withholding tax exemptions, Value Added Tax (VAT) exemptions, income tax rate reductions, preferential tax rates, losses carried forward, and pioneer capital allowances (Mayende, 2013).

As a result, the Ghanaian tax structure has seen several incentive additions throughout time. Tax rebates, lowered tax rates, tax holidays, income exemptions, capital allowances, incentives for recent graduates, incentives in free zones, double tax treaties, exemptions from capital gains, import duty exemptions, and exemptions from export duties are prominent examples of these incentives, according to tax authorities. Certain ones are made according to industry type, years of operation, kind of transactions, size and origin of firms, and other factors.

According to PwC Ghana's 2019 Ghana Tax Facts &

Figures Report. The age and size of microenterprises in the business world are negatively impacted by market failures. Once more, Micro Enterprises are disproportionately disadvantaged by the tax system. These harsh circumstances are what collectively demand that Micro Enterprises be given special consideration.

According to the notion of tax benefit, tax incentives should take into consideration the advantages that agents receive from the range of products and services they obtain from the government in addition to encouraging them to pay taxes. Local taxes are based on the principle of benefits of taxation, claims Neill (2000). This implies that taxes should be high for those who receive the majority of the benefits from the state and nil or very cheap for businesses and individuals who receive no benefits from it. The infrastructure development, which is often initiated by the government, offers the corporations the most benefit. Essentially, the article makes the case that the agency theory of tax incentives has augmented other economic barriers erected by governments, leading to a need for taxes to counteract both market and fiscal failure. Therefore, government initiatives on economic growth, national development, employment creation, and enhancement of the general welfare of the populace are meant to be observed and pursued through the tax system through the distribution of incentive packages.

According to Megersa (2019), tax incentives have a beneficial impact on R&D spending in Taiwan, assist anticipate GDP growth in China, and significantly enhance employment, production, fixed capital, and the number of enterprises in India. In a similar vein, Siyanbola, Adedeji, Adegbie, and Rahman (2017) discovered that tax incentives are a key strategic booster for business and industrial growth in Sub-Saharan States, including Ghana. In addition, governments will be better able to provide incentives to their taxpayers the more money they bring in (Siyanbola, et al., 2017).

According to empirical research, tax exemptions lessen Micro Enterprises' tax burden more than tax rates do (Liakhoyets, 2014), allowing them to reinvest their resources for more effective operation. Microbusiness growth is also aided by government assistance such as tax reductions and tax system simplifications (Louis & Macamo, 2011). The expansion of micro enterprises may be aided by tax exemptions, tax reductions, and reduced tax obligations (Bozdoğanoğlu, 2016). According to any empirical comparison research conducted in Uganda, for example, "firms with incentives performed better than firms without incentives in gross sales and value added" in that nation. Even better, reducing tax incentives significantly boosted company performance. In particular, tax incentives are found to be a reliable indicator of sustained Micro Enterprise growth in Rwanda by Twesige and Gasheja (2019) in a recent study.

2.6 Relationship between tax compliance and the performance of Micro Enterprises

In terms of meeting legislative or regulatory standards set out by the government, it is often described in terms of time or financial cost. One of those words that is hard to describe precisely is tax compliance. Otherwise, it may be described "as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities" . According to Pope and Abdul-Jabbar (2008), the type and scale of these businesses have resulted in tax obligations for micro enterprises, which has hampered their ability to operate. In addition to having insufficient resources to fully comply with tax requirements, micro-enterprises in developing nations face significant tax compliance costs because of their limited ability to meet tax compliance requirements in accordance with intricate tax laws.

Since taxes are an unexplained expense, persuading people to comply with the demand for them is difficult. There is still tax evasion in emerging nations. Tax compliance refers to the taxpayer's preparedness to make tax payments. The capacity and desire of taxpayers to abide by tax laws, report accurate income each year, and make the appropriate tax payments on time are all included in the concept of tax compliance. In order to be in conformity with tax rules, regulations, and

court rulings, one must

disclose all income and pay all taxes. (Jackson & Milliron, 2016; Internal Revenue Service Act, 2000 Act 592). To further, Singh (2003) defines tax compliance as the act of an individual filing their tax return, accurately stating all of their taxable income, and paying all of their taxes on time, without waiting for additional action from the government. The desire of taxable organizations to behave in line with the language and spirit of tax legislation and administration without the need for enforcement is said to operationalize tax compliance. Failure by the taxpayer to pay the correct amount of tax can be defined as tax non-compliance. This may occur due to the intricacy or even inconsistencies in the tax laws or the tax administration process (Kesselman, 2014).

To compel compliance, the majority of tax regimes use punitive measures like fines, closure, or even a jail sentence when dealing with non-compliance. Poor internal controls, tax rates, audits of accounts and tax assessments, and compliance costs. Micro
-enterprises' tax compliance behavior is determined by a variety of factors, including referral groups, tax expertise, fairness, fast enforcement, attitude, high tax rates, and complicated filing procedures. According to Ameyaw et al. (2016), evading taxes will always result in consequences. As previously stated by Kendrick (2019), variations in the tax compliance practices of small and medium-sized businesses can be linked to the ability to pay tax theory.

Empirically, Masanja 2019 demonstrated in Tanzania that tax compliance behavior for microenterprises is impacted by factors including high taxes, various taxes, unjustified taxes, unwelcoming tax administrators, challenges in paying taxes, bureaucracy in paying taxes, and changes in taxes. Ability to pay taxes was strongly correlated with firm size (Ocheni & Gemade, 2015). For instance, Mukhlis and Simanjuntak (2016) discovered that Micro Enterprises had low tax compliance behavior. According to a 2019 research by Okpeyo, Musah, and Gakpetor, medium-sized businesses in the Greater Accra region appear to have greater tax compliance rates than small businesses. There are others who believe that small businesses are more likely to experience non- payment by default since they have more tax compliance expenses than bigger corporations (Atawodi & Ojeka, 2012; Lokhande, 2020).

2.7 Summary of literature review

A review of the associated literature revealed that a streamlined taxation system assists Micro Enterprise taxpayers in complying with their tax obligations, hence reducing the burden of tax compliance within Micro Enterprises. One of the primary tax administration tactics, which involves simplifying and providing tax education, addresses the expense of tax compliance encountered by micro enterprises. However, while empirical research on micro-enterprise tax compliance is illuminating, it has tended to disregard positive experiences about the impact of micro-enterprise tax compliance on micro-enterprise performance.

The review of the literature revealed that, in order to encourage the growth of micro enterprises, the tax rate must be determined by the tax preference granted to small firms. This may be done by decreasing tax rates, providing small businesses with tax holidays and other relief, and providing relief to these businesses. In addition to being sparse, the research on small- and medium-sized business tax rates did not provide any concrete evidence of how tax rates affect the expansion of microenterprises. This research strived to cover the raised literature gaps by examining "the impact of the taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division" to cover the information gap.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methodology that is used in conducting the research. It described how this study is conducted. It includes the study design, the study setting, study population and the sample size. It also describes the sampling procedure definition of variables, research instruments, data analysis and management, ethical considerations, and the limitations of the study.

3.1 Research design

This study used an explanatory research design which is developed to explore a phenomenon that had not been studied before or had not been well explained previously in a proper manner. Its main intention is to provide details about where to find a small amount of information (Patrik & Ugo, 2019). It also helped in ascertaining how and why a particular phenomenon was occurring and further predicted future occurrences. Lastly, it helped in investigating patterns and trends in existing data that hadn't been previously investigated.

The researcher also employed quantitative research methods. This type of study design was chosen because it is more objective and dependable. As a result, it enabled the researcher to test theories and hypotheses, determine the link between two variables, and use statistics to assist generalize the findings (Bhawna & Gobind, 2015). As a result, the research study's quantitative technique involved using questionnaires that a researcher delivered to a sample of Micro-Enterprise owners or managers in Buguju, Nsuube-Buguju Parish, Mukono TC Division in order to gather statistical data (Haradhan, 2021).

3.2 Study area

This study was carried out in different Micro Enterprises located in Buguju village, Nsuube-Buguju Parish, Mukono TC Division, Mukono district of Central region of Uganda. It was chosen because it is the second largest Municipality in Uganda in terms of population meaning that there are a lot of Micro Enterprises established in this area facing a challenge of taxation that are hindering the performance of their businesses.

3.3 Study population

According to statistics from Mukono Municipal Council (2023), there are 100 registered Micro Enterprises operating in Buguju village which are categorized according to segmented businesses and those that deal in assorted merchandize and these were included in the study as the population. Furthermore, in this study, the unit of analysis is the major entity that is being analysed in the study. Therefore the unit of analysis in this study was the selected Micro Enterprises operating in Buguju, Nsuube-Buguju Parish, Mukono TC Division.

3.4 Sample size determination

3.4.1 Sample size

This is a crucial component of the study as it influences its goal. This is the quantity of individual observations or units that make up a sample that is taken from the largest location. Trochim, W.M.K. (2006) The Knowledge Base for Research Methods. The number of units—people, animals, patients, under what conditions, etc.—in the sample is known as the sample size.

Table 1: For determining sample size of a known population

Category of Sole Proprietor Businesses	Population	Sample Size	Sampling Technique
Assorted merchandize	**65**	**53**	**Stratified**
Segmented businesses	**35**	**27**	**Purposive**
Total	100	80	

Source: ***Mukono Municipal Council (2023)***

Therefore from the table above, the sample size was 80 respondents got from a total population of 100 registered Micro Enterprises operating in Buguju village, Nsuube- Buguju Parish, Mukono TC Division.

3.4.2 Sampling Method and Procedure

The information required for sample selection is made available by the sampling techniques. In addition, it offers a thorough basis from which the study sample may be selected, as well as sufficient population for a well-chosen participant pool (Lewis and Ritchie, 2003).

Stratified Sampling

The researcher therefore used stratified sampling which is a method under probability sampling technique. The study was carried out using the stratified sampling method whereby samples were selected from the Micro Enterprise owners or managers in

Buguju village grouped under segmented businesses and those that deal in assorted merchandize. This was due to the fact that they were anticipated to represent every segment of the population since they were convenient with the topic and the location being surveyed. This technique assisted in lowering the price of data analysis and acquisition.

Purposive Sampling Method

Purposive sampling refers to the use of judgemental or selective sampling . This implies use of an aspect of probability where researchers deliberately choose participants based on specific criteria relevant to the research objective according to Morse, J. M. (2020). Sampling in Grounded Theory.

3.5 Sources of data

Both primary and secondary data were used by the researcher in this study.

3.5.1 Primary source

Since primary data provide very reliable information about the outcomes of a certain experiment or observation, they are crucial to every research point. Up until now, in- person interviews and self-administered questionnaires to a chosen group of respondents were used to gather primary data from the field and get their perspectives. Primary data aided the researcher in gathering details for targeted inquiries that addressed their research questions. The researcher used questionnaires to gather data on her own.

3.5.2 Secondary source

The handling, gathering, and most likely processing of data by someone other than the researcher in question is referred to in this work as secondary data. Scholarly books and articles are the typical forms of secondary materials for a historical research assignment. Written materials such as e-books, journals, published papers, and magazines were used to collect data. The purpose of classifying the documentary materials is to make the process of gathering data and textual analysis easier.

3.6 Data collection methods

The researcher of this study used one type of data collection instruments. This includes questionnaire survey which was briefly explained in the following subsection.

3.6.1 Questionnaire survey

A questionnaire survey is defined by Mugenda and Mugenda (2003) as a research approach that uses standardized questions to collect data from respondents. Using this approach, data was systematically gathered from a sample of the chosen Micro Enterprise managers or owners that are present in Buguju village. Since a questionnaire survey offers a high degree of general competence in representing a sizable group, it is used. The statistics collected have a deeper comprehension

of the subject matter because of the customarily large number of respondents to the survey. Due to the high

level of representativeness brought forth by the questionnaire survey method, statistically significant results often come across a bit easily compared with other data gathering methods. Questionnaire Survey was also used for these categories of respondents to save on time because their number was big to interview (Amin, 2005).

3.6.2 Interview Method

"An interview is a data-collection technique that involves oral questioning of respondents, either individually or as a group"(Chaleunvong, 2009). Throughout the interview, the answers to the questions were both written down and captured on tape. In-depth interviews were used to gather information from key informants, who included owners and senior management personnel. These individuals were specifically chosen because they had important information to provide. Interviews are of great advantage since they can enable the researcher to establish rapport with the respondent which enables the interviewer to: "ask follow-up questions, in order to clarify the respondent's meaning, probe for material that the respondent does not mention spontaneously and get beyond superficial responses; ensure that the respondent answers all the questions; give more complicated instructions and check that they are understood; vary the order of the questions" among others (Barker, et al., 2002). The structured interviews included a range of topics including tax rates, tax incentives, and tax compliance. Since they have extensive knowledge of tax policies and how they affect micro enterprises performance, the owners of micro enterprises and other top managers in these businesses were interviewed in order to get information.

3.7 Data Collection Instruments

3.7.1 Questionnaire Guide

Questionnaire guide is a tool used to collect quantitative and/ or qualitative information (Pritha, 2021). The questionnaire was the primary data gathering tool. Structured questionnaires that respondents—the other members of the existing staff—self- administered were used to gather data. Uganda Christian University provided a letter of introduction for the purpose of requesting permission to conduct the study in Buguju village, Nsuube-Buguju Parish, Mukono TC Division,

from the owners or managers of the chosen micro enterprises. After providing the respondents with a letter of consent, the

researcher gave the respondents questionnaires. The respondents were given a deadline by which to return the completed surveys. After the surveys were completed, the researcher gathered them and categorized and sorted them.

3.7.2 Interview Guide

An interview refers to a data collection technique that involves face-to-face, telephone or focus group discussions between the researcher and the interviewee(s) (Creswell, 2013). The guide's open-ended, unstructured questions allowed for follow-up inquiries that yielded in-depth responses from participants. Since micro firm owners and other top management personnel are the ones with the most in-depth knowledge of tax policies and the performance of micro companies, this guide made it possible to collect facts from these individuals.

3.8 Validity and Reliability of the data collection instruments

Only when there is no bias or distortion present in the data gathering equipment will the data collection instruments be sound. Bias and distortion may be properly defined and, thus, evaluated using the concepts of validity and reliability. The following subsections explain how validity and reliability were determined in this study.

3.8.1 Validity

As quoted by Cohen, Manion and Keith, 2007, "Validity is ensured by; choosing an appropriate scale, making certain that adequate resources are available for the required research to be undertaken, choosing an appropriate methodology for ensuring that the research questions, avoiding too long or too short an interval between pre-test and post

-test, making sure that standardized procedures are used to gather data or for administering information tests, and that the instruments are tailored to concentration span of the respondents.".

Furthermore, validity and reliability analyses have been conducted to see whether the questions can gather data in the intended way. For example, research experts examined questions to see if they might elicit the desired answer. A Content Validity Index (CVI) was calculated in order to establish the validity of the research

instrument. The researcher used the following formula to establish validity of the research instruments

as seen below.

Content validity Index (CVI) = $\frac{\text{Relevant items by all judges as suitable}}{\text{Total number of items judged.}}$

The CVI was 0.75 which was greater than the recommended 0.70 (Kent, 2001) hence implying that the questionnaire was valid for data collection.

3.8.2 Reliability

The "degree to which a research instrument yields consistent results or data upon repeated trials" is defined as 2003 dependability by Mugenda & Mugenda. The Cronbach's coefficient alpha was utilized in the current investigation to assess the reliability of the questionnaire instrument. Ten participants participated in a pilot study, and SPSS was used to calculate the reliability results. Alpha was calculated using the following formula for the Cronbach's coefficient.

$$\alpha = \left(\frac{k}{K-1}\right)\left(1 - \frac{\sum SDi^2}{\sum SDt^2}\right)$$

Where **α = coefficient alpha**

$\sum SDi^2$ = sum variance of items

$\sum SDt^2$ = sum variance of scale

The coefficient was 0.79 which was above the recommended .70 (Amin, 2005) hence implying that the questionnaire was suitable for data collection.

3.9 Data analysis

3.9.1 Quantitative data analysis

The statistical package (SPSS) was used to help with the data analysis. In addition to being user-friendly, it is suitable for managing the study's regressions and correlations between the variables. For computer input, names and codes were allocated to each variable. In order to make computer data input easier, response

coding was used. After data entry was finished, the negatively phrased scales were recorded and given new

values. To obtain the composite scores for the elements on a scale, the target variables were computed. Data screening was completed, lowering data entry mistakes. Descriptive statistics and Pearson correlation were employed in this study's quantitative data analysis to examine the relationship between the independent and dependent variables.

3.10 Ethical considerations

The researcher took into consideration a number of ethical issues including:

Respondent confidentiality was maintained. On the questionnaires, respondents were not compelled to disclose their names or contact information. To prevent information from being linked to a respondent, identification numbers were used in place of names.

All information was collected with the sole intent of using it for this research.

Prior to their participation in the study, all participants were told about the research protocols and their informed permission was acquired.

Throughout the whole investigation, all of the literature's sources were cited and referenced correctly.

Throughout the whole investigation, that is, during the data processing, reporting, and interview phases, personal bias was avoided.

3.11 Limitations and delimitations of the study

First, in order to provide reliable measurements of the study variables, a validity and reliability test was conducted because the research instruments were not standardized.

Lastly, the researcher's ability to pay for costs like encouraging responders, paying for printing, and even taking daily transportation to the organization to gather data was restricted. Nonetheless, the researcher took initiative and employed tactics that may secure the family's financial support.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter summarizes and examines the outcomes of an analysis conducted to examine the study's specific objectives, as well as the evaluated literature. The study was conducted utilizing questionnaires sent to Micro Enterprise owners or managers in Buguju village, Nsuube-Buguju Parish, Mukono TC Division, with 80 participants. Tables are used in the presentation of the results to aid in understanding and interpretation

4.1 Findings on demographic characteristics of respondents

This section presents the general background information about the respondents in relation to their gender, age, education level, category of business and period spent operating the business as shown in the table below;

4.1.1 Gender of the respondents

The table below summarizes the gender of the responds that are Micro Enterprise owners or managers in Buguju and the data in the table was interpreted below.

Table 2: Gender

	Frequency	Percent	Cumulative Percent
Female	45	56.3	56.3
Male	35	43.7	100.0
Total	80	100.0	

Source: *Primary data*

Table 3 above's findings indicate that male respondents made up 43.8% of the overall sample, while female respondents made up the majority at 56.2%. For this reason, compared to their male counterparts, there were more female participants in the research. But the purpose of having both male and female respondents in the poll was to gain their perspectives on the subject under investigation.

4.1.2 Age of the respondents

The table below summarizes the gender of respondents who are Micro Enterprise owners or managers in Buguju, and the data in the table is explained below.

Table 3: Age

	Frequency	Percent	Cumulative Percent
21-30 years	26	30.0	29.0
31-40 years	35	38.3	88.3
41-50 years	15	20.7	95.0
Above 50 years	7	15.0	100.0
Total	80	100.0	

Source: *Primary data*

According to table 4 above, the majority of respondents (38.8%) fell between the age group of 31 and 40 years, then those who fell between the age group of 21 and 30 years (30.0%), those who fell between the age group of 41 and 50 years (20.7%), and 15% of the respondents were over 50 years old. Since information was gathered from people in various age groups, this suggests that there was no age discrimination.

4.1.3 Education level of the respondents

The table below highlights the education level of respondents who are Micro Enterprise owners or managers in Buguju, and the data is interpreted below.

Table 4: Level of education

	Freq	Percentage	Cumulative Percentage
Primary	14	17.5	17.5
Secondary	26	32.5	50.0
Tertiary	28	35	85
Others	12	15	100.0
Total	80	100.0	

Source: *Primary data*

According to the above findings, which are displayed in the table, 35% of the respondents have completed at least their tertiary education, followed by 32.5% who have completed their secondary education, 17.5% who have completed their primary education, and 15% who have no educational background. Therefore, it should be highlighted that even though surveys were interpreted for respondents without formal education, the majority of respondents were able to read and comprehend the questions with ease.

4.1.4 Category of business respondents operate in

The table below summarizes the category of business the responds that are Micro Enterprise owners or managers in Buguju operate in and the data in the table was interpreted below.

Table 5: Category of business

	Freq	Percentage	Cumulative Percentage
Segmented business	39	48.8	48.8
Assorted merchandise	41	51.2	100.0
Total	80	100.0	

Source: *Primary data*

Table 6 above's findings showed that most responders represented by 51.2% operate segmented businesses like saloons, printing bureaus, boutiques and repair maintenance businesses among others, whereas 48.8% operate businesses that fall under assorted merchandise like retail and wholesale shops.

4.1.5 Period spent operating the business

The duration of business for the owners or managers of Micro Enterprises in Buguju is summed up in the table below. The information provided in the table was interpreted below.

Table 6: Period spent operating the business

	Freq	Percentage	Cumulative Percentage

1 to 4 years	28	35	32.5
5 to10 years	37	46.2	81.2
Above 10 years	15	18.8	100.0
Total	80	100.0	

Source: *Primary data*

Findings from the table 7 above show that majority of respondents, 46.2% have spent 5 to 10 years operating their respective businesses, followed 35% who have been operating their respective businesses for a period of 1 to 4 years, where those who have spent more than 10 years operating their respective businesses constituted the minority represented by 18.8%. The results indicate that the replies do include information on the subject matter as the majority of them had experience running various enterprises in Buguju, Mukono district, for a respectable amount of time.

4.2 The relationship between tax rates and the performance of Micro Enterprises in Buguju

Table 8 summarizes respondents' responses the relationship between tax rates and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 7: Relationship between tax rates and the performance of Micro Enterprises in Buguju

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
The tax rates stated clearly identify the due taxes.	42 50.5%	24 30.0%	00	10 14.5%	4 5.0%
There are various and different taxes levied on Micro Enterprises.	23 30.8%	35 43.7%	6 7.5%	11 11.7%	5 6.3%

The Micro Enterprises taxes placed on them are unsustainable for the firm.	19 21.7%	38 47.5%	7 8.8%	15 20.7%	1 1.3%
Taxes are only collected when the business is in operation, which allows for occasional interruptions in activity.	21 28.3%	34 42.5%	5 6.3%	20 23.0%	00
The regressive nature of taxes on micro enterprises reduces their revenue base.	23 26.8%	35 43.7%	10 12.5%	12 17.0%	00
Micro Enterprises have information on the amount of tax due, when to pay, where to pay, and how to pay.	24 32.0%	40 50.0%	00	16 18.0%	00

Source: *Primary data*

Table 8 represents the descriptive statistics on tax rates among Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division. As can be seen from table 8 above, 80.5% of respondents agreed with the assertion that the tax rates mentioned clearly identify the amount of taxes owed, while 19.5% disagreed with the statement.

An interviewee narrated that;

'For our business, we have a clear understanding of the tax rates that affect our business because we occasionally hire tax consultants that are well versed with the tax systems"

The findings showed that 74.5% of respondents agreed with the assertion that micro enterprises are subject to a various and different taxes, 5.5% were unsure, and 22% disagreed or strongly disagreed with the statement.

"So many taxes that are different are charged to the business and this is because the government assumes we have a lot of money from our small businesses together with tax avoidance."

As to the survey, 67.2% of the participants concurred that the taxes imposed on Micro Enterprises are not sustainable for their firm, whilst 8.8% expressed uncertainty and 18% disapproved of the assertion.

"As a business, nothing frustrates us more than paying taxes because at times money is not enough to carry out other operating activities for example delays in

salariesandclearingprecdosdletodveseaesequiedobepaid'

According to the poll, 66.8% of respondents agreed that taxes are only collected when a firm is operating, permitting brief business closures. However, 6.2% of respondents were unsure, and 27% disagreed and strongly disagreed with the assertion made.

> *'In this business, whenever I closed due to a poor season for my business, I have never been asked to file any returns once they got to know I was not operating and had momentarily closed because they also have knowledge of the seasons''*

Furthermore, the study found out that 70.5% agreed that the regressive nature of taxes on Micro Enterprise reduces their revenue base, 12.5% were not sure whereas 17% disagreed with the statement.

> *'For my business regressive taxes are what is charged on me which significantly affects my revenue because these taxes are more onerous the small businesses and for the bigger enterprises it gets easier when compared'*

Finally, the findings established that 82% of the respondents agreed that Micro Enterprises have information on the amount of tax due, when to pay tax, where to pay and mode of tax payment, whereas 18% of the respondents were not sure of the statement put forward.

> *'I don't find challenges with how much tax the business pays, where or mode of payment since I have a qualified accountant who is knowledgeable about taxes and tax systems. He briefs me and informs about how he got the taxes handled monthly.''*

Therefore, the study found that Micro Enterprises were primarily subject to a wide variety of taxes, most of which were unsustainable for micro-enterprises. This finding demonstrated the detrimental effects of these taxes on the overall performance of micro-enterprises in Buguju, which were represented by 81.5% and 81%, respectively. Using Pearson's correlation, the findings of the investigation into the association between tax rates and microbusiness performance in Nsuube-Buguju Parish, Mukono, were ascertained in more detail.

Table 8: Pearson's correlation statistics on tax rates and the performance of Micro

Enterprises

Correlations			
		Tax rates	Performance of Micro Enterprises
Tax rates	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	80	80
Performance of Micro Enterprises	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	80	80
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: *Primary data*

The aforementioned table shows a very substantial positive correlation between tax rates and microbusiness success in Mukono's Nsuube-Buguju Parish. R-values of 0.875 with significant p-values of 0.000 at the 0.05 (2-tailed) level supported the aforementioned association. We accept the null hypothesis since it is further noticed that the p-value is less than the significance level of 0.05. This indicates that tax rates and the success of micro enterprises in Nsuube-Buguju Parish, Mukono, are significantly positively correlated.**

4.3 The relationship between tax incentives and the performance of Micro Enterprises in Buguju

Table 10 summarizes respondents' responses on the relationship between tax incentives and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 9: Relationship between tax incentives and the performance of Micro

Enterprises in Buguju

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Micro-enterprises have received preferential tax treatment as tax vacations by the government.	**00**	**00**	**2 3.8%**	**58 74.5%**	**20 23.0%**
Tax incentives have supported the growth and expansion of micro businesses in Uganda.	**00**	**00**	**3 4.2%**	**63 76.8%**	**14 19.5%**
Tax incentives have preserved Uganda's newborn Micro Enterprises.	**00**	**2 3.2%**	**2 3.0%**	**54 69.5%**	**22 25.5%**
Tax incentives have resulted in a decent proportion of traders remaining in operation inside the Micro Enterprise sector.	**00**	**00**	**4 4.3%**	**57 69.3%**	**19 25.8%**
Certain tax benefits for microbusinesses have fixed the nation's market flaws.	**00**	**31 36.7%**	**00**	**49 63.3%**	**00**
Tax incentives for micro-enterprises have lowered the operating costs associated with tax payment.	**00**	**00**	**4 5.0%**	**57 69.3%**	**19 25.8%**

Source: *Primary data*

Table 10: Nsuube-Buguju Parish Mukono TC Division Micro Enterprises' tax incentive data, presented in a descriptive manner. According to the survey in table 10 above, 3.8% of respondents disagreed with the assertion made, and 95.5% of respondents disputed that the government has provided Micro Enterprises preferential treatment in the form of tax breaks.

An interviewee narrated that;

> *'For all my time I have been in business, I can tell that special tax treatment is very segregative to certain few enterprises especially foreign businesses because*

the rest of us are not even sympathized with’’

The study illustrated that 93.3% of the respondents disagreed that tax incentives have

supported growth and expansion of Micro Enterprises in Uganda, whereas 4.2% were not sure of the statement put across.

> *'In this business, the tax incentives are helpful to us but not significant enough to encourage our decisions of expansion and so, the tax incentives are not encouraging for growing'*

This survey found that 2.5 percent of respondents agreed with the assertions made, 3.0% were unsure, and 95.0% of respondents disputed that tax incentives had kept Uganda's newborn micro enterprises alive.

> *'My business has thrived more because of the loans have been able to acquire to sponsor it rather than tax incentives because they give a small push'*

The study also noted that 95.0% of the respondents disagreed that tax incentives have resulted in a decent proportion of traders remaining in operation inside the Micro Enterprise sector, whereas 5% of the respondents were not sure of the statement put across.

> *'In this business, I have seen my fellow businessmen drop out and sell their businesses because the tax incentives were not enough to support the business' survival'*

The study further noted that 63.3% of the respondents disagreed that certain tax benefits for microbusinesses have fixed the nation's market flaws, whereas 36.7% agreed with the statement put forward.

> *"The market conditions out there are still very harsh for us in small, medium enterprises, there is no way that special treatment has fixed anything so far, its fairness"*

Ultimately, the study's conclusions showed that while 8% of respondents were unsure of the assertion made, the majority of respondents, or 92.3%, disputed that tax incentives for microenterprises have decreased the operational expenses related to paying taxes.

> *"The tax incentives offered by URA are barely able to cater for operational costs*

that this business faces and just shows how out of touch URA is with the harsh market conditions of the business”

The study's main conclusions, which were represented by 97.5% and 94% of Micro Enterprises in Uganda, respectively, demonstrated that the government has not given Micro Enterprises special tax treatment in the form of tax holidays and that tax incentives have not aided in their growth and expansion. Using Pearson's correlation, it was possible to further ascertain the link between the tax incentive research findings and the performance of micro enterprises in Nsuube-Buguju Parish, Mukono TC Division, as indicated below;

Table 10: Pearson’s correlation statistics on tax incentives and the performance of Micro Enterprises

Correlations			
		Tax incentives	**Performance of Micro Enterprises**
Tax incentives	**Pearson Correlation**	**1**	**-.848****

	Sig. (2-tailed)		.001
	N	80	80
Performance of Micro Enterprises	Pearson Correlation	-.842**	1
	Sig. (2-tailed)	.002	
	N	80	80
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: *Primary data*

The performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division, and tax incentives have a strong negative significant association, as evidenced by the correlation shown in the table above that displays the results of the study. The substantial p-values of 0.002 at the 0.05 level of significance (two-tailed) and the r- value of -0.85 support this claim. It should be mentioned that we are unable to reject the null hypothesis since the p-value is below the crucial level of 0.05. This indicates that tax incentives and Micro Enterprise performance in Nsuube-Buguju Parish, Mukono TC Division, are significantly correlated negatively.**

4.4 The relationship between tax compliance and the performance of Micro Enterprises in Buguju

Table 12 summarizes respondents' responses on the relationship between tax compliance and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 11: Relationship between tax compliance and the performance of Micro

Enterprises in Buguju

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
My taxes are always filed on time.	**23 28.8%**	**51 63.8%**	**4 5.0%**	**1 1.3%**	**1 1.3%**
I never delay in paying my taxes and never cause trouble for the tax authorities.	**19 23.8%**	**53 66.3%**	**7 8.8%**	**00**	**1 1.3%**
For tax purposes, I always disclose all of my income.	**21 26.3%**	**54 67.5%**	**4 5.0%**	**1 1.3%**	**00**
I always abide by the tax laws and guidelines that control how Micro Enterprises are run.	**23 28.8%**	**51 63.8%**	**4 5.0%**	**2 2.6%**	**00**
I believe it is improper for me to withhold some of my income from the government in order to reduce my tax liability.	**20 25.0%**	**58 72.5%**	**2 2.5%**	**00**	**00**
Because taxes are so high, there are moments when it appears reasonable to cheat on them.	**19 23.8%**	**57 71.3%**	**4 5.0%**	**00**	**00**

Source: *Primary data*

Table 12 represents the descriptive statistics on tax compliance among Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division. Based on the research presented in Table 12, 92.6% of the respondents agreed that they always submit their returns on time, 5% were unsure, and 2.6% strongly agreed and disagreed with the assertion.

An interviewee narrated that;

> ***'For the business, after every financial year, the returns were handed in properly and in time to avoid wasting money on penalties"***

The study established that 90.1% of the respondents agreed that they always pay tax on time without intervention of tax officials, 8.8% were not sure, whereas 1.3% of the respondents disagreed with the statement put across.

'In this business, the returns system always sets out to complete returns and file them in the required time frame always done by the hired accountant of the firm'

According to the poll, 93.8% of respondents agreed that they always report all of their income for tax purposes; 5% disagreed and strongly disagreed with the assertion made; and 1.3% were unsure.

"I firmly and strongly believe in transparency and honesty and deliver the accurate information of my income so openly fearing me of any fraudulences when an analysis of tax officials arrives"

The study found out that 92.6% agreed that they always follow tax rules and regulations governing Micro Enterprises operations, 5% were not sure, whereas 2.6% disagreed with the statement.

"All these tax rules and regulations are observed strictly in my business with caution because no one is above the law and you should prefer to leave in a peaceful working environment"

The findings also revealed that, although 5% of respondents were unsure of the statement, 95% of respondents agreed that it is inappropriate for them to withhold some of their income in order to pay less in income taxes.

'For my business, I believe tax avoidance is not beneficial to the country and you should be transparent and look forward to a better country."

Lastly, the study's conclusions demonstrate that, although 5% of respondents were unsure of the statement made, 95.1% of respondents agreed that taxes are so heavy that there are occasions when it is acceptable to cheat on taxes..

'In my business, since the taxes are regressive in nature, I feel cheated and sometimes want to manipulate the returns filed.'

Therefore the major findings of the study illustrated that majorly, the Micro Enterprise owners always file their returns in time and that they always pay tax on time without intervention of tax officials which has been influential for them in attaining improved

performance of their Micro Enterprises which were represented by 97.5% and 95% of the respondents who agreed respectively. The findings of the study concerning the relationship between tax compliance and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division were further determined using Pearson's correlation that was conducted as shown below;

Table 13: Pearson's correlation statistics on tax compliance and performance of Micro Enterprises

Correlations

		Tax compliance	Performance of Micro Enterprises
Tax compliance	Pearson Correlation	1	.833**
	Sig. (2-tailed)		.000
	N	80	80
Performance of MICRO ENTERPRISEs	Pearson Correlation	.833**	1
	Sig. (2-tailed)	.000	
	N	80	80

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

Source: *Primary data*

The results, as presented in the above table, demonstrate a substantial positive correlation between tax compliance and microenterprise performance in Nsuube-Buguju Parish, Mukono TC Division. The r-value 0.833 and significant p-value of 0.000 for this study at the 0.05 level (2-tailed) provide support for this. However, it should be noted that the p value is below than the 0.05 significance level, indicating that the null hypothesis is accepted. Therefore, in Nsuube-Buguju Parish, Mukono TC Division, there is a high positive correlation between tax compliance and Micro Enterprise performance.**

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The study's conclusions are summarized and described in this chapter. The chapter also offers ideas for additional research as well as findings, conclusions, and policy recommendations.

5.1 Summary of findings

The results showed that a sizable percentage of respondents agreed that Micro Enterprises are subject to a variety of different and numerous taxes, and that the tax rates charged are obvious. Furthermore, a sizable portion of respondents said that Micro Enterprise taxes were unsustainable for their businesses. Furthermore, a large number of respondents agreed that taxes are only assessed while a business is in operation, permitting brief closures. Additionally, the majority agreed that Micro Enterprises' revenue base is diminished by the regressive nature of taxes and that Micro Enterprises had adequate knowledge regarding tax payment. Pearson's correlation analysis supported the findings, indicating a significant positive relationship between tax rates and Micro Enterprises' performance ($r = .875^{**}$, $p < .05$). Overall, the study suggests that the burden of multiple taxes and unclear tax policies has negatively impacted the performance of Micro Enterprises in the area.

The majority of respondents, the results also showed, disagreed with the government's claims that micro enterprises in Uganda had received preferential tax treatment in the form of tax holidays and that tax incentives have aided in their development. Likewise, the majority of participants disagreed of the claim that tax incentives have shielded newly established micro enterprises in Uganda and enabled a respectable number of microenterprise operators to carry on with their business. The survey also showed that most respondents did not think that the country's market imperfections have been fixed by special tax treatment for micro enterprises or that tax incentives for micro enterprises have reduced operational costs related to paying taxes. Pearson's correlation analysis supported the findings, indicating a significant negative relationship between tax incentives and the performance of Micro Enterprises ($r = -.848^{**}$, $p < .05$). The study's overall findings indicate that the performance of micro enterprises in the area has been adversely affected by what is believed to be a lack of significant tax incentives.

Finally, the findings revealed that the majority of respondents agreed that they always file their returns in time, pay taxes on time without intervention of tax

officials, disclose all their income for tax purposes, and follow tax rules and regulations governing Micro

Enterprises operations. Additionally, most respondents felt that it is wrong not to report all their income to pay fewer income taxes and disagreed that taxes are so heavy that sometimes it is justifiable to cheat on taxes. Pearson's correlation analysis supported the findings, indicating a significant positive relationship between tax compliance and the performance of Micro Enterprises (r = .833, p< .05). Overall, the study suggests that Micro Enterprise owners' adherence to tax compliance, timely filing, and payment of taxes without evasion has positively influenced their Micro Enterprises' performance in the area.**

5.2 Conclusions

In conclusion, the study findings on the relationship between tax-related factors and the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono, it is clear that tax policies have a significant impact on the development and sustainability of Micro Enterprises. It is encouraging that respondents strongly agreed that tax rates are clear and that microenterprises are aware of the procedures involved in filing taxes. However, the study also highlights significant concerns, with many Micro Enterprise owners perceiving taxes as unsustainable, especially due to their regressive nature, which negatively affects revenue bases. Furthermore, the lack of perceived tax incentives for Micro Enterprises hinders their potential for growth and expansion in the area. Moreover, the study highlights the importance of tax compliance for Micro Enterprises' success. Improved Micro Enterprise success is positively correlated with Micro Enterprise owners who file returns on time, pay taxes, and follow the tax regulations.

5.3 Recommendations

From the above discussions of findings and conclusion, in response to how taxes impact the performance of micro-enterprises in Nsuube-Buguju Parish, Mukono TC Division, the following actions are advised.

The study suggests simplifying tax laws for the government. Streamlining tax laws is something that policymakers should think about doing in order to mitigate the detrimental effects of numerous, onerous taxes on Micro Enterprises. Micro Enterprises can have an easier time complying with tax requirements by reducing the administrative complexity of tax structures and combining several taxes into

one.

The study suggests that Micro Enterprises should be given certain tax benefits. The government ought to implement targeted tax incentives in order to promote the development and growth of Micro Enterprises. Granting Micro Enterprises tax discounts or vacations, particularly in their initial phases, can stimulate investment, ingenuity, and employment generation within the locality.

The paper goes on to suggest that programs for tax education and awareness need to be improved. Implementing comprehensive tax education and awareness campaigns is advised by the study in order to increase tax compliance among Micro Enterprise owners. To guarantee that Micro Enterprises can take full advantage of the current tax policies, these programs ought to concentrate on educating them about tax laws, filing procedures, and available incentives.

Furthermore, the study suggests that regressive tax policies be addressed. Regressive tax policies that disproportionately affect the revenue bases of Micro Enterprises should be reviewed and changed by policymakers. The government can promote the long-term economic prospects and financial stability of Micro Enterprises by implementing progressive tax systems.

Furthermore, the research argues that there is a need to promote tighter coordination between tax authorities and micro enterprises via the study. Mutual trust and understanding may be developed via regular interaction and open communication, which makes it easier for Micro Enterprises to abide by tax policies and obtain the assistance they require when needed.

In addition, the report suggests that frequent assessments of tax policies be carried out. Periodically assessing how tax laws affect the functioning of Micro Enterprises should be a priority for policymakers. Evaluating the efficiency of tax policies and how well they meet the needs of micro enterprises will allow for prompt modifications and enhancements to promote the expansion of the industry. Evaluating the efficiency of tax policies and how well they meet the demands of micro enterprises will allow for prompt modifications and enhancements to promote the expansion of the industry.

Lastly, the report suggests that Micro Enterprises create a tax ombudsman. The report suggests creating a tax ombudsman who would handle tax matters unique to Micro Enterprises in order to resolve complaints and concerns Micro Enterprises have about taxes. This organization has the ability to mediate tax-related issues, guaranteeing prompt and equitable settlement.

5.4 Areas for further research

Since this study examined the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division, the study recommends that a longitudinal study should be conducted to explore the long-term impact of tax compliance and tax incentives on the performance and sustainability of Micro Enterprises. Over a period of years, monitor a group of Micro Enterprises to observe changes in their performance measures, business results, and tax compliance practices. The long-term impacts of tax compliance strategies and incentives on the growth, financial stability, and general performance of Micro Enterprises may become clearer as a result of this research

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

For Selected Proprietors in Buguju village, Nsuube-Buguju Parish, Mukono TC Division

Dear respondent,

I am Owoko Emmanuel, a student at Uganda Christian University and I am requesting for your support in conducting research on "the impact of taxes on the performance of Micro Enterprises in Nsuube-Buguju Parish, Mukono TC Division". I assure total confidentiality of the information given to me during this research.

Section A: Personal Background Information

Select where applicable

1. What is your gender?

a) Male ☐ **b) Female** ☐

2. What is your age group?

a) 21-29 yrs ☐ **b) 30-39 yrs** ☐

c) 40-49 yrs ☐ **d) 50 yrs plus** ☐

3. What is your greatest educational attainment?

a) Primary ☐ **b) Secondary** ☐

c) Tertiary ☐ **e) Others specify:………………………………….**

4. Which kind of business do you operate in Buguju?

a) Assorted Merchandize ☐

b) Segmented Business ☐

5. How long have you been operating this business?

a) Less than 1 year ☐ **b) 1-5 years** ☐

c) 6-10 years **d) Above 10 years**

Section B: Taxes

	Questions	Responses				
PART 1	Tax Rates	5	4	3	2	1
TR1	**The tax rates stated clearly identify the due taxes.**					
TR2	**There are various and different taxes levied on Micro Enterprises.**					
TR3	**The Micro Enterprises taxes placed on them are unsustainable for the firm.**					
TR4	**Taxes are only collected when the business is in operation, which allows for occasional interruptions in activity.**					
TR5	**The regressive nature of taxes on micro enterprises reduces their revenue base.**					
TR6	**Micro Enterprises have information on the amount of tax due, when to pay, where to pay, and how to pay.**					
PART 2	Tax Incentives	5	4	3	2	1
TI1	**Micro-enterprises have received preferential tax treatment as tax vacations by the government.**					
TI2	**Tax incentives have supported the growth and expansion of micro businesses in Uganda.**					
TI3	**Tax incentives have preserved Uganda's newborn Micro Enterprises.**					
TI4	**Tax incentives have resulted in a decent proportion of traders remaining in operation inside the Micro Enterprise sector.**					
TI5	**Certain tax benefits for microbusinesses have fixed the nation's market flaws.**					

TI6	Tax incentives for micro-enterprises have lowered the operating costs associated with tax payment.					
PART 3	Tax Compliance	5	4	3	2	1

TC1	**My taxes are always filed on time.**					
TC2	**I never delay in paying my taxes and never cause trouble** **for the tax authorities.**					
TC3	**For tax purposes, I always disclose all of my income.**					
TC4	**I always abide by the tax laws and guidelines that control** **how Micro Enterprises are run.**					
TC5	**I believe it is improper for me to withhold some of my** **income from the government in order to reduce my** **tax liability.**					
TC6	**Because taxes are so high, there are moments when it** **appears reasonable to cheat on them.**					

Section C: Performance of Micro Enterprises

No.	Statements	Responses				
		1	2	3	4	5
PART 4	Performance of Micro Enterprises					
P1	**Taxes reduce Micro enterprises' return on investments.**					
P2	**The increase in operating costs has not had an impact on Micro Enterprises' sales turnover.**					
P3	**The Micro Enterprises' cash situation has been impacted by taxes.**					
P4	**The profit margin for Micro enterprises is consistently quite high before to taxes.**					
P5	**The amount of cash available for investments in R&D has decreased due to taxation.**					

P6	**The expansion of microenterprises in Uganda has been hindered by taxes.**					
P7	**Due to the taxes imposed on these Micro-Enterprises, small and medium-sized businesses are finding it challenging to meet their objectives.**					

Thank you very much for your cooperation