
**TAX POLICIES AND TAX COMPLIANCE ON SMALL AND MEDIUM ENTERPRISES OF NAKAWA
DIVISION**

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ABSTRACT

This research report study aimed to investigate the “tax policies and tax compliance on small and medium enterprises of Nakawa division”. Questionnaires were used to collect data under a case study research design. Qualitative and quantitative means were used to analyze the data. The objectives of the study used were; to examine the relationship between tax awareness and tax compliance on small and medium enterprises in Nakawa division, to determine the effect of tax administration on performance of small and medium enterprises in Nakawa division, to evaluate the relationship between tax assessment and tax compliance on small and medium enterprises in Nakawa division, to assess the relationship tax policies and tax compliance of small and medium enterprises in Nakawa division. To achieve this objective, the study sampled 60 respondents because it is large enough compared to the study population, the respondents were selected using simple purposive sampling method, it was important because it gave the researcher freedom to select certain respondents with in-depth knowledge regarding the issue under investigation. The study findings shown that tax compliance significantly affected the performance of SMEs in Nakawa division since p- value (.000) was less than the significance level. The correlation coefficient was (0.55) which implied that there was a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance had a statistically significant moderate positive effect on the performance of SMEs. From the findings it was recommended that tax administration should reduce criminal aspects of tax evasion with well know tax measures. Further, tax administration should use current tax reform to reduce tax complexity with Tax authorities should focus and help taxpayer during filing taxes returns information.

Key words: tax policies, tax compliance, small and medium enterprises

Background of the study

Globally, taxes have greatly affected the way economies perform regardless of the political and social difference among countries worldwide (Ramadhan et al., 2023). Tax compliance is very important for every government in the world as it enables the government to acquire assets which are not liable to debt and which the government uses to develop its economy (Tasha et al., 2023a). However, studies and other journal publication have shown that most governments face serious challenges in their revenue collection performance where governments are not able to collect sufficient funds to cover their budget expectations (Balunywa, 2017). For years, revenue collectors have not been channeling all the amount of money they collect to the Country Treasury (Ramadhan et al., 2023).

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In Africa the Hut tax was among the first tax policies introduced by the British colonialists on the hut or household basis. It was variously payable in monetary terms, labor, gains or stock. In East Africa the first tax to be introduced was hut tax in 1900 by the British colonial administrators through institutions of systems of compulsory public works like road construction (Frank et al., 2023), building administration headquarters and schools, clearance of forests and other similar work Munda, 2018). Tax is an important source of revenue for the government and every administration; it helps the government to fulfill its financial obligations in addition to providing services to the general public (Faith et al., 2023). Tax systems have been evolving over a period of years, due to the need of governments to meet the demands of its citizen. For instance, the government of Kenya through its collection agency has a number of taxes that ought to be paid by its citizen namely; The Income Tax (Tasha et al., 2023b), Value added Tax (VAT), TOT and Presumptive tax for domestic revenue and customs duty for imports. This is to enable the government meet its budgetary requirements. Due to the high demand and dependence on domestic revenue by the government encompassed by the low levels of compliance among the traders and taxpayers at large, this study entailed to analyze different variables that contribute to compliance levels among the small scale traders as supported by the economic and psychological theories of tax compliance (Ramadhan et al., 2023).

In Uganda, Pressure to increase tax revenues was already high prior to the COVID-19 crisis (Brighton et al., 2023). However, the recession additionally impacted Uganda's tax base and led to a significant revenue shortfall: In the 2019/20 fiscal year, the Uganda Revenue Authority (URA) only managed to achieve about 82 percent of its revenue target (URA 2020). One promising area to improve the collection of taxes through enhanced enforcement and administration is by combating the evasion of import taxes, a central source of tax revenues for Uganda and other countries at similar stages of development (Christopher et al., 2022).

Problem Statement

Karingi (2005) opines that tax plays an important role in the growth of any economy, so tax compliance is useful to the economy because tax evasion hampers government revenue collection, thus inefficiency in government spending as it diminishes the capacity of the state to mobilize domestic revenues (Kazaara & Christopher, 2023), resources that are needed for investments. He says that in 2010 for example, the amount lost to tax evasion represented about twice the amount the country spent on health care. However, Tax compliance also damages the country's growth capacity by discouraging both local and foreign investors. According to Karingi, the high tax rate and burden in Uganda, which is related to the high levels of tax compliance, is the leading disincentive to business activity (Paul et al., 2023). There has been hostility between the taxpayers and tax collectors on issue relating to tax compliance in Uganda (Makori, 2016). Most SMEs do not pay the taxes among SMEs remains far above the ground, with a tax gap of about 35% and

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33.1% in 2018 and 2019 respectively (Kazaara & Christopher, 2023). Despite the above however poor taxation policies like high tax rates, multiple taxation, complex tax regulations, and lack of proper enlightenment or education about related issues affect the performance of SMEs (Tasha et al., 2023a). In Nakawa Division, many SMEs have failed to achieve sustainable growth, therefore government have to come up with rescue package to bail out their financial systems, they are not aware about the taxes and as a result they do not survive in the competitive market. Therefore, it is for this reason that a study needs to be undertaken to examine the relationship between tax policies and tax compliance on SMEs in Nakawa Division (Turyatamba et al., 2022).

Specific Objectives

- To examine the relationship between tax awareness and tax compliance on small and medium enterprises in Nakawa division
- To determine the effect of tax administration on performance of small and medium enterprises in Nakawa division.
- To evaluate the relationship between tax assessment and tax compliance on small and medium enterprises in Nakawa division.
- To assess the relationship tax policies and tax compliance of small and medium enterprises in Nakawa division.

Methodology

Research design

The researcher used a cross sectional survey design basing on the use of qualitative and quantitative approaches that was adopted to establish the effect of taxes on performance of small-scale business enterprise. In this study, data was collected using both primary sources like questionnaires and interviews and secondary data sources.

Study population

The study population refers to the large groups of people or things from which a desired sample is selected (Majid, 2018). The study population for this research comprised of 150 members presenting retail shops, salon operators, carpenters and mobile money operators in Nakawa division.

Sampling size and sampling techniques

The study used a sample size of 60 respondents as determined by the Krejcie and Morgan table of 1970 on sample size determination. The sample included the Retail shops, Salon operators, Carpenters and Mobile money operators. To arrive at the sample size, the researcher used Stratified random sampling so as to ensure equal participation of the subjects. the researcher selected 25 retail shops, 10 salon operators, 13 carpenters, 10 mobile money operators. The study therefore used total of 60 respondents. Stratified random sampling used in this study was divided into three strata of business owners, officials and other community members. Each stratum represents a number of members from which the 60 representatives will be selected using simple random sampling.

Table 1: Sample size and composition

Category	Sample size	Frequency
Retail shops	25	42%
Salon operators	10	17%
Carpenters	13	22%
Mobile money operators	12	20%
Total	60	100%

Source; Researcher, 2022

Methods of data collection and instruments

Questionnaires

The questionnaires were used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaires were equally used because the information was collected from a large sample within a short period of time yet the respondents could read and write (Sekaran, 2015). The questionnaires consisted of both open and close ended questions administered to respondents of Nakawa division.

Data analysis

Data was collected, checked for completeness, categorized and coded and entered into computer system where it was summarized into frequency tables using SPSS (Nelson et al., 2022). Quantitative data was presented in the form of descriptive statistics using frequency tables. Qualitative data was sorted and graphed into themes. There after the researcher was evaluated and analyzed the adequacy of information in answering the research questions through coding the data, identifying categories and parameters that emerge in the response to the variables of the study. Qualitative data was presented using narrative text.

RESULTS

Relationship between tax awareness and tax compliance on small and medium enterprises

Table 1: Relationship between tax awareness and tax compliance on small and medium enterprises

Statement	F	SA	F	A	F	NS	F	D	F	SD
Information about taxes is always readily available to the tax payer.	16	27%	20	33%	0	0%	15	25%	9	15%
The business entity is aware of its tax obligation.	19	32%	22	39%	4	7%	10	17%	5	8%
Lack of information affect business' tax compliance	20	33%	40	67%	0	0%	0	0	0	0%

The business entity is able to correctly calculate the tax amount payable based on the available information	25	42%	20	33%	0	0%	10	17%	5	10%
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Source: Researcher, 2022

27% of the respondents strongly agreed to the statement that information about taxes is always readily available to the tax payer, 33% to agreed, none were undecided, while 25% disagreed and 15% strongly disagree. This is an indication that there is a positive relationship between tax awareness and tax compliance on small and medium enterprises

Majority of the respondents were in agreement 71% that business entity is aware of its tax obligation, 32% strongly agreed that internal work place diversity helps in decision making, 39% to agreed, 7 % were undecided, 17% disagreed while 8% strongly disagreed with the statement. The business entity is able to correctly calculate the tax amount payable based on the available information 42% strongly agreed with the statement, 33% agreed, 0% were indecisive and 10% disagreed while 17% strongly disagreed with the statement.

Effect of tax administration on performance of small and medium enterprises

Table 2: Tax administration on performance of small and medium enterprises

Statement	F	SA	F	A	F	NS	F	D	F	SD
Tax administration Procedures are used to identify taxpayers fare	11	19%	18	30%	14	23%	9	15%	8	13%
Tax authorities sensitize taxpayers on how to submit their tax liabilities.	10	17%	20	33%	7	12%	12	20%	11	18%
Tax payers pay their Liabilities in time.	9	15%	19	32%	13	22%	10	16	9	15%
URA employs competent tax	30	50%	20	34%	5	8%	5	8%	0	0%

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enforcement team										
Tax enforcement team are guided on how to treat taxpayers, especially in fields.	9	15	21	35	10	17	10	23	6	10
Tax administration ensures Lax compliance by small business taxpayers.	10	17	22	36	16	27	6	10	6	10
The administrative costs used to collect taxes from small taxpayers are efficient.	8	13	24	40	10	17	10	17	8	13
Taxpayers are aware of tax liabilities.	9	15	17	28	16	27	11	18	7	12

Source: *Researcher, 2022*

From the study findings above in table 4 indicated that tax administration also has a positive effect on the financial performance of SMEs. It was found out that statements; Tax administration Procedures are used to identify taxpayers fare had 19% of the respondents who strongly agreed; 30% agreed, 23% were not sure, 15 % disagreed and 13% strongly disagreed. Tax authorities sensitize taxpayers on how to submit their tax liabilities by creating favorable conditions for tax compliance had, 17% of the respondents who strongly agreed, 33% agreed, 12% were not sure, 20% disagreed and 18% strongly disagreed. Tax payers pay their liabilities in time had 15% of the respondents who strongly agreed, 32% agreed, 22% were not sure, 16% disagreed and 15% strongly disagreed.

Relationship tax policies and tax compliance of small and medium enterprises

Correlation results of tax compliance and the performance of SMEs

Table 3: Correlation matrix for tax compliance and the performance of SMEs

		Tax compliance	Performance of SMEs
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Tax compliance	Pearson Correlation	1	.55**
	Sig. (2-tailed)		.000
	N	.60	60
Performance of SMEs	Pearson Correlation	.55**	1
	Sig. (2-tailed)	.000	
	N	60	60

** . Correlation is significant at the 0.01 level (2-tailed). **Source: Primary**

data

The study findings table 3 above show that tax compliance significantly affects the performance of SMEs in Nakawa division since p- value (.000) is less than the significance level. The correlation coefficient is (0.55) which implies that there is a moderate positive relationship between tax compliance and the performance of SMEs (Nelson et al., 2023). Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs. Thus, the hypothesis: “*Tax compliance significantly affects the performance of SMEs in Nakawa Division, Kampala.*” is accepted. So, in order to enhance the performance of SMEs in Uganda, the government needs to ensure that there is a proper mechanism to ease tax compliance through having a simplified system of taxation, proper tax planning, and functional expertise as well as the ease with the interpretation of tax laws and regulations. Results from the quantitative findings indicated that tax compliance significantly influences the performance of SMEs which coincided with the qualitative results which indicated that members within the SME sector have been able to enhance their knowledge on taxation where by URA through the umbrella body KACITA has engaged the traders to ease provision of taxpayer services.

Conclusion

Is one of the objectives for this research, the researcher was seeking to determine the effect of tax compliance on performance of small business enterprises in Nakawa division and basing on the findings above, we can conclude that there is a significant effect among the two variables. This is because when tax policies are favorable to a tax payer, they consider it to be fair which will lead them to pay their liabilities in time. A fair tax policy is the one that allows a tax payer to pay that tax liability that is not too high or too low compared to the value of their businesses. In this case, a fair tax would allow tax payers to submit their tax liabilities and remain with income for operational expenses as well as profit. It is also enough to conclude that a tax payer will always comply easily to submit their liabilities then the policies set allow high value business to pay a higher tax than low value business.

Recommendation of the study

From the findings it is recommended that tax administration should reduce criminal aspects of tax evasion with well known tax measures. Further, tax administration should use current tax reform to reduce tax complexity with Tax authorities should focus and help taxpayer during filing taxes returns information. However, tax authority provides greater assistance to tax payers; it should create favorable conditions for tax compliance not only tax awareness.

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