

TAXATION AND BUSINESS PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES**IN UGANDA; A CASE STUDY OF RUBAGA****DIVISION, KAMPALA****1 Ssegawa Robert, 2 Dr Ariyo Gracious Kazaara, 3 Dr Twinomujuni Rosebell****1, 2, 3 Metropolitan International University****ABSTRACT**

The study aimed at taxation and business performance of small and medium sized enterprises in Uganda; a case study of Rubaga division, Kampala and it was guided by the following objectives; To examine the relationship between tax compliance and the business performance of SMEs in Rubaga division, Kampala, to assess the relationship between tax rates and the business performance of SMEs in Rubaga Division, Kampala and to analyze the relationship between tax incentives and the business performance of SMEs in Rubaga Division, Kampala. The study population concentrated on Managers and employees of SMEs in Rubaga Division. The study area was limited to this one SME in Kampala since the majority of the SMEs are established in urban areas. The correlation coefficient (.827) reveals that the study variables have a strong positive relationship with the performance of SMEs. Thus, the study variables explain 68.4% of the performance of SMEs in Rubaga Division, Kampala, Uganda. The findings revealed that tax incentives (Beta= .459, Sig. < .000) was a better predictor of the performance of SME's and this was followed by tax rates (Beta = .311, Sig. < .005), and lastly tax compliance with (Beta= .171, Sig. < .031). This implied that strengthening and improving the existing taxation policies relating to tax compliance, tax rates and tax incentives, the performance of SMEs will improve in Uganda. The study recommends that the government of Uganda should design an effective tax rate in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base. This will lower the cost of production for the goods and services which will eventually ensure favorable prices for the goods and services being provided to the customers and thus increase sales turnover and the performance of SMEs in Uganda.

Key words: taxation, business, performance, small and medium sized enterprises**Background to the study**

Taxation in Uganda has been also influenced by World Bank policies with the aim of nurturing economic growth and development (Ramadhan et al., 2023). The Uganda government has transformed a number of tax policies to foster the growth of small and medium enterprises through harmonization of tax rates and formulating new tax incentives among others to avoid double taxation and tax evasion (Tasha et al., 2023). However, with

all these tax reforms Uganda still does not have well known clear national taxation policy for the small and medium enterprises (Brian & Jacob, 2023). The recent taxation policy only focuses on the legal requirements surrounding the administration of the tax regime instead of yielding strategies to foster the performance of SMEs in Uganda (Ddumba Ssentamu, 2018). SMEs are important for the growth of societies (Alex &

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Kazaara, 2023). These enterprises have enhanced economic growth and development through; offering jobs that have reduced unemployment (Nelson & Christopher, 2022), addressing the demographic problems associated with high populations, contributing to the generation of domestic income among others (FSD Uganda, 2015). SMEs account for about 90% of the private sector production which has greatly supported the economy in Uganda (Winny et al., 2023). The SMEs have supported the economy through creating new jobs, income generation among others. However, SMEs are facing challenges ranging from limited size and resources which have affected their operations. This is currently being mitigated through; provision of Business Development Services (BDS) to build capacity and enhance their performance in areas of business planning, technology, communications and other services (Victoria et al., 2023). Over 80% of the SMEs in Uganda are established in urban areas, and thus, this study contextually examined SMEs in Rubaga Division located in Kampala town, Uganda (Turyatamba et al., 2022). The SME provides credit services in form of soft quick loans to its clients at a friendly interest rate. According to the views of different authors on taxation and business performance, it should be noted that high taxes and poor tax policies have negatively affected the performance of small businesses (Damasus et al., 2023). This is complemented by (Sebikari, 2014) who reported that taxation does not only reduce the capital of small firms but also hampers their performance which makes tax incentives paramount to the survival of the small firms. These,

among other factors, are upsetting the growth of SMEs although this study is interested in the effect of taxation on the performance of SMEs in Uganda (Ronald et al., 2023b).

Statement of the problem

Rubaga Division, is one of the divisions that makes up the city of Kampala, Uganda. The division takes its name from Rubaga, where the division headquarters are located. The division is a hub for SMEs and accounts for over 25% of the over 200,000 businesses which operate within the City of Kampala (Tasha et al., 2023). Businesses in Uganda pay different types of taxes ranging from customs duty, excise duty, value added tax, corporation tax, and stamp duty tax among others. These taxes are the main source of revenue for government services and administration (Lydia et al., 2023). These taxes have been reported to have a negative effect on the performance of businesses. Coupled with the poor taxation policies and high rates levied, businesses still struggle to remain alive for more than five years.

However, through its efforts to promote the small and medium businesses, government enacted a tax policy to support and promote the performance of SMEs. This tax policy focused on harmonizing tax rates and establishing new tax incentives to promote the small businesses (Winny et al., 2023). With the taxes levied, the government is able to provide social services like roads, street lights, security, drainage channels etc, in the city. Taxes also enable government to construct public infrastructure, support healthcare, public insurance and public education (Brighton et al., 2023). Despite the efforts by the government of Uganda to

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enhance the growth and performance of SMEs, taxation still remains a major obstacle to this effort because taxes continue to affect the performance of SMEs (FSD Uganda, (Wegulo et al., 2023). Taxes reduce on the profits of SMEs, by increasing the operating costs, thus crippling the survival of businesses (Annet et al., 2023). Taxes are also a disincentive to hard work, inconveniencing and unpopular among SMEs. This explains why most

SMEs in Uganda do not survive past their fifth-year birthday after inauguration which shows poor performance in the SME sector (Polycarp et al., 2023). Taxes discourage innovation and leave entrepreneurs on pressure. This study will therefore examine the effect of the taxation on the performance of SMEs in Rubaga Division in Kampala City.

Specific objectives of the study

1. To examine the relationship between tax compliance and the business performance of SMEs in Rubaga division, Kampala.
2. To assess the relationship between tax rates and the business performance of SMEs in Rubaga Division, Kampala.
3. To analyze the relationship between tax incentives and the business performance of SMEs in Rubaga Division, Kampala.

Methodology**Research Design**

A research design is a strategy for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2003). The descriptive design was adopted, which aimed at examining the effect of taxation on the performance of small and medium scale enterprises in Uganda. The descriptive research design refers to the systematic process of gathering descriptions of existing phenomena in order to describe or explain what is going on (Ololube, 2009). A descriptive research design was adopted for the study since it focuses on the people as well as their attributes which enable the investigator to understand and examine the influence of taxation on SME performance. This was achieved using a survey questionnaire, observation schedule, and document analysis.

Study Population

The study population concentrated on Managers and employees of SMEs in Rubaga Division. The study area was limited to this one SME in Kampala since the majority of the SMEs are established in urban areas.

Sample size and selection

A sample size refers to the number of subjects in a sample (symbolized by n) or a subset of a population (Creswell, 2013). Based on the Krecjie and Morgan (1970) sampling table the researcher selected a sample size of 50 respondents from a population of 65 registered employees with the help of purposive sampling (Chuan, 2006). This in accordance with Morgan Kreijic, (1970) sample determination table

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Sampling Techniques and Procedures

The study employed both probability and non-probability sampling techniques. The researcher used the probability sample since the research is focused on the entire SME population. Employees employed in SMEs in Rubaga Division were eligible to participate in the study.

Probability sampling

The probability sampling approach involved selecting a sample in such a way that all the elements in the population had same chances of being selected (Amin, 2005). The simple random sampling technique was also used such that all population elements were accorded a proportionate likelihood of being nominated within the sample.

Non-probability approach

In the non-probability approach, the items in the population do not have a well-defined chance of being selected (Amin, 2005). Purposive sampling was used whereby the researcher used his own decision and experience to determine which employees have in-depth information to take part in the study. Thus, the selection of the respondents was based on the researchers understanding with the respondents' possession of the required information.

Purposive sampling

Therefore, purposive sampling was conducted for the owners and top management staff within the Organization.

Data Collection Methods

Both quantitative and qualitative methods of data collection were employed during the study. The questionnaire survey method was used to pool quantitative statistics, while the interview and documentary review method was employed to gather qualitative information. The researcher chose a data collection method that was better suited the intended purposes.

Questionnaire Survey Method

The questionnaire survey method is a set of questions used to obtain information from a large group of people in a given study (Amin, 2005). The questionnaire is an effective method of data collection due to the following advantages: it is standardized since the same wording is used each time it's administered; it ensures confidentiality through use of a coding system. Thus, it can cover embarrassing, socially undesirable or illegal topics; it is cheaper to administer among others (Barker et al., 2002). The method was used to collect data from middle-level staff and other lower-level staff within the SME because they were directly involved in the operations of the organization.

Data Collection Instruments**Questionnaires**

Self-Administered Questionnaires (SAQ) was employed to gather data from the study elements in a structured manner. SAQs with one open ended question per section was designed for SME employees to give additional or express their mind while the rest were close-ended aimed at testing perception using a five-point like scale

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measuring from Strongly Disagree as response 1, Disagree as response 2, Not sure as response 3 Agree as response 4 and Strongly Agree as response 5 for easy measurements of variables (Jackson, 2009).

Data Analysis

This is the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the research questions (Sekaran, 2004). Initially, data was entered into MS Excel computer program for cleaning. The data was also imported to SPSS version 23 statistical software for investigation (Nelson, Christopher, & Milton, 2022). Quantitative data analysis entailed descriptive statistics and inferential statistics. Descriptive statistics involved analysis using frequencies, percentages, mean, charts, and standard deviation. The Analysis of central tendency and dispersion based on; a 5-point likert scale ranging from strongly agree to strongly disagree. Similarly, inferential statistics were done based on the Pearson's correlation coefficient and linear regression analysis. Quantitative data was analyzed by reporting of summary results in numerical terms and was presented using a percentage distribution technique but maintaining a specified degree of confidence (Creswell, 2013). While Qualitative data was analyzed in the form of texts and themes, yet impressions was examined and presented using descriptive methods for in depth analysis to be generated from views of the respondents and to allow the reader to make their opinions freely (Bryman & Bell, 2003).

RESULTS

Legal status of business

Table 1: Legal status of SME business

Status	Frequency	Percentage
Sole proprietor	35	70
Partnership	9	18
Limited Company	6	12
Total	50	100.0

Source: Primary data

Table 1 shows that a bigger proportion of the SME owners register their businesses as a sole proprietorship and these will account for 35 (70%). These were trailed by businesses registered as a partnership with 9 (18%) while businesses registered as a limited company will account for (freq. 6 (12%) (Innocent et al., 2023).

Nature of the business

Table 2: Nature of the business

Nature of business	Frequency	Percentage
Trade	26	52

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Service	14	28
Manufacturing	11	22
Total	50	100.0

Source: Primary data, 2022

Table 2 points out that a bigger proportion of SMEs studied was engaged in trade, and these accounted for 26 (52%) of the total responses while businesses engaged in service constituted to 14 (28%), and very few businesses 11 (22%) are engaged in manufacturing. This implies that the study was well distributed among the SMEs in Rubaga division and thus provided reliable findings (Innocent et al., 2023).

Relationship of tax compliance influences and the performance of SMEs in Rubaga division

Table 3: Responses on tax compliance

Item	Mean	Std. Deviation
Simplified system of taxation		
I understand the Ugandan tax system	2.32	.766
I can compute the income tax liability of our business with ease	2.31	.684
I always attend taxation seminars and workshops on behalf of the business to update myself on the tax system	4.31	.667
Payment of levies is straight forward hence the business does not hire professional consultancy services	2.35	.950
Interpretation of tax laws and regulations		
I am aware of most tax laws and guidelines about taxation of incomes for SMEs	4.44	.641
I understand the tax laws and regulations in Uganda	2.24	.711
I can interpret tax laws and compute tax liabilities	2.45	.710
I always file tax returns with URA on a timely basis as requires by law	4.34	.856
Tax planning and functional expertise		
I know how to treat the expenses incurred in relation to income tax in Uganda.	4.19	.856
I always advise management on income tax planning issues	4.02	.857
I am sure of the incomes /turnover on which we pay income taxes as a firm	4.15	.766
I am always part of the team that carries out budgeting process of my employer	4.24	.643

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especially on income tax matters		
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Source: Primary data, 2022

Table 3 above highlights that the majority of the respondents within the SME sector cannot understand the Ugandan tax system as indicated by the average score of 2.32 (SD = 0.766). This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements.

Most of the respondents reveal that they could not compute the income tax liability of their businesses with ease. This was confirmed by the mean score of 2.31 (SD = 0.684) which shows that the majority of the respondents need assistance to understand how much to pay, when to pay according to the size and capital of their businesses (Winny et al., 2023).

A bigger proportion of the respondents may agree that they always attend taxation seminars and workshops on behalf of their business to update themselves with the tax system as noted by the mean 4.31 (SD = 0.667). The above findings were supported by a respondent during face-to-face interviews who reported that; URA through the umbrella body KACITA engages the traders to ease provision of taxpayer services, which include tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. For example, they are able to learn how to avoid making mistakes which can result in penalties which are unavoidable. This is because taxes are costly to businesses; therefore, managing penalties would significantly reduce business costs (Alex & Kazaara, 2023).

This means that the traders and other employees within the SME sector do attend taxation seminars and workshops which help to improve their knowledge of tax policies and also enable them to avoid tax penalties associated with tax evasion. This will reduce the tax compliance costs for the SMEs and thus boost their performance (Turyatamba et al., 2022).

The payment of levies is not straight forward hence the business has to hire professional consultancy services. This was confirmed by the majority of the respondents (mean = 2.35; SD = 0.950) who reveal that they usually hire someone to file their tax returns for them.

In addition, most of the respondents agree (mean = 4.44; SD = 0.641) that they are aware of most tax laws and guidelines about taxation of incomes for SMEs. This means that the majority of the respondents can comprehend their tax acquiescence as noted by tax authorities. The above findings was supported by respondents who say; “Recently, Uganda Manufacturers Association (UMA) conducted a seminar on Tax Legislation, Tax Compliance and the impact of company tax practices on business performance where they are able to know the rights and obligations of their businesses regarding tax, know the various taxes to which there businesses may be subjected, application of tax planning techniques without evading tax and breaking the law, and learning the best techniques of tax computation.”(Faridah et al., 2023)

This implies that the respondents have received tax education through seminars which improves their awareness concerning tax laws, tax planning and compliance for small and medium businesses. This also enables them to know their rights and obligations of their businesses regarding taxes.

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The study findings reveal that members of the small and medium enterprises cannot understand the tax laws and regulations in Uganda which is represented by the mean score of 2.24 and standard deviation of 0.711. Furthermore, most of the respondents disagree (mean = 2.45; SD = 0.710) that they can interpret tax laws and compute tax liabilities. This shows that the majority of the respondents do not have sufficient tax knowledge regarding the when to pay taxes and in what proportions (Nelson, Christopher, Teddy, et al., 2022).

On whether the small and medium enterprises always file tax returns with URA on a timely basis as required by law, the majority of the respondents (mean = 4.34; SD = 0.856) agree that they always file their tax returns on time. The study findings further reveal that most of the respondents know how to treat the expenses incurred in relation to income tax in Uganda which was confirmed by a high average score of 4.19 and standard deviation of 0.856 (Ronald et al., 2023a).

On average, most of the respondents in the SME sector agree (mean = 4.02; SD = 0.857) that the management always advises them on income tax planning issues. The majority of the respondents also agree that, they are sure of the incomes /turnover on which they pay income taxes as a firm which is represented by the mean score of 4.15 and relatively low standard deviation of 0.766. The findings will also show how the majority of the respondents with an average score of 4.24 (SD = .643) agree on always being part of the team that carries out the budgeting process of their employers especially on income tax matters (Faith et al., 2023).

Correlation results of tax compliance and the performance of SMEs

Table 4: Correlation matrix for tax compliance and the performance of SMEs

		Tax compliance	Performance of SMEs
Tax compliance	Pearson Correlation	1	.595**
	Sig. (2-tailed)		.000
	N	50	50
Performance of SMEs	Pearson Correlation	.595**	1
	Sig. (2-tailed)	.000	
	N	50	50

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

Source: Primary data, 2022

The study findings table 4 above will show that tax compliance significantly affects the performance of SMEs in Rubaga division since p- value (.000) is less than the significance level. The correlation coefficient is (0.595) which implies that there is a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs. So, in order to enhance the performance of SMEs in Uganda, the government will need to ensure that there is a proper mechanism to ease tax compliance through having a simplified system of

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taxation, proper tax planning, and functional expertise as well as the ease with the interpretation of tax laws and regulations (Musaibah et al., 2023).

To determine the effect of tax rates on the performance of SMEs in Rubaga division

Table 5: Responses on tax incentives

Statement	Mean	Std. Deviation
Clarity of tax rates		
The tax rates charged are clear in terms of payable taxes.	2.09	.675
There are diverse taxes imposed on small and medium enterprises,	3.73	.502
The government either increases or decreases tax rate at its own discretion	4.56	.388
Correct level of taxation		
The taxes charged are burdensome to the business	4.48	.410
SMEs pay taxes when it is convenient for them to pay	2.11	.973
Taxes are only charged when the business is operating. Hence allows for momentary closures of business	2.46	.5580
SME tax rates consider the scale of operation	4.35	.744
Fair taxation rates		
The tax rates charged are fair to small and medium business owners	2.72	.965
The regressive nature of taxes on SME reduces their revenue base	4.77	.949
The tax rates charged are economical to SMEs	2.36	.756
SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment	3.20	.392

Source: Primary data, 2022

Table 5 above indicates that for a total of 50 respondents with an average score of 2.09 and a relatively low standard deviation (0.675), most of the respondents disagree with the tax rates charged in terms of payable taxes. This means that respondents in the SME world are not aware of how much to pay to the tax bodies (Collins et al., 2023).

There are diverse taxes imposed on small and medium enterprises, which was confirmed by the majority of the respondents (mean = 3.73; SD = 0.502) who agree that their business pays different taxes depending on the nature and size of business. Most of the respondents agree (mean = 4.56; SD = 0.388) that the government either increases or decreases tax rate at its own discretion. This means that the government of Uganda can always increase or decrease a tax rate without consulting the parties that was paying the tax. In addition, this is

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supported by qualitative data collected from key informant interviews, “Despite the contestations from traders, the government is continuing to increase tax rates for instance with a tax increase as a result of the introduction of the specific excise tax alternative; there has been an increase in the prices of goods and services making it more expensive for the customers (Oromo et al., 2023).

This means that the government of Uganda is continuing to alter tax rates for the small and medium businesses without involving those in the SME sector which is negatively influencing the performance of their businesses due to the increasing tax burden on the SMEs. A bigger proportion of respondents agree that the taxes charged are burdensome to their businesses as shown by the mean score 4.48; (SD = 0.410). This means that the taxes levied from the SMEs are inhibiting growth and performance of these enterprises in Uganda (Mark et al., 2023). The above conclusion is supported by an SME proprietor who had this to say; “Many small businesses have continued to evade taxes because they are high and imposes high costs on their businesses yet most of these enterprises are struggling to keep operating for instance; some traders evade VAT returns since out there on the streets, the one who is selling at lower prices will eventually make a sale. VAT is 18% addition to the price being paid; this means that if one has to pay all VAT without having considered deductions, this trader was selling expensive goods and sooner than later was out of business (Winny et al., 2023).”

This will also show that taxes are not only an obstacle to the performance of SMEs in Uganda but have also contributed to the collapse of small and medium businesses due to the ever increasing costs of operation associated with taxes which will discourage performance within the SME sector on whether SMEs pay taxes when it is convenient for them to pay, most of the respondents disagree as noted by the mean = 2.11; SD = 0.973. This indicates that the tax bodies always require these enterprises to meet their tax obligations regularly and on time (Ronald et al., 2023a).

The majority of the respondents may disagree with taxes are only charged when the business is operating and hence allows for momentary closures of business. This will be confirmed according to the low mean score of 2.46 (SD = 0.558). The findings further may reveal that most of the respondents (mean = 4.35; SD = 0.744) agree that the SME tax rates consider the scale of operation. This means that taxes are levied from SMEs depending on their capital size and nature of the business (Victor et al., 2022).

On whether the tax rates charged are fair to small and medium business owners, most of the respondents may disagree (mean = 2.72; SD = 0.965) which shows that the taxes rates charged from the SMEs are irrational and thus affect the performance of these enterprises. On average, the majority of the respondents agree (mean = 4.77; SD = 0.949) that the regressive nature of taxes on SMEs reduces their revenue base. In addition, most of the respondents also disagree that the tax rates charged are economical to SMEs as noted by the mean score of 2.36 and standard deviation of 0.756. This means that the taxes levied from the small and medium enterprises are reducing the capital base of these enterprises and thus hindering the performance of SMEs (Musaibah et al., 2023).

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The study findings highlighted that most respondents are neutral on whether the SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment which was confirmed by the mean score of 3.20 and standard deviation of 0.392 (Brian & Jacob, 2023).

Correlation results of tax rates and the performance of SMEs

Table 6 shows how tax rates influence the performance of SME's in Rubaga Division, Kampala, with the aid of Pearson correlation coefficient.

Table 6: Correlation matrix for tax rates and the performance of SMEs

		Tax rates	Performance of SMEs
Tax rates	Pearson Correlation	1	.689**
	Sig. (2-tailed)		.000
	N	50	50
Performance of SMEs	Pearson Correlation	.689**	1
	Sig. (2-tailed)	.000	
	N	50	50

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

Source: Primary data

The findings in table 6 above reveal that tax rates have a significant effect on the performance of SMEs in Rubaga division since p-value (.000) is less than the significance level. The correlation coefficient (0.689) shows a strong positive relationship between tax rates, and the performance of SMEs in Rubaga division (Nelson et al., 2023). Tax rates have a statistically significant strong positive effect on the performance of SMEs in Rubaga Division, Kampala, Uganda. Therefore, answering the question of how Tax rates significantly affect the business performance of SMEs in Rubaga Division, Kampala.” Therefore, the government of Uganda should carefully set tax rates by ensuring Clarity of the tax rates, correct level of taxation and fair tax rates since this plays a key role in the performance of SMEs in Uganda.

To assess the effect of tax incentives on the performance of SMEs in Rubaga division.**Table 7: Responses on tax incentives**

Item	Mean	Std. Deviation
Investment deductions and allowances		
Tax incentives for SMEs have lowered the operational costs associated with payment of taxes for small and medium enterprises	4.39	0.867
Tax incentives, investments, and performance of SMEs are closely linked.	4.53	0.641
Tax incentives have attracted private investors to the SME sector	4.33	0.795
Tax holidays		

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The government has given special tax treatment to SMEs in the form of tax Holidays	3.87	0.878
Tax holidays have helped my business to grow and expand.	3.68	0.929
Tax incentives have stimulated the growth and expansion of SMEs in Uganda.	4.41	0.726
Special tax regimes		
Tax incentives have encouraged a reasonable number of traders in the SME sector to continue operating	3.94	0.392
The special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector.	3.79	0.356
Special tax treatment for SMEs has corrected market imperfections in the country.	3.08	1.364
Tax incentives have protected the infant small and medium enterprises in Uganda	2.47	0.904

Source: Primary data, 2022

The study findings reveal that the majority of the respondents may agree (mean = 4.39; SD = 0.867) that tax incentives for SMEs have lowered the operational costs associated with the payment of taxes for small and medium enterprises. Tax incentives, investments, and performance of SMEs are closely linked. This was confirmed by most of the respondents as highlighted by the mean score of 4.53 and standard deviation of 0.641. The majority of the respondents (mean = 4.33; SD = 0.795) agree that tax incentives have attracted private investors to the SME sector. This means that the tax incentives have increased investment in the SME sector and thus improved the performance of small and medium enterprises (Ronald et al., 2023b).

The above findings were corroborated by an interviewee who says that; “My business has benefitted from tax exemption of With Holding Tax and we have a tax exemption certificate issued to the business from URA. This is because my business has demonstrated a good track record of paying the taxes on time. This has reduced the tax burden on the business and enabled me to reinvest and expand the business.”

This implies that tax incentives like withholding tax exemption have had a positive contribution towards that performance of SMEs through reducing the tax burden on businesses which has stimulated performance in the SME sector. On whether the government has given special tax treatment to SMEs in the form of tax holidays, most of the respondents agreed as represented by the mean score of 3.87 and a relatively low standard deviation (0.878). This implies that the tax holidays accorded to the SMEs have reduced the tax burden and boosted performance in these enterprises (Allan et al., 2023).

A bigger proportion of respondents agree that tax holidays help their businesses to grow and expand as shown by mean = 3.68 and standard deviation = 0.929. In addition, tax incentives have stimulated the growth and

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expansion of SMEs in Uganda which was established by the majority of the respondents according to the mean = 4.41 and SD = 0.726. This means that tax incentives are a prerequisite to improved performance of small and medium enterprises. This was confirmed during a personal interview with a key informant, who had this to say; “The Company would not have survived in these hard times if it were not for the tax holiday that we are benefiting from the government (Faridah et al., 2023). This tax holiday has reduced our operating costs and enabled us to break-even during these hard times when business is slow.”

This implies that the survival of some SMEs has been as a result of tax incentives which have reduced the operational costs and enabled the small and medium enterprises to continue operating and thus enhanced the performance of SMEs.

The findings also indicate that most of the respondents (mean = 3.94; SD = 0.392) agree that tax incentives had encouraged a reasonable number of traders in the SME sector to continue operating. Likewise, the special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector. This was established by most of the respondents with an average score of 3.79 (SD = 0.356) (Derrick et al., 2023).

On whether special tax treatment for SMEs has corrected market imperfections in the country, the majority of the respondents are neutral as indicated by the mean score = 3.08 (SD = 1.364). Similarly, most of the respondents are disagreeing on whether tax incentives have protected the infant small and medium enterprises in Uganda, this was revealed by the mean score of 2.47 and standard deviation of 0.904.

Correlation results of tax incentives on the performance of SMEs

Table 8 portrays Pearson correlation coefficient results that assess the effect of tax incentives on the performance of SME's in Rubaga Division, Kampala.

Table 8: Correlation matrix for tax incentives on the performance of SMEs

		Tax incentives	Performance of SMEs
Tax incentives	Pearson Correlation	1	.776**
	Sig. (2-tailed)		.000
	N	50	50
Performance of SMEs	Pearson Correlation	.776**	1
	Sig. (2-tailed)	.000	
	N	50	50

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

Source: Primary data, 2022

Table 8 reveals that tax incentives have a significant effect on the performance of SMEs in Rubaga Division, Kampala since the p-value (.000) is less than the significance level. The correlation coefficient (0.776) indicates a strong positive relationship between tax incentives on the performance of SMEs. Therefore, tax incentives have a statistically significant positive effect on the performance of SME's in Rubaga Division, Kampala which

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confirms the hypothesis that “Tax incentives significantly affect the performance of SME’s in Rubaga Division, Kampala as earlier stated. And thus, tax incentives are paramount towards the growth and performance of SMEs in Uganda, therefore, the government should strengthen these tax incentives through enhancing the provision of investment deductions and allowances, tax holidays, special tax regimes among other tax incentives which will boost the performance of SMEs in Uganda.

Results from quantitative findings highlighted that tax incentive have a significant effect on the Performance of SMEs. This is in line with the qualitative findings that revealed that the survival of some SMEs has been as a result of tax incentives which have reduced the operational costs and enabled the small and medium enterprises to continue operating and thus enhanced the performance of SMEs.

Business Performance of SMEs in Rubaga Division

Table 9: Responses to performance of SMEs

Statement	Mean	Std. deviation
Taxes have reduced the return on investments of small and medium firms	4.18	0.741
Taxes have not affected the sales turnover of SMEs through increasing the operational costs	2.17	1.373
Taxes have affected the liquidity position of SMEs	3.63	0.953
The profits of the small and medium enterprises before taxes are always high	3.81	1.244
Taxes have reduced capital resources for investment in research, innovation, and development	4.42	0.653
Taxes have inhibited the growth of SMEs in Uganda	4.57	0.349
The taxes levied from SMEs have made it difficult for the small and medium firms to achieve their goals	4.36	0.456

Source: Primary data, 2022

Table 9 above indicates that taxes have reduced the return on investments of small and medium firms. This was confirmed by the majority of the respondents with a mean score of 4.18 and standard deviation of 0.741. Most of the respondents are also disagreeing that taxes have not affected the sales turnover of SMEs through increasing the operational costs and this was represented by the mean score 2.17 (SD = 1.373), on whether taxes have affected the liquidity position of SMEs, most of the respondents agreeing was highlighted by the average score of 3.63; (SD = 0.953). Similarly, the profits of the small and medium enterprises before taxes are always high and this was established by the majority of the respondents who are agreeing as noted by the average score

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3.81; (SD = 1.244). A bigger proportion of respondents (mean = 4.42; SD = 0.653) that are agreeing that taxes have reduced capital resources for investment in research, innovation, and development. The majority of the respondent also strongly agreed that taxes have inhibited the growth of SMEs in Uganda as indicated by the average score of 4.57 and standard deviation of 0.349. This implies that taxes are a major obstacle to the prosperity and performance of small and medium enterprises in Uganda. On average, most of the respondents (mean = 4.36; SD = 0.456) agree that the taxes levied on SMEs have made it difficult for them to achieve their goals. This indicates that the failure of SMEs to accomplish their objectives is partly due to the taxes levied from these enterprises.

Regression analysis of the study variables

Table 10: Regression analysis of the study variables

Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.627	.269		2.329	.023
Tax incentives	.459	.094	.543	4.911	.000
Tax rates	.311	.108	.331	2.889	.005
Tax compliance	.171	.086	.206	2.014	.031
R= .827			R- square=.684		
			F=34.574		
			Sig = .000		

Dependent Variable: Performance of SMEs

Source: Primary data, 2022

Table 14 above shows the components of taxation, i.e., tax compliance, tax rates and tax incentives which significantly predict the performance of SMEs since the p-value (.000) is less than the significance level. The correlation coefficient (.827) reveals that the study variables have a strong positive relationship with the performance of SMEs. Thus, the study variables explain 68.4% of the performance of SMEs in Rubaga Division, Kampala, Uganda.

The findings further reveal that tax incentives (Beta= .459, Sig. < .000) was a better predictor of the performance of SME's and this was followed by tax rates (Beta = .311, Sig. < .005), and lastly tax compliance with (Beta= .171, Sig. < .031). This implies that strengthening and improving the existing taxation policies relating to tax compliance, tax rates and tax incentives, the performance of SMEs will improve in Uganda.

Conclusions

According to study findings, it was concluded that; "the simplified system of taxation, tax planning and functional expertise, interpretation of tax laws and regulations play a fundamental role in enhancing the performance of SMEs." This implies that strengthening the system of taxation through a simplified system of

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taxation can support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. Therefore, a streamlined tax administration strategy is important in enhancing the performance of SMEs.

Recommendation

The study recommends that the government of Uganda should design an effective tax rate in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure which includes the impact of the tax base. This will lower the cost of production for the goods and services which will eventually ensure favorable prices for the goods and services being provided to the customers and thus increase sales turnover and the performance of SMEs in Uganda.

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