Impact of Taxes on the Performance of Small and Medium Enterprises in the Kansanga Business Area

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ABSTRACT

The g e n e r a l purpose of the study was to evaluate the impact of taxes on t h e performance of small and medium business enterprises in Kansanga and the specific objectives were to assess the performance of small-scale business enterprises in K a n s a n g a, to find out if taxpayers are aware of all their tax obligations and policies and to find out problems affecting taxpayers and their businesses in Kansanga. The study revealed that taxes mainly affects the performance of Small and Medium Enterprises through lost sales during the closure of the business premises by URA, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by URA onto SMEs that default on their tax obligation. Overall business performance was fair as most businesses could duly cover up their expenses, had enough stock, awareness of taxpayers was poor and a number of problems were encountered. It can be concluded that taxes are major limitations to the growth and expansion of SMEs in Kansanga. This is because very little and sometimes nothing is left after covering expenses and taxes to allow the expansion and growth of the existing SMEs. The findings further revealed that tax officials are inefficient, the mode of tax collection and assessment was unfair, taxes levied are unfriendly and also most of the respondents revealed they do not get assistance from the tax authorities. The study recommended that URA should find a way of assessing the tax in that the SMEs should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously, the tax authorities should introduce a scheme that allows taxpayers to pay the tax obligation in the instalments over a given period of time as opposed to a lump sum at once and that URA should reach out and educate the business community about the different tax rates and mode of payment.

Keywords: Taxes, Small-scale business enterprises, Taxpayers, Tax authorities, Tax officials.

INTRODUCTION

Taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. Taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services [1-3]. Taxes have existed virtually as long as there have been organized governments. The first tax law legislation was introduced in 1919 and ever since then taxes have evolved through a number of reforms. The government in an attempt to widen the tax base and collect more revenue has had to levy several taxes, especially on business enterprises in Uganda which constitute a large part of the formal sector. The taxes charged on business enterprises in Uganda include; corporation valued added tax, presumption tax and exercise duty. In 1997 the Income Tax Act was made. This was to give guidance in the assessment and computation of taxes [4-7]. The

Ugandan government has made some recommendable efforts to promote development through taxation since the inception of the current taxation laws for purposes of promoting development. The main objective of taxation in Uganda has always been to mobilize resources needed to meet the aspiration of the government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in a position to provide goods and services to the people adequately. The Ugandan government has always had to ensure proper resource mobilization [8]. According to [9], a tax is generally referred to as a compulsory levy imposed by the government upon assesses of various categories and taxation is a compulsory and non-refundable contribution imposed by the government for public purposes. In Uganda, a considerable fraction of the businesses are sole traders operating small and medium businesses, locally owned and managed by individuals or families and often with very few employees working at a single location [10].Taxation in Uganda is based on a system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British administration. This process began in 1900 with the hut tax regulation which imposed a standard charge for every hut/dwelling.

Statement of the problem

Taxes are raised by the government of Uganda to generate revenue used to provide services to the public in various fields like health, education and infrastructure as this has helped to improve the performance of small and medium business enterprises [11-12]. Despite the services provided, small and medium business enterprises' performance is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually. These rates seem to be taking an upward trend [13], leading to the winding up of some small and medium enterprises. Therefore, the researcher sought to investigate more about the impact of taxes on the performance of small and medium enterprises.

Aim

The general purpose of the study was to evaluate the impact of taxes on the performance of small and medium business enterprises.

Specific Objectives of Study

i). To assess the performance of small-scale business enterprises in Kansanga
ii). To find out if taxpayers are aware of all their tax obligations and policies in Kansanga.
iii). To find out problems affecting taxpayers and their businesses in Kansanga.

Research questions

i). How is the performance of small and medium enterprises in Kansanga?
ii). Are taxpayers aware of all their obligations in Kansanga?
iii). What are the problems faced by taxpayers and their businesses in Kansanga?

METHODOLOGY

Research design

The researcher used a cross-sectional survey design based on the use of qualitative and quantitative approaches that were adopted to establish the relationship between taxation and the performance of small-scale businesses [14]. This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

Area of Study

The study was carried out in Kansanga, Kampala located in the central part of Uganda as it is believed that SMEs bear a wide tax burden, especially in this region which has led to poor performance.

Study population

The study comprised 100 Managers/owners and employees of small and medium businesses (SMEs) in Kansanga, Kampala District.

Sampling design

The study mainly used two methodologies. These were purposive sampling and simple random sampling methodology. Purposive sampling refers to a method of sampling where the researcher chooses the respondents with the necessary information for the study [14]. According to [15], simple random sampling is the type of sampling where all the respondents have equal chances of being selected. The researcher used the Slovenes method to choose the sample randomly.

Sample size

The sample size of the study was determined according to the Slovene sample determination. Under this, a target population of 100 was zeroed down to a sample size of 80 respondents respectively as stated by [16]. The Slovenes formula was used to determine the minimum sample size.

$$n = \frac{N}{1 + Ne^2} = \frac{100}{1+100(0.05)^2} = 80 \text{ Respondents.}$$

With   n=number of sample
               N=total population
               e=level of significance 0.05
Using the formula above, a sample of 80 respondents was obtained

Study variables

The independent variable was the impact of taxes; the dependent variable was the performance of small-scale businesses. That is to say, the study was carried out to establish the relationship between how taxes affect the performance of small and medium businesses in Kansanga.

Sources of Data

Two sources of data were used for the purposes of research. These were primary data and secondary data.

Secondary data

[17] defines secondary data as the kind of data that is available, already reported by some other scholars. This is because it was readily available and easier to comprehend, as it comprised extensively researched work.

Primary Data

According to [17-18], primary data is the kind of data that has been gathered for the first time, it has never been reported anywhere. Shortcomings of secondary data sources such as outdatedness and inadequacy in terms of coverage, necessitated the use of primary data. Self-administered questionnaires were used and this enabled the researcher to cover a large population quickly and at a reasonable cost.

Data collection

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaires were used on the basis that the variables under study could not be observed for instance the views, opinions, perceptions and feelings of the respondents. Respondents were the owners of small and medium enterprises in the Kansanga business area.

Observation

The researcher observed the tickets from the tax council that the business operators had pinned on the shelves of the businesses as well as counter books that were used to record the customers who took goods on credit.

Data processing

Data collected was checked for completeness, categorized and coded and entered into a computer where it was summarized into frequency tables.

Data analysis

The data was analyzed automatically using SPSS (Statistical Package for Social Sciences). The analysis involved Pearson's linear correlation index in order to correlate taxation and performance of small and medium business performance.

Data Presentation

Quantitative data were presented in the form of descriptive statistics using frequency tables.
Qualitative data were sorted and grouped into themes. The researcher thereafter evaluated and analyzed the adequacy of information in answering the research questions through coding of data and identifying categories and parameters that emerge in the responses to the variables of the study. Qualitative data were presented using narrative text.

RESULTS

Demographic characteristics of respondents

The respondents' demographic characteristics include; age, gender, level of education and level of experience.

Age of the respondents

The respondents were required to indicate their ages and the distribution of the respondents by age is shown in Table 1.

Table 1: Age of the respondents

Age	Frequency	Per cent	Cumulative Percent
20-25	7	8.9	8.9
26-30	11	13.3	22.2
31-35	41	51.1	73.3
36-40	16	20.0	93.3
41 and above	5	6.7	100.0
Total	80	100.0	

From Table 1, the study revealed that the largest number of respondents were in the age group of 31-35years (41)51%, these were followed by those in the range of 36-40years (16)20% and the smallest number was those who were in the range of 41 and above years and above who were (5)6.7% respondents. This implies that most of the respondents were in the age range of 31-35 years.

Gender of the Respondent

The study captured the gender of the respondents in order to establish the most dominant business people in Kansanga. The respondents were asked to state their sex and the distributions are shown in Table 2.

Table 2: Gender of the respondents

Gender	Frequency	Percentage
Male	50	62.5
Female	30	37.5
Total	80	100

Source: Primary data, 2019

According to the results for gender of the respondents in Table 2, of the 80 respondents, the majority were males (50) contributing 62.5% of the total sample of the entire sample. This therefore implies that the most dominant business people are males.

Level of Education of the respondents

The researcher asked the respondents to state their level of education to find out whether the respondents could be able to interpret the questionnaires given to them. The findings indicated that all the respondents in the targeted group had relevant knowledge to read, interpret and answer the questionnaires given to them by the researcher as presented in table 3.

Table 3: level of education of education

Level of Education	Frequency	Percentage
Primary	6	7.5
Secondary	20	25
Certificate	21	26.25
Diploma	13	16.25
Degree	20	25
Total	80	**100**

Source: Primary data, 2019

From Table 3, 7.5.0% had attained a primary level of education, 26.25% had certificates, 16.25% had diplomas, 25.0% had acquired degrees and also25% % of the respondents had attained secondary as their highest level of education. This means that the majority of respondents were literate and able to understand and internalize the contents of the questionnaires.

Time Spent in the Business

The respondents were asked to state the period they had spent in their businesses and the findings showed that most of the respondents had spent reasonable time doing business as captured in Table 4.

Table 4: Time spent on running the business by the respondent

Time spent	Frequency	Per cent
2 years	6	6.7
2-3 years	12	15.6
3-4 years	44	55.6
4 years and above	18	22.2
Total	80	100

Source: Primary Data 2019

The findings in Table 4 indicated that out of the 80 respondents, the majority had spent 3-4 years in business (44)56.6%, followed by those who had spent 4 years and above on their current job (18)22.2%, then those who had spent 2-3 years were (12)15.6% and the least number of respondents who had spent less than 2 years on their job and

these were (6)6.7%. This implies that most of the respondents had experience concerning the effect of taxation on the performance of SMEs.

Findings on the Performance of the Business

Here respondents were asked about stock levels held in their businesses if they have ever experienced any shortages affecting the level of profitability, average daily sales, capital employed, the average amount of tax paid per year and the number of people employed. This helped in determining the performance of the business. The results were as follows;

Table 5: Findings on the performance of the business

Response	Frequency	Percentage
Excessive	13	16.7
Average	51	63.4
Inadequate	16	20.0
Total	80	100

Source: Primary Data 2019

From Table 5 above, 16.7% said they always kept excessive stock in their business, 63.4% indicated that they kept average stock while 20.0% kept inadequate stock.

Shortage in the stock levels

Respondents were asked if they have experienced shortages in the stock levels and the results were as follows;

Table 6: Whether the business has ever experienced shortages in the stock levels.

Response	Frequency	Percentage
Yes	77.	96.7
NO	3	3.3
TOTAL	80	100

Source: Primary data 2019

From Table 6 above, most of the respondents said that they have ever experienced shortages in stock due to the fact they lack enough capital to purchase stock and stock and due to transport problems. This was agreed to by 96.7% of respondents as compared to 3.3% who disagreed.

Stock Levels and Profitability

Respondents were asked if stock levels affect profitability and the findings are indicated below.

Table 7: Whether stock level has an effect on the level of profitability.

Response	Frequency	Percentage
Yes	55	68.3
No	25	31.7
Total	80	100

Source: Primary source

From table 7, above, 68.3% said that the stock level had an effect on the profitability of the business.

Average daily sales

Respondents were asked about daily sales made by their businesses and the results were as follows.

Table 8: Average daily sales

Shillings (000)	Frequency	Percentage
Less than 10	11	13.3
10-29	15	18.3
30-49	29	36.7
50-69	11	13.3
70-89	5	6.7
90 and above	9	11.7
Total	80	100

According to Table 8, of all the SMEs sampled, 13.3% made sales less than UGX 10,000/=, 18.3% made sales between 10,000/= - 29,000/=, 36.7% made sales between sales between 30,000/= – 49,000/=, 13.3% made sales between 50,000/= – 69,000/=, 6.7% made sales between 70,000/= – 89,000/= and 11.7% businesses made sales over 90,000/=. This means that most of the SMEs in Kansanga made sales of over 30,000/= meaning that most of the businesses in the area have the capacity to make at least annual sales of 10.8 million.

Capital employed

This aspect was investigated because it helps in the determination of the size of the business. The results were as follows;

Table 9: Capital employed

Response	Frequency	Percentage
Less than 0.5M	26	31.7
0.5M-0.9M	20	25.0
1M-4.9M	12	15.0
5M-9M	13	16.0
Over 10M	9	11.0
Total	80	100

Source: Primary data 2019

According to Table 9, 31.7% employed capital of less than 0.5m, 25.0% employed capital between 0.5m-0.9m, 15.0 % employed capital between 1m-4.9m, 16.7% employed capital of 5-9m while 11.7% employed capital of over 10 Million. This implies that most businesses in Kansanga have the capital contribution of less than 0.5M. Implying that the businesses are small-scale as defined by [19].

Daily expenses

This also helped to determine the performance and size of the business. The results were as follows.

Table 10: Daily expenses

Shillings (000)	Frequency	Percentage
Less than 10	35	43.3
10-19	23	28.3
20-39	17	21.7
40-49	5	6.7
50-59		0
60 and above		0
Total	80	100

Source: Primary data 2019

From table 10 above, 43.3% spend less than 10,000/= Uganda Shillings, 28.3% spend between 10,000/= - 19,000/=, 21.7% spend between 20,000/= – 39,000/=, 6.7% spend between 40,000/= – 49,000/= and of all businesses sampled. None of the respondents indicated that they spend more than 49,000/= on average daily. Thus the majority have an

average daily expenses of less than 19,000/=. By implication, these business units spend less money because their daily sales are averagely low given the fact that they employ little capital and make small sales on a daily basis.

The average amount of tax

Respondents were also asked about how much on average the amount they pay as taxes annually. The table below illustrates the response.

Table 11: Average amount of tax paid.

Shillings (000)	Frequency	Percentage
Zero	0	0
100	55	68.3
100-190	13	16.7
200-290	12	15.0
300-390	0	0
400-490	0	0
500 and above	0	0
Total	80	100

According to Table 11, among the businesses sampled, no business does not pay taxes, 68.3% pay an average tax of 100,000/=, and 16.7% pay on average between 100,000/= − 190,000/= while 15.0% of the businesses pay between 200,000/= and 290,000/=. By implication, based on the working capital that small-scale business employ and the kind of merchandise they deal in. The above results show that SMEs in Kansanga were paying more money in taxes.

Awareness of the taxpayers.

Respondents were asked if they were aware of the taxes they pay if the business has ever been assessed for tax purposes, if any records were kept by the firm, how records are kept if the tax authority has given any assistance as regards tax awareness and what kind of assistance. The following results were obtained.

Taxes

Respondents were asked if they were aware of the taxes they paid and which taxes they paid. The table below illustrates the results.

Table 12: Whether respondents are aware of the taxes they are to pay

Response	Frequency	Percentage
Yes	64	80
No	16	20
Total	80	100

Source: Primary data 2019

According to Table 12, 80.0% agreed that they were aware of the taxes they ought to pay while 20.0% indicated that they were not aware of all the taxes that they were meant to pay. Most business entrepreneurs in Kansanga were therefore aware of the taxes that they were supposed to pay.

Tax assessment

Respondents were asked if they have ever been assessed for tax purposes, the table below illustrates their responses.

Table 13: If the businesses have ever been assessed for tax purposes.

Response	Frequency	Percentage
Strongly agree	25	31.7
Agree	19	23.3
Un certain	12	15
Agree	12	15
Strongly Agree	12	15
Total	80	100

Source: Primary data 2019

Table 13 shows that 31.7% of the business entrepreneurs strongly agreed that their businesses have ever been assessed for tax purposes, 23.3% agreed, 15.0% indicated that they were not certain, disagreed and strongly disagreed respectively. In all, the majority 55.0% agreed that their businesses had been assessed for the purposes of paying taxes. This implies that KCCA carries out assessments of the SMEs before the tax they are meant to pay is levied.

Table 14: Showing how businesses keep their records

Response	Frequency	Percentage
Bin cards	13	16.7
Store ledgers	48	60.0
Both	19	23.3
Total	80	100

Source primary data 2019

From table 14 above, 16.7% of the small scale business sampled, keep their records using Bin cards, 60.0% used store ledgers and 23.3% used both bin cards and store ledgers.

Assistance as regards tax awareness

The researcher asked respondents if the small-scale business entrepreneurs have got any assistance as regards tax awareness and the form of assistance. The table below illustrates how they responded.

Table 15: Shows if the tax authority has ever given assistance as regards tax awareness.

Response	Frequency	Percentage
Yes	16	20
No	64	80
Total	80	100

Source primary data 2019

From Table 15 above, 80% of the respondents said they had not received any assistance from the tax authority towards tax awareness and 20% said they had received some assistance. Over 20% of the respondents who agreed to have received assistance, said it was in the form of manuals, this means that there were very few workshops which could have been more effective in terms of creating awareness among the taxpayers.

Table 16: Nature of assistance given to taxpayers

Importance of donor funding	Strongly Disagree(%)	Disagree %	Not Sure (%)	Agree (%)	Strongly Agree (%)/	Mean
The methods used in assessing the taxes are fair	50	21.7		20.3	8	2.15
Whenever taxes are collected from me taxes collected are friendly	40	26.7		30	3.3	2.29
Tax authorities do not harass me whenever they come to collect taxes	50	25		10	15	2.15

Primary Data (2019)

The Likert scale is 1 –Strongly Disagree 2- Disagree 3- not sure 4- agree 5-Strongly agree.

The response means 1.00-1.80- Strongly Disagree, 1.81-2.60- Disagree, 2.61-3.40 Not sure, 3.41-4.20- Agree, 4.21- 5.0 –Strongly Agree.

According to Table 16 above, the results show that nature assistance given to taxpayers was poor. This was from the fact that 71.7% of the respondents disagreed that the methods used were fair with a rejection mean of 2.15, and 66.7% of the respondents rejected the statement that whenever taxes are collected from them, taxes are fair with a rejection mean of 2.29 and also 75% rejected the statement tax authorities do not harass them whenever they come to collect taxes with a mean of 2.15. This was agreed with [20] who was quoted that there was unfair treatment of taxpayers by the tax collectors. [21] also agreed with this. He further stated that a large proportion of the business community is ignorant about the taxes they pay let alone how they are computed.

Problems Faced by Taxpayers
Problems associated with tax collection
Table 17: Problem associated with tax collection

Problem	YES	NO
Mode of assistance	90	10
Mode of collection	80	20

Source primary data 2019

From Table 17 the findings show that 90% of the respondents agreed that they had a problem with the mode of assistance and also 80% of the respondents agreed that they had a problem with the mode of tax collection uses.

The efficiency of tax officers

Respondents were asked if the tax officers are effective in identifying and registering potential taxpayers. The table below illustrates how they responded.

Table 18: Respondent's views on whether Tax officials are efficient

Response	Frequency	Percentage
Strongly Agree	19	23.3
Agree	8	10
Un certain	12	15
Disagree	39	48.3
Strongly Disagree	2	3.3
Total	80	100

Source primary data 2019

From Table 17, 48.3% disagreed that the tax officials are effective in identifying and registering potential taxpayers while 23.3% strongly agreed, 15% were uncertain, 10% agreed and 3.3% strongly disagreed. Since 51.6% of the respondents disagreed, it implies that there is too much inefficiency among the tax collectors in Kampala.

Specific effects of the taxes on businesses.

The following are specific effects that were given by the proprietors of SMEs in Kansanga.

Loss of sakes; this is mainly a result of the closure of business premises by KCCA staff on default during the time when the premises are closed, the operation is halted therefore no sales are made.

Loss of equipment; this happens when due to rough handling by the KCCA and URA staff. Sometimes machines and equipment are confiscated by tax collectors when the owners have failed to meet their tax obligations. During confiscation, equipment was damaged and sometimes lost.

Loss of stock. Some business proprietors said they so lose capital as a result of heavy fines imposed on them when they default on their tax obligation. This somehow agrees with [22 - 24] who said that the authorities might tax earnings to such an extent it might become a problem for firms to raise adequate resources for further investment. Inconveniencing business operations; this happens when the staff of the tax authority visits business premises for routine checkups on business. Sometimes they ask for books of accounts and try to interview the business owners and in the process, they inconvenience business operations. From the above-mentioned effects, it was noted that 40% of businesses in Kansanga lose capital as a result of heavy fines imposed on them when they default on their tax obligation.

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Suggestions from taxpayers.

Respondents were asked to give suggestions on how their problems can be dealt with. The following were the responses. Tax authorities should improve on increasing the period of deadlines which they give out to taxpayers when giving warnings. More efforts should be put into tax education so as to increase awareness and understanding of the mode of assessment. This agrees with [20] where it is said that taxpayers have little understanding of the tax obligations as a result of a lack of tax education. They further suggested that the tax authority should reduce taxes imposed on the taxpayers.

Relationship between taxes and performance of SMEs in Kansanga

Table 19: Pearson correlation analysis.

Correlation		X	Y	
Taxes	Pearson Correlation	1	-0.87**	
	Sig. (2-tailed)		.001	
	N	80	80	
Performance of SMEs	Pearson Correlation	-0.87**	1	
	Sig. (2-tailed)	.001		
	N	80	80	

**. Correlation is significant at the 0.05

There is a strong negative correlation of 0.87. This implies that an increase in taxes levied on businesses reduces the performance of Small and medium enterprises in Kansanga by 87%.

DISCUSSION

Summary of findings

The study aimed at determining the impact of taxes on the performance of SMEs. The results revealed that the impact of taxes on the performance of SMEs was quite significant. The study further revealed that taxes mainly affects the performance of SMEs through lost sales during the closure of the business premises by URA, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by URA onto SMEs that default on their tax obligation. Overall business performance was fair as most businesses could duly cover up their expenses, had enough stock, awareness of taxpayers was poor and a number of problems were encountered.

CONCLUSION

It can be concluded that taxes are some of the limitations to the growth and expansion of SMEs. This is because very little and sometimes nothing is left after covering expenses and taxes to allow the expansion and growth of the existing SMEs. The findings further revealed that tax officials are inefficient, the mode of tax collection and assessment was unfair, taxes levied are unfriendly and also most of the respondents revealed they do not get assistance from the tax authorities.

RECOMMENDATIONS

The researcher made the following recommendations as a way of reducing the burden of taxes on SMEs as well as increasing the revenue of Kampala.

I. URA should find a way of assessing the tax in that the SMEs should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously.

II. The tax authorities should introduce a scheme that allows taxpayers to pay the tax obligation in instalments over a given period of time as opposed to a lump sum at once.

III. URA should reach out and educate the business community about its different tax rates and mode of payment. The study revealed that the biggest problem with the tax paid is in fact that the SME community does not understand how the tax is arrived at as well as how it is paid but not because it is too high.

IV. URA is should improve on the methods of collecting the taxes. It should adopt the closure of business premises on default only as a last resort after all the other methods of collection have failed. This should be an exception and not a rule.

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