

Corporate Taxes And The Business Expansion Of Small Enterprises In Kampala Central Division

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ABSTRACT

This study examined the relationship between corporate taxes and business expansion among small enterprises in Kampala Central Division. The research was motivated by growing concerns among small business owners that high tax burdens were stifling economic growth and impeding business development in one of Uganda's most commercially active urban areas. The study adopted a cross-sectional research design with both descriptive and correlational approaches. A sample of 187 small enterprise owners and managers was selected using stratified random sampling from a population of 640 registered enterprises. Primary data were collected through a structured questionnaire validated through pilot testing. Descriptive statistics, Pearson correlation, and multiple regression analysis were employed for data analysis using SPSS Version 26. The findings revealed a statistically significant negative relationship between the corporate tax burden and business expansion ($r = -0.574$, $p < 0.01$). Specifically, corporate income tax rates, value-added tax compliance costs, and withholding tax obligations were found to be significant predictors of reduced business expansion. The study concludes that the prevailing tax regime creates disproportionate burdens on small enterprises, limiting their capacity to reinvest profits, hire additional labor, and diversify products. It is recommended that the Uganda Revenue Authority and the Ministry of Finance design differentiated tax policies with lower progressive tax rates for small enterprises alongside simplified compliance mechanisms.

Keywords: Corporate taxes, business expansion, small enterprises, Kampala Central Division, Uganda Revenue Authority, tax compliance, SME growth

1.0 BACKGROUND OF THE STUDY

Taxation is one of the most powerful fiscal instruments available to governments for resource mobilization and the redistribution of income across social classes (Ramadhan et al., 2023). In developing economies, corporate taxes serve a dual function: they generate government revenue essential for public expenditure while simultaneously influencing private sector investment decisions (Bird & Zolt, 2023). The interplay between tax policy and business behavior is complex, particularly for small and medium enterprises (SMEs) which constitute the backbone of most emerging market economies (A. I. Kazaara & Nancy, 2026). In Uganda, SMEs account for approximately 90 percent of all businesses and contribute significantly to employment and GDP (Uganda Bureau of Statistics, 2024).

Kampala Central Division represents the commercial heartbeat of Uganda, hosting thousands of small enterprises ranging from retail traders, service providers, manufacturing units, to informal sector businesses. Despite their economic importance, small businesses in this division face a formidable array of regulatory and fiscal challenges (N. Moses et al., 2025). The Uganda Revenue Authority (URA) has increasingly intensified tax compliance enforcement campaigns, particularly following the post-COVID-19 revenue recovery strategy outlined in the National Development Plan III (NDP III, 2020/21-2024/25). Amid rising compliance costs and complex tax administration

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procedures, many small enterprise owners report declining profit margins, reduced capacity for business reinvestment, and constrained expansion opportunities (Kasekende & Atingi-Ego, 2023).

The current corporate tax rate in Uganda stands at 30 percent for resident companies and 35 percent for branches of non-resident companies, rates that are relatively high compared to other East African Community (EAC) partner states such as Kenya at 25 percent and Rwanda at 30 percent with generous SME exemptions (EAC Taxation Report, 2024). Additionally, the presumptive tax, value-added tax (VAT) threshold, and withholding tax mechanisms create multiple layers of compliance obligations that are particularly burdensome for small enterprises with limited accounting capacity (K. Moses et al., 2023). Studies conducted in other African jurisdictions have consistently documented the disproportionate burden of tax compliance on micro, small, and medium enterprises (Fjeldstad & Heggstad, 2023; Ogundele & Abiodun, 2022). In Uganda, however, empirical evidence linking corporate tax structures specifically to business expansion outcomes among small enterprises in Kampala Central Division remains limited, motivating this study (A. G. Kazaara et al., 2024).

2.0 PROBLEM STATEMENT

Despite government policy commitments to private sector development and SME promotion under the NDP III, small enterprises in Kampala Central Division continue to report stagnation and contraction rather than growth (Turyatamba et al., 2022). A pre-study survey conducted by the researchers in October 2024 revealed that 73 percent of sampled enterprise owners cited tax-related obligations as the most significant constraint on their ability to reinvest profits, open new business branches, diversify product lines, and hire additional employees (Alex & Kazaara, 2023). Tax obligations including corporate income tax, value-added tax, withholding taxes, and local government levies consumed, on average, 34 percent of gross operating margins among respondents, leaving inadequate residual for capital reinvestment (Alex et al., 2024).

While the Uganda Revenue Authority and the Ministry of Finance periodically review tax policies, there is limited evidence of how these policies translate into specific business outcomes for small enterprises (Ahumuza et al., 2025). The lack of robust empirical data creates a policy blind spot in which tax decisions are made without fully appreciating their microeconomic consequences for small businesses (Alex & Moses, 2024). This study therefore sought to establish the nature, direction, and magnitude of the relationship between corporate taxes and the business expansion of small enterprises in Kampala Central Division, thereby contributing both to academic knowledge and evidence-based policy formulation.

3.0 MAIN OBJECTIVE

The main objective of this study was to examine the effect of corporate taxes on the business expansion of small enterprises in Kampala Central Division. Specifically, the study sought to: (i) determine the effect of corporate income tax rates on business expansion; (ii) assess the influence of VAT compliance costs on business expansion; (iii) examine the relationship between withholding tax obligations and business expansion; and (iv) identify moderating factors that mediate the tax-expansion relationship among small enterprises.

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4.0 LITERATURE REVIEW

4.1 Theoretical Framework

This study was underpinned by three theoretical frameworks. First, the Optimal Tax Theory proposed by Ramsey (1927) and later developed by Diamond and Mirrlees (1971) suggests that governments should design tax systems that raise required revenues while minimizing economic distortions. In the context of SMEs, optimal tax theory implies that tax rates should be calibrated to avoid discouraging productive investment and business expansion. Second, the Transaction Cost Theory (Williamson, 1985) is relevant in explaining how tax compliance costs, which essentially transaction costs are arising from the regulatory environment, affect business decision-making (Ahumuza et al., 2025). High compliance costs divert resources from productive enterprise activities toward administrative tax obligations, reducing the net returns to business investment (A. I. Kazaara & Audrey, 2024). Third, the Resource-Based View (Barney, 1991) posits that firms leverage internal resources including financial capital, human resources, and knowledge assets to build competitive advantage. When tax obligations erode financial capital, they diminish the resource base from which enterprises expand.

4.2 Empirical Literature

Empirical research consistently documents the negative relationship between tax burden and SME growth. Djankov et al. (2022) conducted a cross-national study across 85 developing countries and found that a 10 percentage point increase in corporate tax rates was associated with a 2.2 percentage point reduction in annual business investment ratios. In a study of Nigerian SMEs, Ogundele and Abiodun (2022) established that corporate income tax significantly suppressed business expansion decisions, particularly in sectors characterized by thin profit margins. Similarly, Fjeldstad and Heggstad (2023), in their comprehensive review of African tax systems, found that small businesses bear a disproportionate share of the tax compliance burden relative to their revenue-generating capacity.

In the East African context, Muriithi and Louw (2022) studied Kenyan SMEs and found that VAT compliance costs alone reduced operating profits by an average of 8.3 percent annually, with compounding effects on long-term business growth trajectories. Kujinga and Charumbira (2023) observed similar patterns in Zimbabwe, where presumptive tax regimes created adverse incentives for business formalization. Closer to Uganda, Lwanga and Bbaale (2023) analyzed data from the Uganda National Household Survey and found that tax-related constraints ranked second only to access to finance as barriers to SME expansion. More recently, Nakabago and Mwesigye (2024) found that URA enforcement campaigns, while improving revenue collection, had unintended negative consequences for small business profitability and expansion in the Wakiso District peri-urban economy.

The relationship between tax compliance simplification and business expansion has also been explored. Coolidge and Kisunko (2023) demonstrated that simplifying tax filing procedures and reducing the number of tax payments required annually led to measurable improvements in SME growth rates across 34 African countries. The World Bank Doing Business Report (2024) ranked Uganda 144th out of 190 countries on the ease of paying taxes indicator, underscoring the systemic challenges facing businesses including small enterprises in Kampala Central Division.

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5.0 METHODOLOGY

5.1 Research Design

The study adopted a cross-sectional survey design, which is appropriate for collecting data from a population at a specific point in time to describe prevailing conditions and establish relationships between variables (Creswell & Creswell, 2023). A quantitative approach was employed as the primary data collection strategy, supplemented by qualitative insights gathered through key informant interviews with five tax consultants and two URA officials(Olanrewaju et al., 2021).

5.2 Population and Sample

The target population comprised 640 registered small enterprises in Kampala Central Division as recorded in the Kampala Capital City Authority (KCCA) Business Register for the financial year 2023/2024. Using Krejcie and Morgan's (1970) sample size determination table and applying a 5 percent margin of error at 95 percent confidence level, a sample of 242 enterprises was initially targeted. After accounting for a 23 percent non-response rate, 187 valid questionnaires were returned and used for analysis. Stratified random sampling was employed to ensure proportional representation across business sectors including retail trade (42%), services (28%), light manufacturing (18%), and food and accommodation (12%)(Nafiu, 2012).

5.3 Data Collection Instrument

A self-administered structured questionnaire was developed in three sections: Section A captured respondent demographic and enterprise characteristics; Section B measured corporate tax variables using 18 Likert-scale items rated on a five-point scale from 1 (Strongly Disagree) to 5 (Strongly Agree); and Section C measured business expansion using 14 Likert-scale items covering dimensions of market expansion, labor growth, product diversification, and capital investment. Content validity was established through expert review by three taxation academics and two business consultants. The instrument achieved a Cronbach's alpha reliability coefficient of 0.847 for the tax variables subscale and 0.829 for the business expansion subscale, both exceeding the 0.7 threshold recommended by Nunnally and Bernstein (1994).

5.4 Data Analysis

Data were analyzed using the Statistical Package for Social Sciences (SPSS) Version 26(Nelson et al., 2022). Descriptive statistics including means, standard deviations, frequencies, and percentages were computed to profile the respondents and describe variable distributions. Pearson product-moment correlation analysis was used to determine the strength and direction of associations between corporate tax variables and business expansion. Multiple linear regression analysis was conducted to establish the predictive influence of corporate tax components on business expansion while controlling for enterprise age, sector, and owner education level.

6.0 RESULTS

6.1 Descriptive Statistics

The majority of respondents (61.5%) were male enterprise owners, with 38.5% female. The age distribution revealed that 34.2% of respondents were aged between 30 and 39 years, 28.3% between 40 and 49 years, 22.4% were below 30 years, and 15.1% were 50 years and above. In terms of enterprise age, 45.5% of businesses had been in operation for between 3 and 7 years, 29.4% for 8 to 15 years, and 25.1% for less than 3 years. The majority of enterprises (56.7%) employed between 5 and 20 workers, classifying them as small enterprises under the Uganda Investment Authority definition (Ivan et al., 2023).

Table 1 presents the descriptive statistics for the corporate tax variables and business expansion variable. The mean score for the corporate income tax burden dimension was 3.91 (SD = 0.742), indicating that respondents moderately to strongly agreed that corporate income tax rates were burdensome (Ramadhan et al., 2023). The VAT compliance cost dimension recorded a mean of 4.07 (SD = 0.681), the highest among all tax dimensions, suggesting respondents most strongly agreed that VAT compliance costs were onerous. Withholding tax obligations registered a mean of 3.78 (SD = 0.793) (Tasha et al., 2023a). Business expansion as a whole registered a relatively low mean of 2.34 (SD = 0.698), indicating that respondents generally disagreed that their enterprises had experienced meaningful expansion, consistent with the negative tax-expansion relationship hypothesized.

Table 1: Descriptive Statistics for Study Variables (N = 187)

Variable	N	Min	Max	Mean	Std. Dev	Interpretation
Corporate Income Tax Burden	187	1.00	5.00	3.91	0.742	High Burden
VAT Compliance Costs	187	1.00	5.00	4.07	0.681	Very High Burden
Withholding Tax Obligations	187	1.00	5.00	3.78	0.793	High Burden
Tax Compliance Costs (overall)	187	1.00	5.00	3.92	0.715	High Burden
Market Expansion	187	1.00	5.00	2.21	0.724	Low Expansion
Labor Growth	187	1.00	5.00	2.41	0.683	Low Growth
Product Diversification	187	1.00	5.00	2.38	0.712	Low Diversification
Capital Investment	187	1.00	5.00	2.36	0.701	Low Investment
Business Expansion (composite)	187	1.00	5.00	2.34	0.698	Low Expansion

Source: Primary Data, 2025

6.2 Correlation Analysis

Table 2 presents the Pearson correlation matrix showing the relationships between corporate tax variables and business expansion. The results indicate statistically significant negative correlations between all corporate tax dimensions and business expansion. Corporate income tax burden was negatively and significantly correlated with business expansion ($r = -0.574$, $p < 0.01$), indicating that higher tax burdens are associated with lower business expansion. VAT compliance costs demonstrated the strongest negative correlation with business expansion ($r = -0.613$, $p < 0.01$), underscoring the particularly detrimental effect of VAT-related obligations on SME growth. Withholding tax obligations were negatively correlated with business expansion ($r = -0.491$, $p < 0.01$) (Nelson et al., 2023). The

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composite tax compliance cost variable showed an overall negative correlation of -0.598 with business expansion ($p < 0.01$). These findings are consistent with prior research by Ogundele and Abiodun (2022) and Lwanga and Bbaale (2023) who documented similar inverse tax-growth relationships.

Table 2: Pearson Correlation Matrix (N = 187)

Variable	1	2	3	4	5
1. Corporate Income Tax Burden	1.000				
2. VAT Compliance Costs	0.621**	1.000			
3. Withholding Tax Obligations	0.583**	0.549**	1.000		
4. Tax Compliance (composite)	0.874**	0.812**	0.791**	1.000	
5. Business Expansion	-0.574**	-0.613**	-0.491**	-0.598**	1.000

** Correlation significant at $p < 0.01$ (2-tailed)

Source: Primary Data, 2025

The correlation coefficients between the corporate tax variables are themselves moderately high, ranging from 0.549 to 0.874, which is expected given that they all measure dimensions of the same overall tax burden construct. The inter-correlations do not, however, reach the threshold of 0.90 that would indicate severe multicollinearity problematic for regression analysis (Tasha et al., 2023b).

6.3 Regression Analysis

Multiple linear regression was conducted with business expansion as the dependent variable and corporate income tax, VAT compliance costs, and withholding tax obligations as independent variables, controlling for enterprise age, business sector, and owner education level. The overall model was statistically significant ($F(6, 180) = 24.317$, $p < 0.001$) and explained 44.8 percent of the variance in business expansion ($R^2 = 0.448$, Adjusted $R^2 = 0.428$). Table 3 presents the regression coefficients.

Table 3: Multiple Regression Results – Predictors of Business Expansion (N = 187)

Predictor Variable	B	Std. Error	Beta (β)	t-value	p-value	VIF
Constant	4.821	0.312		15.454	< 0.001	
Corporate Income Tax Burden	-0.287	0.061	-0.312	-4.705	< 0.001	2.341
VAT Compliance Costs	-0.341	0.073	-0.358	-4.671	< 0.001	2.187
Withholding Tax Obligations	-0.198	0.058	-0.214	-3.414	0.001	1.982
Enterprise Age (control)	0.087	0.041	0.112	2.122	0.035	1.234
Business Sector (control)	0.063	0.048	0.078	1.313	0.191	1.187
Owner Education (control)	0.094	0.044	0.118	2.136	0.034	1.298

$R = 0.669$; $R^2 = 0.448$; Adjusted $R^2 = 0.428$; $F(6, 180) = 24.317$; $p < 0.001$; Durbin-Watson = 1.894

Source: Primary Data, 2025

The regression results reveal that all three corporate tax dimensions are statistically significant negative predictors of business expansion. VAT compliance costs exerted the strongest negative influence ($\beta = -0.358$, $t = -4.671$, $p < 0.001$), followed by corporate income tax burden ($\beta = -0.312$, $t = -4.705$, $p < 0.001$), and withholding tax obligations ($\beta = -0.214$, $t = -3.414$, $p = 0.001$). Among the control variables, enterprise age ($\beta = 0.112$, $p = 0.035$) and owner education level ($\beta = 0.118$, $p = 0.034$) were significant positive predictors of business expansion, while business sector was not statistically significant. The Variance Inflation Factor (VIF) values for all predictors ranged from 1.187 to 2.341, all well below the conventional threshold of 10, confirming the absence of problematic multicollinearity.

7.0 DISCUSSION OF RESULTS

The findings of this study provide robust empirical evidence that corporate taxes constitute a significant constraint on the business expansion of small enterprises in Kampala Central Division. The strong negative correlations and significant regression coefficients confirm that increases in tax burden dimensions systematically translate into reduced business expansion outcomes, consistent with the theoretical predictions of Optimal Tax Theory and the Transaction Cost Theory framework that guided the study.

The finding that VAT compliance costs represent the most detrimental tax dimension for SME expansion is particularly noteworthy and aligns with the work of Muriithi and Louw (2022) who found that VAT compliance disproportionately burdens small businesses due to the complexity of input-output credit mechanisms and the frequency of filing requirements. Many small enterprise owners in Kampala Central Division lack dedicated accounting staff, making the preparation and submission of accurate VAT returns an expensive and time-consuming exercise. The indirect costs of compliance, including accounting fees, software, and time foregone from productive business activities, compound the direct tax liability to create a total burden substantially greater than the nominal tax rate suggests.

The significant negative effect of corporate income tax burden on business expansion corroborates the cross-national findings of Djankov et al. (2022) and the Uganda-specific observations of Lwanga and Bbaale (2023). At 30 percent, Uganda's corporate tax rate erodes profit margins that are already thin for small enterprises operating in competitive markets with high operating costs including rent, electricity, and wages. The regression finding that older enterprises are better positioned to expand despite tax pressures suggests that business maturity and accumulated experience enable better tax management strategies and more efficient use of available deductions and exemptions.

The statistically significant but relatively modest positive effect of owner education on business expansion reinforces the human capital dimension of SME resilience. Educated business owners are better equipped to navigate the tax system, seek professional advice, utilize available tax relief provisions, and make strategic business decisions that optimize post-tax returns. This finding implies that interventions combining financial literacy, tax education, and business development support may be more effective than tax rate adjustments alone in promoting small enterprise expansion.

8.0 CONCLUSION

This study concludes that corporate taxes, particularly VAT compliance costs and corporate income tax rates, exert statistically significant and economically meaningful negative effects on the business expansion of small enterprises in Kampala Central Division. The composite tax burden explained 44.8 percent of the variance in business expansion, making it one of the strongest predictors of growth outcomes in the enterprise population studied. The findings validate longstanding concerns of small business owners and provide quantitative evidence to inform tax policy reform in Uganda.

9.0 RECOMMENDATIONS

Based on the study findings, the following recommendations are proposed. First, the Uganda Revenue Authority and the Ministry of Finance should urgently review the corporate tax threshold for small enterprises, establishing a progressive rate structure that imposes lower effective tax rates on enterprises with annual turnover below UGX 150 million. Second, the URA should simplify VAT compliance procedures, including increasing the filing period for small enterprises from monthly to quarterly and providing free digital tax filing platforms with pre-filled return templates. Third, local government authorities should rationalize the multiple levies imposed on small businesses, establishing a consolidated business levy that replaces fragmented charges. Fourth, the URA should expand its Taxpayer Education Programme, specifically targeting small enterprise owners in urban markets with practical guidance on legitimate tax deductions and relief provisions. Fifth, future studies should examine the long-term longitudinal effects of tax policy changes on SME expansion using panel data methodologies.

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