

TAXATION POLICY AND THE DEVELOPMENT OF SMALL AND MEDIUM SCALE ENTERPRISES IN UGANDA. A CASE STUDY OF KABIRA SUB-COUNTY-KYOTERA DISTRICT.

1 Ssekajjigo Francis Wasswa, 2 Prof Nafiu Lukman Abiodun, 3 Prof Edris Kasenene

1, 2, 3 Metropolitan International University

ABSTRACT

Taxation in Uganda is based on 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. All taxes including income tax came under the umbrella of the URA. The study was guided by the following objectives; To establish the types of taxes levied on small and medium sized enterprises in Kyotera Town Kabira sub county central Division, to determine the relationship between income tax and profitability levels of SIME's in Kyotera Town Kabira sub county central Division and to assess other factors that affect the profitability levels of SMEs in Kyotera Town Kabira sub county central Division. The study population mostly comprised of Vendors and traders of small-scale businesses (SSBs) in Kyotera town. The target population is estimated to over 50.000 vendors/traders in Kyotera town, of whom approximately 70 percent are women. The data was collected from the 1,000 respondents (small scale business owners) from Kyotera town. The From the findings, 88% of the taxes and Profitability of SIME"s in Kyotera town in Kampala central division was represented by the $R^2=0.88$. This therefore meant that other factors not studied in this research contributed 12% of the accountability giving room for further research to investigate the other factors (12%) that affect tax imposition on SMEs. URA should improve on the methods of collecting taxes by designing and updating simplified system, simplicity of the system; the government should harmonize the tax base by defining sanctions for taxpayer's non-compliance.

Key words: taxation policy, development, small and medium scale enterprises

Background of the study

In step with the Uganda Bureau of statistics, the tax gadget has been underneath revision on account that the beginning of 1990, in particular because of bad domestic revenue collections and mobilization as a percent of GDP to public expenditure was 24.5% in 2009 and forty-four. Four% in 1996 (Frank et al., 2023). According to URA document 2005/2006, taxes are broadly divided into classes specifically; direct and oblique taxes. The essential direct taxes as of 2005/2006 have been Pay as You Earn (PAYE) cooperate tax (Tasha et al., 2023b). and withholding tax whereas oblique taxes encompass; fee delivered Tax (VAT) which became brought in Uganda in 1996 amongst others (Brian & Jacob, 2023). The government in a try and widen the tax base and collect greater sales has had to levy numerous taxes in particular on enterprise companies in Uganda which represent a huge part of the formal region. The taxes charged on business organisations in Uganda encompass; organization tax fee delivered tax, presumption tax and workout duty (Ramadhan et al., 2023). In 1997 the

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income Tax Act turned into made. This changed into to give steering in evaluation and computation of taxes (Faith et al., 2023). The Ugandan government has made some recommendable efforts to promote development thru taxation for the reason that inception of the cutting-edge taxation legal guidelines for purposes of selling improvement (IVIusa.2012). In modern-day taxation structures, governments levy taxes in money; but in-kind and carve taxation are characteristic of conventional or pre-capitalist states and their purposeful equivalents (Faridah et al., 2023). The approach of taxation and the authority's expenditure of taxes raised are regularly noticeably debated in politics and economics. The observe changed into carried out in Kyotera town, that is the largest metropolis in Kyotera district (Winny et al., 2023). The study is being carried out to evaluate the impact of taxes at the financial overall performance of small-scale groups in Kyotera town-Uganda (Christopher et al., 2022). As a consequence, the observe is indebted to locate numerous way of lowering the growing tax burden added approximately by using tax prices which are revised annually on SMEs in Kyotera city (Turyatamba et al., 2022). Those rates appear to be taking an upward fashion which has led to completing of some small-scale commercial enterprise establishments. This triggered the researcher to investigate more about the impact of taxes on overall performance of small-scale business companies.

Problem Statement

Taxes have been raised by means of the government of Uganda to generate sales used to provide offerings to the general public including; health centers, telecommunication, roads, schools and power and this has helped to enhance at the financial performance of small scale enterprise corporations (Nelson, Christopher, Teddy, et al., 2022). Regardless of the offerings furnished, small scale business enterprise's overall performance in Kyotera town remains bad (Faridah et al., 2023). this could be because of the increasing tax burden delivered approximately via tax fees which might be revised annually. according to the (monitor Friday, 15th April 201 five) document, investors complained and proven that taxes have been abnormally excessive and exploitative. on this regard consequently (Tasha et al., 2023a), the look at supposed to discover the impact of taxation on small scale companies in Kyotera town, Kabira sub county critical department. therefore in a bid with the aid of the authorities of Uganda in association with Uganda sales Authority (URA) to widen tax base (Ronald et al., 2023a), it seems that present small scale agencies in Kyotera town bear an increment in tax burden because as the tax quotes are revised yearly these fees appear to be growing from 50%- seventy five%, in which through Gross Turnover ranging from Shs5m — 20m. Taxation changed into shs one hundred,000 , shs 20m-30m taxation is 250,000, Shs 30m 40m taxation is Shs 350,000 whilst the Gross Turnover starting from shs 40m — 50m Shs taxation is 450,000 which has led to polishing off of a few small scale commercial enterprise firms. (URA. 2014) (Derrick et al., 2023). In step with URA source similarly, the overall VAT threshold is to be raised from Ush50 million (\$sixteen,577) to Ush150 million (\$49,731) in a strategic decision intended to weed out inactive, small companies from the VAT sign up. For this reason so as for SME's sectors to grow, the extent of

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taxation set should be pleasant and not stifle the walking of the commercial enterprise (Ronald et al., 2023a). This brought on the researcher to analyze more approximately the effect of taxes on monetary overall performance of small-scale commercial enterprise corporations.

Specific Objectives

- To establish the types of taxes levied on small and medium sized enterprises in Kyotera Town Kabira sub county central Division.
- To determine the relationship between income tax and profitability levels of SIME's in Kyotera Town Kabira sub county central Division.
- To assess other factors that affect the profitability levels of SMEs in Kyotera Town Kabira sub county central Division.

Methodology

Research design

The study was both quantitative and qualitative, under quantitative design, the data collected was measured in terms of costs and revenue expenditures of the district by use of statistical findings hence the researcher was able to measure and analyze data obtained. Due to the anticipated limited data like minimizing the respondent's representative to the population, the researcher used qualitative research in which she will use highly structured interview instruments to collect data. The qualitative research will help the researcher to describe the direct observation she found in the human behavior in a detailed manner. A cross-section study design was used in the course of research. It was concerned with gathering data from a large number of samples. thus, Kyotera town vendors and proprietors was of great importance in the study population since they are expected to inform matters concerning local taxation system.

Study population and Sample Size

The study population mostly comprised of Vendors and traders of small-scale businesses (SSBs) in Kyotera town (Nelson, Christopher, & Milton, 2022). The target population is estimated to over 50.000 vendors/traders in Kyotera town, of whom approximately 70 percent are women. (New Vision. 2017). The data was collected from the 1,000 respondents (small scale business owners) from Kyotera town.

Table 1: Showing the sample size

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Category	Sample Size	Percentage
Small scale business owners (vendors and traders)	450	90
Management/proprietors	50	10
Total	500	100

Source: Kampala Capital City Authority (2017)

Data collection methods and instruments

Interview

During the study I used interviews and these involved asking directly face to face the respondents in Kyotera town and direct answers ought to be given to back. Interview schedules were also used especially when I needed more information from respondents from the market once they are suspected to have more additional information relevant for the study.

Questionnaires

This method was conducted using self-administered questionnaires with both open ended questions and the closed-ended questions. In open-ended form, questionnaires were used to get information from Market vendors, and management governing the market. Using open ended form, I asked questions relating to the study objectives which enabled the respondents to give me as much information as possible.

Data analysis

Data analysis is generally used to show how significant the data collected is data that was analyzed using different frequency tables and pie charts. The researcher used qualitative methods summarizing the responses from the key information into tables, percentages and others and analysis was done using SPSS (Nelson, Christopher, & Milton, 2022). This was done manually because of varying responses. Editing was also done by checking in the questionnaires to eliminate errors and detect omissions to all the questionnaires the research focused on the information in the frequency tables to analyze and interpret the data.

RESULTS

Table 1: Types of taxes levied on Small and Medium sized enterprise in Kyotera town

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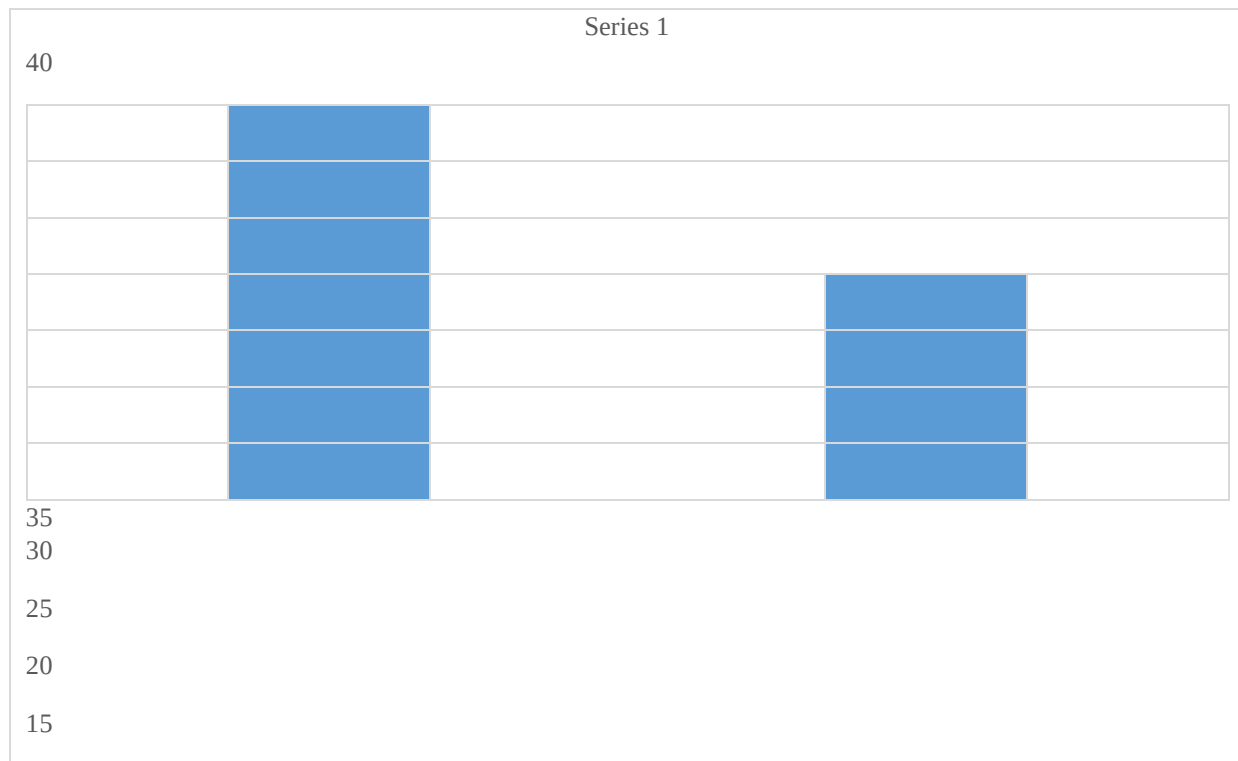
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Strategies	Frequency	Percentage (%)
Direct taxes	175	35.0
Personal Income Tax	70	14.0
Business Income Tax	154	30.8
Value Added Tax	101	20.2
Total	500	1000/0

Source: Primary data

From Table 1, majority (35.0%) strongly agreed that Direct taxes are the major taxes imposed on their small and medium sized businesses, followed by Business Income Tax at 30.8% as another form of taxes being levied on Small and Medium sized enterprise in Kyotera town and Small and medium sized enterprises in different parts of Kampala and Uganda at large (Ronald et al., 2023b). However, the least of respondents suggested that personal Income Tax has also been imposed or levied on some small sized enterprises in Uganda and this was at 14%, followed by Value Added Tax (VAT) at 20.2%. This therefore implies to us that Direct taxes and Business Income Tax are the major taxes levied on Small and Medium sized enterprise in Kyotera town and other small and medium sized enterprises (SMEs) in Kyotera town and other parts of Uganda (Polycarp et al., 2023).

Figure 1: Showing Years spent working in Kyotera town



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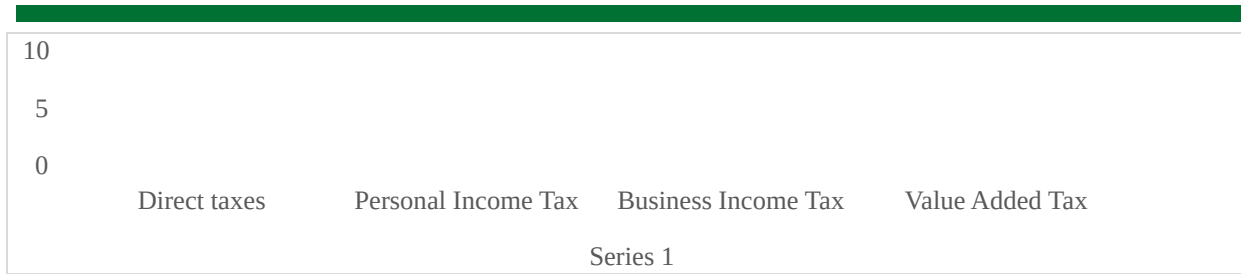


Table 2: Showing the relationship between Taxes and Profitability levels of SME's in Kyotera town

	1	Infrastructural development	Increase Savings & investments	Controlled Market Failure	Redistributed Income
Taxes					
Income Tax	.5120				
Sales Tax	.6090	.3381			
Property Tax	.7320	1210	.0608		
Estate Tax	.5180	.3370	.0000	.1580	

Constant: Financial Performance of SMEs

To compute the correlation (strength) between the study variables and their findings the researcher used the Karl Pearson's coefficient of correlation (r). From the findings, it was clear that there was a positive correlation between Income Tax and Infrastructural Development as shown by a correlation figure of 0.512, it was also clear that there was a positive correlation between sales taxes and increase in saving and investments adopted with a correlation figure of 0.609 (Nelson et al., 2023), there was also a positive correlation between property taxes and controlled market failure with a correlation value of 0.732 and a positive correlation between estate taxes and Redistributed income with a correlation value of 0.518. This shows that there was a positive correlation between; taxes and Infrastructural Development, increase in savings and investments and controlled market failure and Redistributed income (Oromo et al., 2023).

Table 3: Model Summary

	Adjusted R	Std. Error of Model	R Square	Square	Estimate
1	.896	.881	.132		.3295

Source: Research

The adjusted R² is the coefficient of determination. This value explains how Taxes (taxation) varied with; Infrastructural Development, increase in saving and investments and controlled market failure and Redistributed income. The four independent variables that were studied, explain 88% of the taxes and Profitability of SIME's in Kyotera town in Kampala central division as represented by the R². This therefore means that other factors not studied in this research contribute 12% of the accountability giving room for further research to investigate the other factors (12%) that affect tax imposition on SMEs (Annet et al., 2023).

Table 4: other factors affecting the profitability levels of SME's in Kyotera town

Factors	Frequency	Percentage
Interest rates	48	9.6
Currency	84	16.8
Investment level	113	22.6
Exchange rate	66	13.2
Firm Size	88	17.6
Lagged Profitability	20	4.00
Shortage of finance	56	11.2
Skills shortages	25	5.00
Total	500	100

Source: primary data

The findings from Table 4: show that majority of respondents from Kyotera town; Vendors and Traders suggested that the major other factors affecting the profitability levels of SME's in Kyotera town Investment level is at 22.6% followed by Firm Size and Currency at 17.6% and 16.8% respectively. In the scenario, Exchange rate was also revealed as another factor which has influenced the profitability levels of SME's operating in Kyotera town at 13.2%, while Shortage of finance was seen to be at 11.2% Interest rates at 9.6% while the Skills shortages and Lagged Profitability were suggested as other factors affecting the profitability levels of SME's in Kyotera town and both were at 5% and 4% respectively as shown in the table above (Polycarp et al., 2023).

Conclusion

The findings revealed that there was a positive correlation between Income Tax and Infrastructural Development as shown by a correlation figure of 0.512, it was also clear that there was a positive correlation between sales taxes and increase in saving and investments adopted with a correlation figure of 0.609, there was also a positive correlation between property taxes and controlled market failure with a correlation value of 0.732 and a positive correlation between estate taxes and Redistributed income with a correlation value of 0.518. This shows that

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Recommendations

The URA should educate the business community about different tax rates, mode of payment because some tax payers do not know those rates and the mode of assessment;

URA should improve on the methods of collecting taxes by designing and updating simplified system, simplicity of the system; the government should harmonize the tax base by defining sanctions for taxpayer's non-compliance.

Tax collection should be defined with respect to which government should collect certain taxes from SMEs. This will avoid the three tiers of government collecting taxes from the same particular organization.

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