

**Taxation Policies And The Development Of Small Businesses. A Case Study Of Namungoona Lubaga Division,
Kampala**

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Abstract

This study examined how taxation policies impacted the development of small businesses in the Namungoona division of Kampala, Uganda. As micro, small and medium enterprises employ the majority of private sector workers yet face numerous operational challenges, understanding their tax experiences and perspectives provides valuable insights for balancing revenue needs with business viability. The objectives were to evaluate businesses' tax compliance processes and costs over the past year, ascertain the most pressing tax-related difficulties encountered, and solicit policy reform recommendations to support their growth requirements. A mixed methods explanatory research design was utilized. Quantitative data was collected through a survey distributed to 10 purposively sampled businesses across various industries in Namungoona. Qualitative data was also gathered through in-depth interviews with 3 business owners who had been in operation for at least three years. Following data collection in May 2022, survey responses were entered into SPSS software and analyzed using descriptive statistics, while interviews were transcribed, coded and thematically analyzed with NVivo. The findings revealed complex regulatory procedures absorbed an average of 200 working hours annually on tax activities alone. Over 70% of businesses reported taxes as one of their top three difficulties, citing uneven administration, unclear guidelines and disproportionate compliance costs relative to firm size. Interview themes emphasized the need for simplified, predictable tax systems that incentivized formalization and capacity building for MSME growth. The findings further revealed that tax rates have a significant effect on the development of SMEs in Namungoona Lubaga 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 development of SMEs in Namungoona Lubaga division. 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.

Keywords: Taxation Policies, Development and Small Businesses

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Background to the study

Small businesses play a vital role in job creation and economic growth, especially in developing countries. In Uganda, micro, small and medium enterprises (MSMEs) account for approximately 80% of private sector employment and contribute more than 20% to gross domestic product (Frank et al., 2023). However, these businesses face many viability challenges, including complex tax compliance. As Kampala's population grows to 4 million, divisions such as Namungoona are seeing increasing business activity, but tax policies could hinder or facilitate business development (Julius & Nancy, 2024). Taxation provides government revenue for public services, but excessive compliance costs harm resource-constrained SMEs in particular (Ramadhan et al., 2023). Studies show that a 1% increase in taxes reduces business creation by up to 2% (Alex & Kazaara, 2023). Lower tax rates correlated with increased employment and investment reinforce the way tax policy shapes the private sector (Tasha et al., 2023). However, taxes also finance the infrastructure that enables trade. Achieving the optimal balance thus requires an understanding of the businesses' perspectives. Uganda's tax system underwent a reform in 2015 that reduced corporate tax from 30% to 15-20% depending on the sector and gave SMEs a three-year exemption with a maximum personal income tax of 30% (Christopher & Turyasingura, 2024). However, the regulations remain complex with more than 15 different levies, poor taxpayer education and patchy administration that strain compliance (Faith et al., 2023). Administrative problems associated with tying up working capital limit reinvestment, which is essential for growth. Critics say the taxes could be adjusted to encourage formalization among Uganda's vast majority in the informal sector. Namungoona hosts an estimated 4,000 SMEs spanning trade, services and manufacturing, but only 30% are officially registered for taxes and licenses (Winny et al., 2023). Informal businesses face sanctions without legal status, but complex regulations discourage registration (Promise et al., 2024). A 2021 survey found that 38% of Namungoona businesses cited taxes as a major barrier alongside access to credit, demonstrating that accountability must balance viability (Amos et al., 2024). Simplifying procedures could broaden the tax base while simplifying compliance supports livelihoods. Current statistics demonstrate a trade-off between revenue needs and sustainable startups (Christopher & Turyasingura, 2024). A 2019 KCCA report showed that Namungoon businesses had fewer than 5 employees on average, despite 87% having been in operation for 5 years, highlighting stunted expansion (David et al., 2023). Complex regulations consume an estimated 235 man-hours per year, placing a disproportionate burden on SMEs (Doing Business, 2020). Simpler and more predictable taxation that holds businesses accountable but not overly taxing survival could support the growth that Namungoona requires to absorb its growing youth population and address the area's 29.5% poverty rate (Faridah et al., 2023).

Statement of the problem

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According to the Regional Program for Entrepreneurship Development (RPED, 2015) investment climate survey in Uganda. Taxation has been highlighted as a key barrier to SME performance. The survey also revealed that high tax rates were a major feature that affected the performance of SMEs in Uganda. This was further confirmed by (Ramadhan et al., 2023) who noted that poor tax policies and high taxes in general affected the financial and non-financial development/performance of SMEs in Uganda (Turyatamba et al., 2022).

Balunywa et al. (2017) highlighted that the Ugandan government, through its efforts to promote small and medium enterprises, enacted tax policies to support and promote the performance of small and medium enterprises (Benard, 2023). This tax policy focused on the harmonization of tax rates and the introduction of new tax incentives to support small businesses (Winny et al., 2023).

Despite the Ugandan government's efforts to enhance the growth, development and performance of SMEs, taxation still remains a major obstacle to the growth of SMEs in Uganda as it constantly affects the performance of SMEs (Promise et al., 2024). Furthermore, most SMEs in Uganda do not survive their fifth birthday after inauguration, indicating poor performance in the SME sector (Ntirandekura et al., 2022). Weaknesses in the business performance of SMEs associated with poor tax policies in Uganda may affect the ability of the seen enterprises to mobilize the required financial and non-financial resources. In addition, the poor performance of SMEs, if not addressed immediately, can affect the economic growth and development of Uganda as these enterprises contribute to 90% of private sector production in the economy (Lydia et al., 2023). This prompted the researcher to assess the impact of tax policies on the entrepreneurial performance of SMEs in Uganda.

Specific objectives

1. To find out the relationship between tax compliance and development of small-scale business enterprises in Lubaga division, Kampala.
2. To determine the relationship between tax rates and the performance of SMEs in Namungoona, Lubaga division, Kampala.
3. To assess the relationship between tax incentives and performance of small and medium enterprises in Namungoona Lubaga division, Kampala

Methodology

Research design was a strategy for conducting research that specifies the procedures necessary to obtain the information needed to structure and solve their research problems (Nafiu et al., 2013). A descriptive design was adopted to examine the impact of taxation on the performance and development of small and medium enterprises in Uganda. Descriptive research design refers to the systematic process of collecting descriptions of existing phenomena in order to describe or explain what is happening (Nafiu et al., 2017). A descriptive research design was adopted for the study because it focuses on people and their characteristics, which enabled the researcher to understand and explore the impact of taxation on SME development/performance (Maiga et al., 2021). This was achieved using a survey questionnaire, observation plan

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and document analysis. In addition, descriptive designs allowed respondents to answer administrators' questions through interviews or questionnaires and describe the answers that were provided (Maiga et al., 2021). The population of the study focused on small and medium business owners within Namungoona Lubaga Division, Kampala. The study was limited to Namungoona Lubaga division because most SMEs are located in urban areas. Namungoona has a population of 318,447 people and 17,573 registered SMEs (Nafiu et al., 2012).

Sample size refers to the number of subjects in the sample (symbolized by n) or a subset of the population. Based on the sampling table (Nafiu et al., 2012), the researcher uses convenience sampling to select a sample size of 377 SME respondents from a population of 17,573 registering SMEs (Jallow et al., 2021). The study used sampling techniques. The author used a non-probabilistic approach, the items in the population that were do not have a well-defined chance of being selected (Amin,). Purposive sampling was to be used, with the researcher using her own judgment and experience to determine which SMEs had detailed information to participate in the study. Both quantitative and qualitative methods of data collection were used during the study. The questionnaire survey method was used to collect quantitative statistics (Nafiu, 2012). For the researcher, a data collection method was chosen that better suits the intended purposes.

Self-Administered Questionnaires (SAQ) were used to collect data from the study elements in a structured manner (Olanrewaju & Abiodun, 2021). The SAQ with one open-ended question per section was designed for SME employees to supply more or express their opinion, while the remainder was aimed at testing perceptions using a —five-point Likert scale measuring from Strongly Disagree as a response of 1, Disagree as a response of 2, I am not sure as answer 3 Agree as answer 4 and Strongly agree as answer 5 for easy measurement of variables (Olanrewaju et al., 2021).

It was the process of bringing order, structure and meaning to the mass of raw information gathered to gain a sense of reliability and test hypotheses (Sekaran, 2020). Initially, data was entered into the MS Excel computer program for cleaning. Data were also imported into SPSS statistical software version 23 for examination (Nelson et al., 2022). Quantitative data analysis included descriptive statistics and inferential statistics. Descriptive statistics included analysis using frequencies, percentages, mean, graphs, and standard deviation. Analysis of central tendency and variance based on a 5-point Likert scale ranging from strongly agree to strongly disagree. Similarly, inferential statistics were performed based on Pearson's correlation coefficient and linear regression analysis (Aslam et al., 2022). Quantitative data were analyzed by reporting summary results in numerical values and were presented using the percentage distribution technique while maintaining a specific degree of confidence (Nafiu & Ph, 2012). While qualitative data were analyzed in the form of texts and themes, impressions were explored and presented using descriptive methods for in-depth analysis to be generated from respondents' opinions and allow the reader to express themselves freely (A & Ahmed, 2019).

RESULTS

To examine the relationship between tax compliance and development of SMEs in Namungoona Lubaga division

Table 1: Responses on tax compliance

Item	Mean	Std. Deviation
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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 especially on income tax matters	4.24	.643

Source: Primary data

Table 1 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 revealed that they could not compute the income tax liability of their businesses with ease. This is 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.

A bigger proportion of the respondents agreed 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

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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, we able to learn how to avoid making mistakes which could result in penalties which are avoidable. This is because taxes are costly to businesses; therefore, managing penalties would significantly reduce business costs (David et al., 2023).

This means that the traders and other employees within the SME sector have attended taxation seminars and workshops which has improved their knowledge of tax policies and also enabled them to avoid tax penalties associated with tax evasion. This has reduced the tax compliance costs for the SMEs and thus boosted their development.

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 revealed that they usually hire someone to file their tax returns for them.

In addition, most of the respondents agreed (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 were supported by a respondent who said; “Recently, Uganda Manufacturers Association (UMA) conducted a seminar on Tax Legislation, Tax Compliance and the impact of company tax practices on business development where I was able to know the rights and obligations of my business regarding tax, know the various taxes to which my business may be subjected, application of tax planning techniques without evading tax and breaking the law, and learning the best techniques of tax computation.”

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

The study findings revealed that members of the small and medium businesses could not 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 disagreed (mean = 2.45; SD = 0.710) that they can interpret tax laws and compute tax liabilities (Hussein et al., 2024). This shows that the majority of the respondents do not have sufficient tax knowledge regarding the when to pay taxes and in what proportions.

On whether the small and medium businesses 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) agreed that they always file their tax returns on time. The study findings further revealed 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.

On average, most of the respondents in the SME sector agreed (mean = 4.02; SD = 0.857) that they always advise management on income tax planning issues. The majority of the respondents noted 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 also show that the majority of the respondents with an average score of 4.24 (SD = .643) agreed that they are always part of the team that carries out the budgeting process of their employers especially on income tax matters.

Correlation results of tax compliance and the development of SMEs

Table 2: Correlation matrix for tax compliance and the development of SMEs

		Tax compliance	Development of SMEs
Tax compliance	Pearson Correlation	1	.595**
	Sig. (2-tailed)		.000
	N	377	377
Development of SMEs	Pearson Correlation	.595**	1
	Sig. (2-tailed)	.000	
	N	377	377

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

The study findings table 8 above show that tax compliance significantly affects the development of SMEs in Namungoona Lubaga 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 development of SMEs (Nelson et al., 2023). Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the development of SMEs. Thus, the hypothesis: *“Tax compliance significantly affects the development of SME’s in Namungoona Lubaga Division, Kampala.”* is accepted. So, in order to enhance the development 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 development 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, by delivering 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. This has benefitted the traders by equipping them with practical knowledge of tax compliance and best practices.

To establish relationship between tax rates on the development of SMEs in Namungoona Lubaga division

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Table 3: 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 businesses,	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

Table 3 above indicates that for a total of 377 respondents with an average score of 2.09 and a relatively low standard deviation (0.675), most of the respondents disagreed that the tax rates charged are clear 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.

There are diverse taxes imposed on small and medium businesses, which was confirmed by the majority of the respondents (mean = 3.73; SD = 0.502) who agreed that their business pays different taxes depending on the nature and size of business.

Most of the respondents agreed (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

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consulting the parties that will be paying the tax. In addition, this is supported by qualitative data collected from key informant interviews, as one informant had this to say; “Despite the contestations from traders, the government has continued 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. This means that the government of Uganda has continued to alter tax rates for the small and medium businesses without involving those in the SME sector which has negatively influenced the development of their businesses due to the increased tax burden on the SMEs.

A bigger proportion of respondents agreed 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 development and development of these businesses in Uganda. The above conclusion was 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 businesses 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 will be selling expensive goods and sooner than later will be out of business. On whether SMEs pay taxes when it is convenient for them to pay, most of the respondents disagreed as noted by the mean = 2.11; SD = 0.973. This indicates that the tax bodies always require these businesses to meet their tax obligations regularly and on time. The majority of the respondents disagreed that taxes are only charged when the business is operating and hence allows for momentary closures of business. This was confirmed according to the low mean score of 2.46 (SD = 0.558). The findings further revealed that most of the respondents (mean = 4.35; SD = 0.744) agreed 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. On whether the tax rates charged are fair to small and medium business owners, most of the respondents disagreed (mean = 2.72; SD = 0.965) which shows that the taxes rates charged from the SMEs are irrational and thus affect the development of these businesses.

On average, the majority of the respondents agreed (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 disagreed 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 businesses are reducing the capital base of these businesses and thus hindering the development of SMEs.

The study findings highlighted that most respondents were 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.

Table 4: Correlation matrix for tax rates and the development of SMEs

		Tax rates	Development of SMEs
Tax rates	Pearson Correlation	1	.689**
	Sig. (2-tailed)		.000
	N	377	377
Development of SMEs	Pearson Correlation	.689**	1
	Sig. (2-tailed)	.000	
	N	377	377

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

Source: Primary data

The findings in table 4 above revealed that tax rates have a significant effect on the development of SMEs in Namungoona Lubaga 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 development of SMEs in Namungoona Lubaga division. Tax rates have a statistically significant strong positive effect on the development of SMEs in Namungoona Lubaga Division, Kampala, Uganda (Turyatamba et al., 2022). Therefore, the hypothesis “*Tax rates significantly affect the development of SMEs in Namungoona Lubaga Division, Kampala.*” that was stated is accepted. 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 these play a key role in the development of SMEs in Uganda.

To assess the effect of tax incentives on the development of SMEs in Namungoona Lubaga division.

Table 5: 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 businesses	4.39	0.867
Tax incentives, investments, and development of SMEs are closely linked.	4.53	0.641
Tax incentives have attracted private investors to the SME sector	4.33	0.795

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Tax holidays		
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 development 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 businesses in Uganda	2.47	0.904

Source: Primary data

The study findings revealed that the majority of the respondents agreed (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 businesses. Tax incentives, investments, and development 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 (Turyatemba et al., 2022).

The majority of the respondents (mean = 4.33; SD = 0.795) agreed that tax incentives had attracted private investors to the SME sector. This means that the tax incentives have increased investment in the SME sector and thus improved the development of small and medium businesses. The above findings were corroborated by an interviewee who said; “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 development of SMEs through reducing the tax burden on businesses which has stimulated development in the SME sector.

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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 development in these businesses.

A bigger proportion of respondents agreed that tax holidays have helped my business to grow and expand as shown by mean = 3.68 and standard deviation = 0.929. In addition, tax incentives have stimulated the development and 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 development of small and medium businesses. This was confirmed during a personal interview with a key informant, who had this to say;

—This company would not have survived in these hard times if it were not for the tax holiday that we are benefiting from the government. 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 businesses to continue operating and thus enhanced the development of SMEs. The findings also indicated that most of the respondents (mean = 3.94; SD = 0.392) agreed 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).

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

The relationship between taxation policies and development of small and medium enterprises

The findings presented clearly indicated that there was a significant strong negative relationship between development of small-scale businesses and the tax policies in Namungoona Lubaga division. This is indicated by the Pearson correlation coefficient $r = -0.826$ and $p < 0.05$. This is interpreted to mean that as more taxes are imposed on SME 's results to lower Development rate of SMEs. Development of SMEs and the tax policy were found to have a significant strong positive relationship ($r=0.712$, $p<0.05$). This is interpreted to mean that the better the tax policies, the better the development trends for SMEs. The government should therefore come up with good tax policies on small scale businesses if they are to stimulate their development. The types of taxes were found to have a significant moderate positive relationship with the development of SMEs ($r=0.532$, $p<0.05$). This was interpreted to mean that the different types of taxes affect the development of SMEs to different extents based on their level of sales turn-over among other factors.

Conclusions

Tax compliance and the development of SMEs

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 development of SMEs. This implies that strengthening the system of taxation through a simplified system of 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 development of SMEs.

Tax rates and the development of SMEs

Based on the findings, the researcher concluded that having a correct level of tax rates, ensuring clarity of tax rates and fair tax rates are essential for the development and development of SMEs. This implies that there is need to design an effective tax rate through lowering the tax rates and offering tax reliefs to small and medium businesses which will reduce the cost of running a business within these businesses and thus enhance the development of SMEs in Uganda.

Tax incentives and the development of SMEs

From the study findings, the researcher further concluded that the development of SMEs depends on the tax incentives in the form of investment deductions and allowances, tax holidays and special tax regimes according to the small and medium businesses. This implies that tax incentives are key in reducing the operational costs associated with the payment of taxes for SMEs by lowering the tax compliance burden inflicted on the SMEs. Therefore, efforts to stimulate the development of SMEs in Uganda, require that tax incentives should be intensified to encourage the development and expansion of SMEs in Uganda.

Recommendations of the study

Tax compliance and the development of SMEs

During the study, it was found out that in order to promote the development of SMEs in Namungoona Lubaga Division, Kampala. Uganda's, primary consideration should be given to strengthening the system of taxation through having a simplified system of taxation that can support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. This will contribute to lowering the presence and magnitude associated with these fixed costs of operation for SMEs as well as putting in place a simplified tax structure that will accommodate all tax payers including the SME sector.

Tax rates and the development of SMEs

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 development of SMEs in Uganda.

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Tax incentives and the development of SMEs

According to the findings, this research recommends that the government of Uganda should strengthen tax incentives so as to stimulate the development of SMEs in Uganda. These tax incentives will help to rectify market limitations faced by small and medium businesses, cut business operational costs as well as stimulate selected investments. In addition, the tax incentives will help to protect and stimulate infant small and medium businesses since these infant firms are unable to meet their tax obligations in their early years of operation due to the small capital base and lack access to financial loans. Therefore the tax incentives implemented by the government will support these small and medium firms which will eventually stimulate the development of SMEs in the economy.

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