

**TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL AND  
MEDIUM ENTERPRISES IN MUKONO DISTRICT : A CASE STUDY OF  
MUKONO CENTRAL DIVISION**

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**UGANDA CHRISTIAN  
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## **DECLARATION**

I, Mukama Anthony, hereby attest that this dissertation was completed entirely by myself and has never been submitted to this university or any other higher education establishment for consideration for a degree. Every piece of knowledge is the product of my own research.



**Signed ...**

**Mukama Anthony**

**Date..21/05/2025**

## APPROVAL

I oversaw the completion of this dissertation, which is now prepared for submission with my blessing.

A rectangular box containing a handwritten signature in black ink. The signature is stylized and appears to read 'Kasozi Geoffrey'.

**Sign:** *Kasozi Geoffrey*

**Mr. Kasozi Geoffrey**

**Date:** 21<sup>st</sup> May 2025

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## TABLE OF CONTENTS

### Table of Contents

<b>DECLARATION .....</b>	<b>1</b>
<b>APPROVAL .....</b>	<b>2</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>3</b>
<b>TABLE OF CONTENTS.....</b>	<b>4</b>
<b>LIST OF TABLESv</b>	
<b>ABSTRACT .....</b>	<b>9</b>
<b>CHAPTER ONE .....</b>	<b>10</b>
<b>1.0 Introduction.....</b>	<b>10</b>
<b>1.1 Background of the study .....</b>	<b>Error! Bookmark not defined.</b>
<b>1.2 Problem statement.....</b>	<b>12</b>
<b>1.3 Purpose of the study.....</b>	<b>12</b>
<b>1.4 Objective of the Study.....</b>	<b>12</b>
<b>1.5 Research questions .....</b>	<b>13</b>
<b>1.6 Scope of the study .....</b>	<b>13</b>
<b>1.6.1 Geographical scope. ....</b>	<b>13</b>
<b>1.6.2 Content scope. ....</b>	<b>13</b>
<b>1.6.3 Time scope. ....</b>	<b>13</b>
<b>1.7 Significance of the study .....</b>	<b>14</b>

<b>1.8 Justification of the study .....</b>	<b>14</b>
<b>1.9. Limitations of the study.....</b>	<b>15</b>
<b>1.10 Conceptual framework.....</b>	<b>15</b>
<b>CHAPTER TWO .....</b>	<b>16</b>
<b>LITERATURE REVIEW.....</b>	<b>16</b>
<b>2.1 Introduction.....</b>	<b>16</b>
<b>2.2 Theoretical Review .....</b>	<b>16</b>
<b>2.2.1 The Ability-to-Pay theory .....</b>	<b>16</b>
<b>2.2.2 Knowledge-Based theory and Resource-Based View .....</b>	<b>17</b>
<b>2.2.3 Contextual Perspective .....</b>	<b>18</b>
<b>2.2.4 Conceptual Perspective .....</b>	<b>18</b>
<b>2.3 Empirical Literature Review .....</b>	<b>20</b>
<b>2.3.1 To assess how tax awareness and knowledge affects the financial health of small and medium sized businesses .....</b>	<b>20</b>
<b>2.3.2 To determine the effect of tax administration criteria on the financial performance of small and medium enterprises .....</b>	<b>22</b>
<b>2.3.3 To examine the effect of tax rates on the financial performance of small and medium enterprises .....</b>	<b>25</b>
<b>2.4 Conclusion .....</b>	<b>27</b>
<b>CHAPTER THREE.....</b>	<b>28</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>28</b>
<b>3.1 Introduction.....</b>	<b>28</b>
<b>3.2 Research Design .....</b>	<b>28</b>
<b>3.3 Study Population .....</b>	<b>28</b>
<b>3.4 Sample Size .....</b>	<b>29</b>

<b>3.5 Sampling techniques and procedures.....</b>	<b>29</b>
<b>3.6 Data Collection Methods .....</b>	<b>29</b>
<b>3.6.1 Questionnaires Method .....</b>	<b>30</b>
<b>3.7 Data Collection Instruments .....</b>	<b>30</b>
<b>3.7.1 Questionnaires .....</b>	<b>30</b>
<b>3.8 Validity and Reliability.....</b>	<b>30</b>
<b>3.8.1 Validity .....</b>	<b>30</b>
<b>3.8.2 Reliability.....</b>	<b>31</b>
<b>3.9 Procedure of data collection .....</b>	<b>32</b>
<b>3.10 Data Analysis.....</b>	<b>32</b>
<b>CHAPTER FOUR .....</b>	<b>33</b>
<b>DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....</b>	<b>33</b>
<b>4.0 Introduction.....</b>	<b>33</b>
<b>4.1 Response rate .....</b>	<b>33</b>
<b>4.2 Biographic characteristics.....</b>	<b>34</b>
<b>4.3. How tax awareness and knowledge affect the financial health of small and medium sized businesses .....</b>	<b>38</b>
<b>4.4 The effect of tax administration criteria on the financial performance of small and medium enterprises in Mukono district central division. ....</b>	<b>42</b>
<b>4.5. The effect of tax rates on the financial performance of small and medium enterprises in Mukono district central division .....</b>	<b>45</b>
<b>4.6 Correlation table.....</b>	<b>47</b>
<b>4.7 Regression table .....</b>	<b>48</b>
<b>CHAPTER FIVE .....</b>	<b>50</b>
<b>DISCUSSION OF KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>50</b>
<b>5.1Introduction.....</b>	<b>50</b>

<b>5.2 Discussion of the key findings .....</b>	<b>50</b>
<b>5.2.1 How tax awareness and knowledge affect the financial health of small and medium sized businesses. ....</b>	<b>50</b>
<b>5.2.2. The effect of tax administration criteria on the financial performance of small and medium enterprises .....</b>	<b>52</b>
<b>5.2.3 The effect of tax rates on the financial performance of small and medium enterprises .....</b>	<b>55</b>
<b>5.3 Conclusion .....</b>	<b>56</b>
<b>5.3.1 How tax awareness and knowledge affect the financial health of small and medium sized businesses. ....</b>	<b>57</b>
<b>5.3.2. The effect of tax administration criteria on the financial performance of small and medium enterprises .....</b>	<b>57</b>
<b>5.3.3 The effect of tax rates on the financial performance of small and medium enterprises .....</b>	<b>57</b>
<b>5.4 Recommendations .....</b>	<b>58</b>
<b>References .....</b>	<b>60</b>

## LIST OF TABLES

<b>Table 3.1 Sample size .....</b>	<b>29</b>
<b>Table 3.2: Showing results for Validity Test .....</b>	<b>30</b>
<b>Table 3.3: Reliability results .....</b>	<b>31</b>
<b>Table 4.1 Response rate .....</b>	<b>33</b>
<b>Table 4.2 Gender of the respondents .....</b>	<b>34</b>
<b>Table 4.3 Age group of the respondent. ....</b>	<b>35</b>
<b>Table 4.4 Marital status of the respondent .....</b>	<b>35</b>
<b>Table 4.5. Education level of the respondent.....</b>	<b>36</b>
<b>Table 4.6 Business type .....</b>	<b>37</b>
<b>Table 4.7 The period spent by the respondents doing this business .....</b>	<b>38</b>

## ABSTRACT

Therefore, the purpose of this study is to determine how tax policies impact the financial performance of SMEs in Mukono District, and more specifically, in Mukono Central Division. The study's specific goals are to: Evaluate the potential impact of tax awareness and knowledge levels on SMEs' financial health; determine the impact of tax administration criteria on financial performance; and ascertain the potential effects of tax rates on business performance. This study will be conducted using a structured approach, with a focus on the issues that SMEs face as a result of tax policies and their effects on the expansion and sustainability of their businesses.

The study adopted a descriptive cross-sectional research design in using qualitative and quantitative data collection methods. Target population were 100 registered small-scale businesses comprised of retail shops, hardware shops, groceries, and general merchandise dealers. The study sample consisted of 80 respondents, which was drawn through both probability and non-probability techniques. Structured questionnaires were used to collect data. To determine the connection between tax laws and financial results, the gathered data was examined using descriptive statistics in the form of means, frequencies, and standard deviations.

The study finds a strong positive relationship between tax-related variables and SMEs' financial performance, with tax awareness ( $r = 0.60$ ), tax administration ( $r = 0.65$ ), and tax rates ( $r = 0.70$ ) significantly influencing profitability and growth. Multiple regression analysis confirms that tax awareness ( $\beta_1 = 0.35$ ,  $p = 0.001$ ), tax administration ( $\beta_2 = 0.45$ ,  $p = 0.000$ ), and tax rates ( $\beta_3 = 0.50$ ,  $p = 0.002$ ) are statistically significant predictors of financial performance, with tax rates being the most impactful. The study highlights that tax knowledge enhances compliance, investor confidence, and risk management, while complex regulations and high compliance costs hinder SMEs' profitability. To improve financial performance, policymakers should simplify tax administration, lower tax rates, and introduce incentives that promote business sustainability, ensuring fairness and transparency to encourage compliance.

## **CHAPTER ONE**

### **1.0 Introduction**

This section presents the background of the study, the statement of the problem, the study's objectives, the research questions, its scope, its importance, and the definition of key words

### **1.1 Background of the study**

#### **1.1.1 Conceptual background**

Taxation is a fundamental aspect of organized societies, serving as a monetary charge imposed by the government on individuals, organizations, transactions, or property to generate revenue. The early British colonial administrators introduced taxation in East Africa, utilizing systems like obligatory public works, which included road construction and the establishment of administrative offices and schools. The Hut Tax, imposed in 1900, marked the first legal tax in the region, leading to uniform pricing arrangements in Kenya and Uganda. This resulted in Ugandans being subject to customs duties and a 5% ad valorem import fee on goods entering through the port of Mombasa (Taxation Handbook, 2021).

Tax policy encompasses guidelines and regulations set by governments regarding the levying, collection, and utilization of taxes. It plays a crucial role in shaping a nation's economy and social welfare, aiming to raise government revenue, redistribute wealth, stimulate economic growth, and encourage specific behaviors. Taxation policies are designed to enhance consumption, savings, and investments, while some countries may offer low tax rates to attract businesses, resulting in tax competition (Alabi, David, and Aderinton, 2019).

#### **1.1.2 Theoretical background**

Theoretical frameworks surrounding taxation suggest that individuals and institutions must comply with tax policies, which define tax rates and structures. Tax rates can be progressive, proportional, or regressive, with the latter disproportionately affecting low-income earners. Tax

laws often include provisions for tax breaks, deductions, and exemptions to stimulate certain activities or businesses, alongside administrative arrangements to ensure effective collection and compliance, including the establishment of tax authorities (Aribaba et al., 2019).

Globally, governments rely heavily on taxes to fund public services, making tax policy discussions critical. The design and implementation of tax systems significantly impact inequality, necessitating a fair tax system to ensure equitable income distribution and citizen welfare. Essential criteria for tax policy include simplicity, sufficiency, and neutrality (Adams, 2010).

### **1.1.3 Contextual background**

In Uganda, the tax structure is rooted in the British model, with a singular tax system established during British colonial rule. The Hut Tax Regulation of 1900 imposed a flat fee per residence, primarily aimed at supporting the colonial administration and promoting economic activity. The Local Authority Ordinance of 1991 later governed tax collection, leading to the establishment of the Uganda Revenue Authority (URA) in September 1991 (Ojeka, 2020).

Taxation of small and medium-sized enterprises (SMEs) must address operators' needs and income levels. An effective tax system should feature observable and acceptable tax rates, along with an efficient tax-collecting agency. While advocating for reduced taxes on small businesses, efforts to combat corruption and tax evasion should be intensified (Ojeka, 2011). Factors contributing to SMEs' noncompliance with tax laws include high tax rates, low efficiency, and double taxation, which negatively impacts their survival (Aribaba et al., 2019; Eragbhe and Omoye, 2019).

This study is significant as it will analyze the impact of taxation policies on the financial performance of SMEs in Mukono District. SMEs are vital for economic growth, job creation, and innovation. However, poorly designed or implemented taxation policies exert considerable pressure on these enterprises, affecting their financial viability and sustainability. Understanding the effects of taxation on SMEs in Mukono District is essential for policymakers, business owners, and stakeholders to make informed decisions that promote the growth and development of these critical enterprises, ultimately benefiting the district's economic well-being.

## **1.2 Problem statement**

Many small and medium-sized enterprises (SMEs) in Mukono continue to operate in the informal sector, driven by the perception that the benefits outweigh the drawbacks. According to the Mukono District Annual Financial Report of 2018, a significant number of these businesses are not expanding, and many have closed due to a declining population, which poses a challenge to their sustainability.

The taxable capacity significantly impacts the financial performance of firms; however, unfavorable tax policies including excessive tax rates, multiple taxation, and complex tax laws alongside a lack of adequate information and education, severely hinder the performance of SMEs. Recent studies indicate that over 60% of SMEs in Mukono struggle with tax compliance due to a lack of awareness and understanding of tax obligations, limiting their competitiveness in the market.

Furthermore, the financial health of SMEs in Mukono is adversely affected by the absence of tax exemptions, which could provide the necessary support for their growth. The 2018 report highlights that many SMEs have faced difficulties in achieving sustainable growth, prompting calls for the creation of rescue packages to bolster their financial systems. Continued neglect of these issues may further impede the growth and development of SMEs in the Mukono district, as evidenced by recent statistical findings that demonstrate a concerning trend in the decline of small business operations.

## **1.3 Purpose of the study**

The purpose of the study was to assess the effect of tax policies on the performance of small and medium enterprises in Mukono Central division.

## **1.4 Objective of the Study**

The objective of the study was to determine the effect of taxation policies on the financial performance of small and medium enterprises in Mukono district central division.

- i. To assess how tax awareness and knowledge affects the financial health of small and medium sized businesses in the Mukono district central division.
- ii. To determine the effect of tax administration criteria on the financial performance of small and medium enterprises in Mukono district central division.
- iii. To examine the effect of tax rates on the financial performance of small and medium enterprises in Mukono district central division

## **1.5 Research hypothesis**

**H1;**Increased tax awareness and knowledge positively influences the financial health of small and medium-sized businesses in the Mukono District Central Division.

**H2;**The criteria used for tax administration have a significant effect on the financial performance of small and medium enterprises in the Mukono District Central Division.

**H3;**Higher tax rates negatively impact the financial performance of small and medium enterprises in the Mukono District Central Division.

## **1.6 Scope of the study**

### **1.6.1 Geographical scope.**

The study was conducted in Mukono district central division, The location is chosen because it is the section in the district with the greatest concentration of small and medium-sized businesses.

### **1.6.2 Content scope.**

The main goal of this research was to ascertain how taxation policy affects the financial performance of small and medium-scale businesses in Mukono. Above all, in relation to financial performance, this study prefers to focus on the dimensions of taxation awareness and knowledge, tax administration standards, and intended tax purposes as pertains to the small and medium-sized business in Mukono.

### **1.6.3 Time scope.**

The study was conducted for a period of three months that is from September to December 2023. This time was used in order to examine the effect of taxation on the financial performance of Small and Medium Enterprises in Mukono.

### **1.7 Significance of the study.**

Discussion of the study's contributions

#### **1.7.1 Theoretical contributions**

This study adds to the existing body of literature by providing a framework for understanding the relationship between taxation policies and financial performance in the context of SMEs. It highlights the significance of tax awareness, administration, and rates, suggesting that these factors are critical in shaping the financial landscape for small and medium enterprises.

#### **1.7.2 Methodological contributions**

By utilizing a case study approach in Mukono Central Division, the study offers a unique perspective on local taxation impacts. The methodology employed could serve as a model for similar future research in other regions, showcasing the importance of localized studies in understanding the dynamics of taxation and business performance.

#### **1.7.3 Practical contributions**

The findings of this study have practical implications for policymakers and SME owners. Enhanced tax awareness programs could be developed to improve financial health, while better tax administration practices may lead to improved business outcomes. Additionally, reevaluating tax rates could foster a more conducive environment for SMEs, promoting their growth and sustainability in the local economy.

### **1.8 Justification of the study**

About 90% of Uganda's private sector production comes from business endeavors, which are the main source of the nation's income and job creation (Barungi, 2018). However, due to their significant financial needs, these small businesses are highly dependent on business development services to provide them with the capacity and support they need to advance in areas such as "training, advice, information, business planning, marketing, technology, communications, and other services" (UIA, 2018). Small businesses, on the other hand, have assets of between 10

million Ugandan shillings and no more than 100 million, and they employ five to forty-nine people.

The overall goal of the small medium enterprises division is: developing sustainable domestic investments and small medium enterprises (UIA, 2020). It is commonly recognized that inadequate tax registration, assessment, and mobilization significantly impacted small business performance, however different authors have expressed differing opinions on taxation policy and business performance (Barungi, 2018). Additionally, taxes hampered the performance of small and entrepreneurial businesses; hence, SMEs are calling for more tax relief measures. In order to create a solid foundation for decisions about taxation and the performance of SMEs later on, it was crucial to determine how tax policy is affecting the financial performance of business companies in Mukono.

Therefore, the study will establish reasons why such tax policies remain a concern and come up with remedies or recommendations for strengthening the business enterprises in Mukono.

### 1.9. Limitations of the study

Due to some issues like confidentiality, the researcher may not receive some important information from the respondents. But the researcher will use different techniques like creating a friendly environment in order to get the needed information.

The other limitation that is likely to arise is financial problem yet research needs some funding but the researcher is saving some money to fund the research costs.

### 1.10 Conceptual framework



**Source: Primary source**

The conceptual framework above shows that tax policies is the independent variable and financial performance is the dependent variable. This suggests that tax policies like tax administration, tax rates and tax awareness have a direct influence on financial performance of SMEs. The financial performance is measured using return on assets, profitability levels and liquidity

**CHAPTER TWO****LITERATURE REVIEW****2.1 Introduction**

This chapter reviews the literature related to the relationship between tax administration and business enterprise performance. The chapter provides a theoretical review, an actual review, and an empirical review. It looks into the critical study themes of ascertaining the influence of tax awareness and knowledge on financial health in SMEs, describing the influence of criteria on the tax administration impacting the financial performance of SMEs, and checking how far tax rates may be said to have influenced the performance of SMEs in Mukono District Central Division.

**2.2 Theoretical Review**

The study was underpinned by the Ability-to-Pay theory, Knowledge Based theory and Resource Based View.

**2.2.1 The Ability-to-Pay theory**

The capacity to pay According to tax philosophy, taxes need to be levied according to a taxpayer's financial capacity. Adam Smith, a Scottish economist and philosopher who is regarded as the father of economics, proposed this in 1776. Smith proposed that the four principles of efficiency, convenience, certainty, and fairness should guide taxation. The English economist Stuart Mill (1806-1873), the French political economist Jean-Baptiste (1767-1832), and the Swiss philosopher Jean-Jacques Rousseau (1712-1778) all contributed to its advancement. When this approach is used, a progressive tax system is created in which higher-

income people and businesses pay higher taxes than those with lower incomes (Will Ken, 2020). The most common and widely accepted defense of financial capacity is based on sacrifice.

However, while the equity of sacrifice might be quantified in absolute, proportional, or marginal terms, no consistent suggestion for doing so was made within this framework. Therefore, equal sacrifice can be defined as follows: each taxpayer gives up the same utility for the final unit of income, each taxpayer sacrifices the same proportion of utility obtained from his income, or each taxpayer surrenders the same absolute degree of utility obtained from his income.

The theory is postulated to support the fact that tax policies towards business enterprises should be considerate enough to facilitate their profitability, financial performance, and survival, and hence, their compliance. In an assessment of the influence of taxation on financial performance and capability, the determination of the existence and survival ability to pay imposed taxes by tax authorities, appropriate favorable tax policies that can enable business enterprises were suggested. (Kangave et al, 2016).

### **2.2.2 Knowledge-Based theory and Resource-Based View**

It considers knowledge as the most strategically significant resource of a firm and focuses on resources and organisational capabilities as the principal sources of sustainable competitive advantage. It originated from the strategic management literature and builds upon and extends the Resource-Based View of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Wernerfelt 1984; Barney, 1991; Conner 1991). The four critical factors namely, objectives, strategy, change management and resource management practices have been identified as enablers for innovation capabilities that are pinned by the resource-based view (Nur, Balqishanis, Binti & Zainal, 2021). It is a recent extension of the resource-based view of the firm very adequate to the present economic context. Knowledge is considered to be a very special strategic resource that does not depreciate in the way traditional economic productive factors do and can generate increasing returns (Carlurado,2006).

In resource-based view-point theory; the resources that are possessed by a firm are the primary determinants of its performance. A firm's performance in the market place depends on the different characteristics of the industry in which it competes and through innovation, persistent

improvement and management of relationship with external entities may lead to competitive advantage and be above average performance (Mweni & Maina, 2015).

Knowledge management has emerged as one of the new management methods. Among the most debated areas in knowledge management has been the association between knowledge and firm performance, but a lack of understanding and consensus still remains a major issue (Inkinen, 2016). The research will address the gap by determining how knowledge management-based managerial and organizational practices are related with business performance. Thus, the two theories will be used since they contain the theories of taxation and performance of business enterprises which are the essential variables that are used in this research.

### **2.2.3 Contextual Perspective**

Taxation policies have played a critical role in determining the nature of business, especially in SMEs. SMEs contribute much to economic growth and job creation in Uganda, hence reducing poverty. Challenges of such enterprises, pertaining to compliance with tax laws and high tax rates, and the limited exposure of owners about taxes, have greatly affected their financial performance. The Uganda Revenue Authority has been introducing a number of reforms in taxation geared toward simplifying tax administration, enhancing compliance, and creating awareness among SMEs. However, such efforts do not rule out complexity in tax procedures and lack of awareness as major binding constraints toward the financial viability of SMEs in districts like Mukono. In other words, the costs of compliance, both in terms of time and other resources spent on matters concerning taxes, have constantly drained the profitability and liquidity of these businesses. (Kangave & Katusiimeh, 2020). More specifically, a lack of tax knowledge not only causes tax non-compliance but also eats away at the financial foundation of the SMEs, as many firms suffer penalties or fines for mistakes while filing their taxes.

There are indications from studies that the tax policies of developing economies tend to be insensitive to peculiar challenges of SMEs, which relate to a lack of access to professional accounting services and inability to understand complex tax regulations (Chinwe & John, 2018). While Uganda is still making attempts to increase awareness and simplify tax administration, the resultant effects on SME financial performance are yet to be appropriately documented. The study of the influence of taxation policy on the financial health of SMEs in regions like Mukono

Central Division is therefore important to indicate reflection in the policy framework and business growth.

#### **2.2.4 Conceptual Perspective**

The conceptual framework is anchored on the premise that these taxation policies, which incorporate tax administration, tax rates, and awareness of tax, are the independent variables and have a direct impact on the financial performance of SMEs. In this case, the dependent variable, the financial performance, is measured based on key financial indicators such as ROA, profitability levels, and liquidity. The interaction of such variables is prescribed by institutional and economic theories, of which the framework of regulatory pressures, inclusive of taxation, serves to impose stresses from without the business that may constrain or facilitate the financial performance thereof. (DiMaggio & Powell, 1983).

Tax awareness and knowledge influence SMEs' financial performance through the resultant compliance behavior. Greater levels of tax awareness are linked to good financial management practices and reduced costs associated with tax compliance. With sufficient knowledge about taxation, an SME can undertake proper tax planning, avoid fines, and make better use of its resources, thereby enhancing liquidity and profitability in the long run (Martinez-Vazquez & McNab, 2017). On the contrary, low awareness increases the potential for non-compliance, usually heavily penalized through financial fines that decrease profitability and liquidity.

Tax administration factors include the ease of filing, the efficiency and effectiveness of the tax authorities, and have a significant bearing on the financial success of SMEs. In fact, simpler tax administration reduces time and cost in tax compliance, freeing SMEs to invest more time in financial planning and the running of business operations (Okello, 2020). On the other hand, cumbersome and inefficient tax procedures may drain SMEs with administrative costs and divert them from expansion efforts, thus affecting their return on assets and general financial health.

Lastly, tax rates are a direct determinant of financial performance, as higher tax rates reduce the net income available for reinvestment and growth (Kirchler, 2019). High tax burdens can strain liquidity, reduce profitability, and ultimately undermine the long-term viability of SMEs. Thus, understanding how tax policies affect SMEs in regions like Mukono District Central Division is critical for policy reform and business sustainability in Uganda.

## **2.3 Empirical Literature Review**

### **2.3.1 To assess how tax awareness and knowledge affects the financial health of small and medium sized businesses**

Financial performance and taxpayer knowledge as a result of tax compliance are not substantially correlated. According to the study, tax rates have an impact on tax collecting performance. The study also demonstrated that high tax rates have an impact on commercial banks' financial performance since they force investors to save more money for earnings and vice versa. This has made it possible to investigate how tax knowledge has affected other industries that have been impacted by taxes more and more. (Aoki, 2014).

According to Armendariz (2015), there is no relationship between capital transfer among business owners and tax compliance. There are no statistically significant differences between financial performance and compliance, and the study found that domestic savings in the financial market are impacted by economic tax awareness. According to market conditions, credit has an impact on supply and demand. Since revenue collection and taxpayer awareness of businesses are unrelated, taxpayer awareness helps the economy endure tax control brought on by rigid policies. (2011, Bhattacharya).

SenHadji (2012) asserts that there is no tangible tax connection between the electronic tax register on compliance and the relationship between tax knowledge and corporate financial performance. Additionally, he proved that there was no encouraging financial performance of tax compliance throughout the economy, but rather that compliance with resource deductions, poor corporate governance, and reliance on under regulated rates of intermediation were the main causes of the economy's speedy financial performance. The study made the assumptions that taxes are imperfect, the money supply is more rigid, and the price of taxes is influenced by the computerized tax register. Based on a variance analysis, it was determined that the tax rate had a cyclical impact on prices and contributed to price inflation before the financial crisis. The study also discovered that the decline in tax prices is adversely correlated with property tax compliance.

Compliance's main effect is to ensure revenue generation while reducing expenses. Since most businesses have an external capital deduction rather than a larger financing tax, the study's findings indicated that all taxes are deductible from determining income. Nevertheless, the study

contended that higher financing taxes have no effect on price because their return is greater than saving with a mixed income impact. It also has a negative effect on net profit because it reduces saving to meet future targets, but it has a positive effect on net profit because a higher real tax rate means a loss of wealth.

While the level of tax compliance private sector has been declining, the financing of tax in the government expenditure and maintenance is raising, despite this study there is no clear findings used to explain the effect of financing tax on saving performance which may be explained by this study. (Al-Timid, 2011). Vermeulen (2006) evaluated the response of incentive tax and debt financing. The purpose of the research was to identify variables affecting initial taxation and debt financing. The results of the research indicated that the tax on income is welcome; nevertheless, because of the high tax rates, the new income has to be saved. Another statement went that "reducing tax cuts significantly positively influence the future income forecast, and a rise in current taxes is reward by spending and reduces current saving".

According to the study, reducing the tax incentive raises wealth because part of the wealth tax increase is consumed; tax reduces saving from given current income. According to the study, price increases had no substantial impact on revenue collection. The increase of expected tax had statistical significant impact on tax returns on savings target. Thus, the study leaves a knowledge gap which calls for a study.

According to the World Bank, 2014 many traders have expressed that ignorance about taxes imposed on enterprises was highly attributed to poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed and advantages of paying taxes. There is need to sensitize the public especially business owners about taxation and tax related issues. The sensitization should be done on the various types of taxes that affect the business owners and the rationale that underlie the imposition of taxes (World Bank Survey, 2012). Standard models presume that taxpayers are well educated about all parts of the tax filing processes. However, this is a strong assumption that is not correct. For example, the information level is one of the factors in tax payer behavior and how it facilitates tax evasion. Less educated taxpayers are exposed to less tax compliance information and are less informed about relevant tax compliance information, making them more vulnerable to tax evasion. Some taxpayers find

the intricacy of tax information more difficult to understand than others; this complexity may result in unintended noncompliance if taxpayers experience difficulties in filing tax returns.

### **2.3.2 To determine the effect of tax administration criteria on the financial performance of small and medium enterprises**

Uganda has organized business licensing to make it easier for new businesses to get off the ground. The Uganda Investment Authority was established to guarantee that all investors conduct business in Uganda lawfully. Additionally, the legislation governing licensing in various sectors are distinct. The Financial Institutions Act of 2004 and its later changes, for example, regulate financial institutions. Similar regulations apply to the mining industry under the Uganda Mining Act (2003). Additionally, to make it easier for commercial ventures and patents to be registered.

The URBS has been responsible for civil registration, business registration, patents, intellectual property rights, and any other activities under the law. In addition to these, there exist laws and regulations on taxation and customs. For example, the Value Added Tax Act of 1996 streamlined the operations of VAT locally and at customs level, the East African Customs Management Act, 2004, together with the East African Customs Management Amendment Bill of 2015 streamlined the operations of customs activities at all East African border points. On top of that, the Common External Tariff was established to guide on all duties for commodities imported from outside the East African Community.

Most importantly, it is important to note that today, under the Tax Payer Registration Expansion Program (TREP), SMEs are obliged to be registered for both business licensing and tax at one point. This would imply that all SMEs leave the point of registration with the business operational license and a Tax Identification Number.

It is argued that, World over, formality is not a major goal for SMEs. They focus on expanding sales. Whereas tax and local authorities want SMEs to be registered and formalize their operations in order to collect tax revenue, SMEs want to remain informal to avoid paying taxes. It has been observed in Lima that obtaining a trading license does not guarantee increase in firm revenue (Alcazar, Andrade & Jaramillo, 2010). Therefore, SMEs find no urgency in formalization. Moreover, obtaining a license involves costs in terms of monetary payments to

local authorities and wasted time. Furthermore, trade is hampered by inconsistent collection of duties which influences traders to issue bribes to customs officials (United States Country Commercial Guides, 2017). Although the government of Uganda through Uganda Investment Authority (UIA) introduced one-stop-center for registering businesses, the business registration period is an average of twenty-six days (World Bank, 2016). This is still a long period of time. The United Nations Doing Business report (2017) indicates that the efficiency and quality of regulatory framework in Sub-Saharan Africa is still low at 56.5% and 36.7% on the Distance to Frontier (DTF) score. Therefore, the tax administrative system may be bypassed with irregular payments to favor some business operators at expense of others. In addition, another conundrum originates from unrealistic tax rates. The high tax rates may also induce irregular payments because people feel that to survive in business, pay irregularly at below the rates. Furthermore, it can be argued that the tax rates imposed can hinder firm performance, for instance, the excise duty imposed on items can increase the selling price of an item, which may reduce the sales volume.

The empirical findings of Gatsi, Gadzo and Kportorgbi, (2013) among Ghanaian manufacturing firms indicate that whenever tax burden increases, the firm's financial performance declines. Thus, whenever tax rates especially under the indirect tax regimes increase, there is expected reduction in firm clientele and sales hence more pressure on firm cash flows. Furthermore, in Malaysia, the Goods and Services Tax (GST) have slowed down the sales of the shipbuilding and ship repairing business (Sim, 2019). Whereas tax/duty collection and business registration has been made easy through online platforms (online filing of returns and online business registration), business community is complaining about bribery and irregular payments (World Economic Forum, 2017). Moreover, public servants are corrupt (Enterprise Survey Uganda, 2013), this is coupled with bureaucratic hurdles which hamper efficiency (Investment Climate Statement, 2017; United States Commercial Guides, 2017).

It is based on the bribery, bureaucratic, high tax rates and inefficient ways of operation that the authors envisage that tax administration, tax rates and business licensing can hinder firm performance. Furthermore, delays in obtaining information wastes traders productive time, slows decision making in business hence low productivity and performance. For instance, innovation time is wasted, cash is used for bribes instead of funding the firm's liquid requirements. Uganda like any other East African state has structured the customs procedures following the East

African customs protocol. Before the protocol, each member state was following her own customs procedures. However, today, the common customs laws to all East African customs points were introduced.

Laws such as; the East African Customs Management Act (2004) together with the East African The 2015 Customs Management (Amendment) Bill governs customs operations at all border crossings in East Africa. Furthermore, the 2015 Uganda National Bureau of Standards laws are offered to direct the examination of imports and exports in order to verify the quality of imports and guarantee adherence to international standards. In accordance with the Technical Barriers to Trade (TBT) article 5 and the World Trade Organization's notification requirements, the Uganda National Bureau of Standards established a Pre-Export Verification of Conformity (PVoC).

Additionally, new technologies like single customs territory have been deployed to guarantee that customs regulations are applied correctly and efficiently. Within a maximum of two days, traders can pay customs duties at a single-entry point and adhere to customs processes thanks to the single customs territory (World Bank, 2017; Nakaweesi, 2018). Furthermore, according to the 2017 United Nations Doing Business report, URA set up a one-stop center in Malaba to try to speed up the customs clearance procedure. Adding to these efforts is ASYCUDA World, a system that facilitates a smooth customs clearing procedure.

Although the regulatory framework and technology has facilitated the reduction in hindrances at customs entry points, for instance, reduced time for customs processes and reduced time for client contact with the customs officers, the systems can only operate on internet. It is not prudent to assume that every place in Uganda has stable internet.

It's important to note that the majority of businesspeople are unfamiliar with customs laws. Tax issues between URA and the taxpayer result from their survival at the whim of clearing agents, who occasionally may not provide adequate advice. It's also critical to recognize that, despite Uganda's Tax Procedure Code Act (2014) providing a clear process for resolving tax disputes between taxpayers and URA, the country's commercial court is thought to favor politically connected companies, which bribe judges to postpone cases or render decisions in their favor (United States Country Commercial Guides, 2017).

### **2.3.3 To examine the effect of tax rates on the financial performance of small and medium enterprises**

Transparency and accountability to taxpayers, who require succinct but understandable information on effective tax loads, are the first steps towards a just and efficient taxation and assessment system. According to Adebis et al. (2013), the survival of small and medium-sized businesses is negatively impacted by numerous taxation, and there is a substantial correlation between the size of SME and its capacity to pay the taxes imposed.

Therefore, while establishing tax laws, the government should take into account the size of the companies and create consistent tax policies that would support the growth of SMEs in Nigeria. Numerous companies shut down as a result of tax-related problems, such as various taxes or a heavy tax burden that impairs corporate performance. Therefore, the performance of business companies has been impacted by high tax assessment rates. In order to improve the performance of commercial enterprises, tax assessments should be based on the tax choices made by small firms. This can be achieved by reducing tax rates, providing tax vacations, and providing small company relief (Atawodi and Ojeka, 2012).

The primary goal is to guarantee that tax revenue is successfully raised using strategies that are appropriate for the administrative capacity and environment of the nation. According to a SEATINI-UGANDA (2017) survey conducted in Uganda, high tax rates have a negative impact on small business performance, making taxes one of the main 18 barriers to the expansion and development of business organizations. The starting firm size, human resources, startup funding sources, acquisition type, and government fiscal policy were among the additional obstacles to business expansion. This demonstrates how crucial tax assessment is to improving Ugandan business businesses' performance.

One of the elements that makes up the economic environment for firms is tax policy. According to the study, firms should pay less in taxes in order to become better equipped, have enough money for reinvestment, and endure in a cutthroat market (Ocheni, 2015). Since tax incentives stimulate corporate expansion, they ought to be greatly expanded in order to draw in a large number of foreign investors. Additionally, Olutayo et al. (2015) used both financial and non-financial performance measures on the company enterprise's lifespan.

It underlined that the firm's success is influenced by both non-financial (operational) and financial (net profit before taxes) factors. Furthermore, the sustainability and lifespan of the

companies that are operating in the nation (Uganda) should be prioritized in addition to starting. According to Abanis et al. (2013), small and medium-sized businesses are viewed as the main engine for advancing the nation's economy due to their contribution. Among the key elements of company performance, return on investment, return on assets, and business expansion are still regarded as the primary objectives of business operations.

In order to achieve the intended business performance of the company, business owners should take a favorable attitude toward implementing financial management techniques, such as completing tax returns and maintaining books. According to Mungaya, Mbwambo, and Tripathi's (2012) study on the impact of the tax system on the expansion of small and medium-sized businesses, high tax rates increase production costs inside these businesses, which has a significant impact on their performance and should not be disregarded. Gordon (2019) also noted in the supplement that complicated tax systems and large tax assessments have a detrimental effect on business company performance.

Businesses' performance is frequently affected by the complex tax structure and excessive tax assessments. Taxation is an important part of the economy since it influences many economic activities, such as the creation and growth of business businesses. In the end, taxes raise the cost of producing products and services, which raises their prices and impacts the final customers. Alternatively, tax money is a significant source of funding for government spending. It is still difficult in most nations to create favorable conditions for company success while maintaining tax compliance (Swistak, 2016).

According to the 2019 OECD survey report on business enterprise taxation, 14 nations have implemented lower corporate tax assessments for business enterprises in an effort to boost their performance. "Lower tax assessment on first tranche(s) profits, regardless of total income level, withdrawal of tax relief at higher profit levels, reduced CIT (corporate income tax) rates for corporations with income below a certain level, eligibility for small-business rates determined by non-income criteria instead of or in addition to income criteria" are some of the strategies that are used to support businesses' corporate tax rates (OECD, 2019).

Okong (2018) investigated the relationship between Ugeya's financial performance and tax assessment. Examining how income tax rates affect organizational performance was the aim of the study. The research design used in the study was a survey. Questionnaires were used as study instruments. The information on the company's earnings was gathered from secondary sources

between 2009 and 2013. To determine the relationship between the various variables in tax rates, the study employed chi-square and correlation analysis. The study discovered that government demands had an impact on tax assessment. Thus, there is a gap in the study since it only addresses tax assessment on revenue collection, ignoring the tax rate at which taxes are collected and their effect on business firm performance.

In a related study, Tusubira and Nkote (2013) made the case that a company's profitability was significantly impacted by efficient tax assessment. The overall returns generated have a more favorable effect on tax rates in the company's firm equity. The study also showed that tax rates have a positive or negative relationship with performance; taxes levied by the government have an impact on interest rates charged on tax deductions, which results in higher taxes than income.

High tax rates encourage evasion; therefore, the intuition is that high tax assessment increases the tax burden and hence lowers the disposable income of the taxpayer (Dennis, 2014). However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. In addition, large business enterprises more readily exploit loopholes in tax provisions, adding more to the injustice of the system. Tax assessment rates and the nature of the tax framework, thus impact significantly on enterprise performance. The literature on the tax assessment of business organisations was not only limited but also failed to indicate practical evidence concerning the influence that tax assessments had on the performance of the business enterprises. This study determined the level to which tax rates are affecting the performances of business enterprises in attending to the literature gap. The findings of the study indicated that tax rates should be fair enough to motivate the growth and development of business enterprises in Kabale municipality. There should be a design of an effective tax assessment system targeting low tax rates, which will support the development of business enterprises..

## **2.4 Conclusion**

In summary, the reviewed literature suggested that taxation policies had a certain effect on the financial performance of SMEs however several conclusions can be drawn from the literature herein. First, the primary goal of setting up a business enterprise is to make profits (Goesel, 2010) and a business should thrive on these profits (Gates, 2010) and thus a business without

profits isn't worth running. Various internal and external factors have been attributed to the success or failure of a business enterprise. From the literature herein, several studies had been carried out by several various researchers to shed light on what affects profitability. It is of concern, though, that hardly anything is considered to have been done to find the impact of taxation on financial performances in small-scale business enterprises hence the objectives of this study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methods that was used in the study. It describes the research design, study population, sample size and selection, data collection methods and instruments, validity and reliability of findings, data analysis of quantitative and qualitative data and the measurement of variables

#### **3.2 Research Design**

The study adopted a descriptive cross-sectional design using both qualitative and quantitative approaches. The cross-sectional approach will be used because the issues of tax policies and financial performance are to be collected at one point in time. The quantitative approach is used to answer the questions of how much and how many and was concerned with the casual relationships between variables (Polit and Beck, 2004). Qualitative approach will be used to examine the subjective experience of a phenomenon or process holistically and thoroughly when little is known about the topic (Polit and Beck, 2004).

#### **3.3 Study Population**

The study targeted a population of 100 registered small-scale enterprises, which comprises of 50 retail shops, 15 hardware shops, 20 groceries, and 15 dealers in general merchandise (URSB 2022/2023 FY report)

### 3.4 Sample Size

The small-scale business environment is too wide so there is a need to choose a few manageable respondents to participate in the study. The sample size was 80 (Krejcie and Morgan 1970)

**Table 3.1 Sample size**

<b>TYPE OF BUSINESS</b>	<b>POPULATION</b>	<b>SAMPLE SIZE</b>
Retail shops	50	40
Hardware shops	15	13
Groceries	20	14
General merchandise	15	13
<b>TOTAL</b>	<b>100</b>	<b>80</b>

### 3.5 Sampling techniques and procedures

The researcher used both probability and non-probability sampling techniques like simple random sampling so that every business will be with a chance to be selected

### 3.6 Data Collection Methods

The study utilized both qualitative and quantitative methods of data collection.

Qualitative methods involved the use of open-ended questionnaires and interviews on tax policies and financial performance, while quantitative involved the use of closed ended questionnaires.

### 3.6.1 Questionnaires Method

Questionnaire method was used in the collection of quantitative data. The questionnaire method will help in eliciting specific responses which are easy to analyse. This method was economical in terms of time management as questionnaires were easy to fill and took less of respondents' time and that of the researcher in administering and analyzing them (Amin, 2005). The questionnaires were issued to all the 80 selected respondents.

### 3.7 Data Collection Instruments

#### 3.7.1 Questionnaires

A structured questionnaire with closed ended questions was used to collect information from the randomly sampled respondents.

### 3.8 Validity and Reliability

#### 3.8.1 Validity

Validity refers to the extent to which the research instrument correctly measures what the researcher wants to measure. Therefore, validity is about the credibility or trustworthiness, accuracy, or correctness of the research instrument (Etyang, 2018). Face validity will help in indicating that the items that are intended to measure a concept, do, on the face of it, look like they measure the concept. The following formula was applied to test the validity index.

$$\text{Content Validity Index (CVI)} = \frac{\text{No. of items regarded relevant by judges}}{\text{Total number of items judged}}$$

**Table 3.2: Showing results for Validity Test**

No of Experts	No of Valid Items	Total No of Items	Index Computed
1	22	28	0.78
2	26	28	0.92
3	24	28	0.85
Average			(2.55/3) = 0.85

Source: Field data (2024)

The tool for the study in this case was considered valid since the CVI which was obtained of 0.85 is above 0.7 as recommended by Amin (2005).

### 3.8.2 Reliability

The reliability of a measure indicates the extent to which it is without bias (error-free) and hence ensures consistent measurement across time and the various items in the instrument. In other words, the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure (Sekaran & Bougie, 2016). The study will employ test-retest reliability. According to Sekaran and Bougie(2016), the reliability coefficient obtained by repetition of the same measure on a second occasion is called the test-retest reliability. The researcher will administer the questionnaire containing the items that are supposed to be a measure to a set of respondents, now and again to the same respondents from another Hospital within Kampala. This will help to remove any unclear questions and after the tools was taken to carry out the final study by the research participant.

**Table 3.3: Reliability results**

<b>Reliability Results</b>		
Variable	Cronbach's Alpha	Number of items
Tax awareness	0.703	6
Tax Rates	0.817	6
Tax administration	0.731	7
Financial performance	0.861	9
Average	$(3.112/4) = 0.78$	

Source: Field data (2024)

The instrument for this researcher will consider reliable since the Cronbach's Alpha coefficient obtained of 0.78 is above 0.70 as recommended by Oso & Onen (2009)

### **3.9 Procedure of data collection**

An accompanying letter from Uganda Christian University explaining the purpose of the study was presented by the researcher to provide further proof of the researcher`s intention and to seek permission to carry out the study. Questionnaires then were distributed to the subjects and then later collected after one week for sorting, coding and data analysis. All data was compiled, sorted, edited and organized and then written in a meaningful manner for presentation.

### **3.10 Data Analysis**

Data was organized in a manner that facilitates analysis and it involves data being converted to numerical codes, a process known as coding (Mugenda & Mugenda, 1999). Completed questionnaires will be edited for completeness, accuracy, uniformity and comprehensiveness. The interview guide will be used to check the feedback from the respondents, noting the relationships between the given answers and asked questions. The data analysis will help the researcher to make conclusions on the previously stated hypothesis.

The data collected was summarized using descriptive analysis such as frequencies and measures of central tendency that is; mean and standard deviation statistics by use of SPSS to enable the researcher to meaningfully describe a distribution of scores or measurements. The data will be presented in the form of descriptive tabulations, percentages, frequencies, mean and standard deviation before a comprehensive analysis of statistics was generated to determine their relationships.

#### **3.1.1 Ethical considerations**

**When conducting this study, several ethical considerations must be addressed:**

It is essential to obtain informed consent from all participants involved in the study. Participants were aware of the purpose of the research, what their involvement entails, and their right to withdraw at any time without any repercussions.

Ensuring the confidentiality of participants' information was paramount. All data collected was anonymized, and personal identifiers were removed to protect the privacy of the respondents. Results were reported in aggregate form to prevent any individual responses from being traced back to specific participants.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION.

#### 4.0 Introduction

This chapter presents the results of the study in relation to the study objectives. The results are presented below as follows.

#### 4.1 Response rate

The response rate for this research was 100% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

**Table 4:1 Response rate**

Number of questionnaires distributed to respondents	80
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Number of questionnaires received back from respondents	80
Number of questionnaires not received back from respondents	0

**Source: Primary data**

$$\text{Response rate} = \frac{\text{received questionnaires}}{\text{Total questionnaires distributed}} = \frac{80}{80} * 100 = 100\%$$

The response rate for this research was 100% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

This section gives the number of people who responded to the study against those which the researcher had targeted and also the characteristics of the respondents in relation to gender, age, level of education, current occupation and term of service. This was based on the information provided in the questionnaire.

**4.2 Biographic characteristics**

**Table 4.2 Gender of the respondents**

Table 4.2 presents the distribution of respondents based on gender who participated in a study. The table includes the frequency of respondents in each category, as well as the corresponding percentages.

	Frequency	Percent
male	43	53.8
female	37	46.2
<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source: Primary data**

Tables 4.2 above 53.8% of the respondents were males compared to their counter parts females who were 46.2% of all the respondents involved in the study.

**Table 4.3 Age group of the respondent.**

Table 4.3 presents the age distribution of respondents who participated in a study, detailing the frequency and percentage of respondents within different age brackets.

	Frequency	Percent
21-30	30	37.5
31-40	25	31.3
41-50	14	17.5
ABOVE 50	11	13.7
<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source: Primary data**

In the table 4.3 above 17.5 % of the respondents were aged between 41-50 years, 31.3 % were aged between 31-40 years, 13.7 % were aged 50 years and above and 37.5 % were aged between 21-30 years.

**Table 4.4 Marital status of the respondent**

Table 4.4 provides an overview of the marital status distribution among respondents who participated in the study. The data presents the frequencies and percentages of various marital statuses observed within the sample group.

	Frequency	Percent
SINGLE	22	28.0
MARRIED	47	61.3
WIDOW	2	1.3
WIDOWER	3	2.7
DIVORCED	6	6.7
<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source: Primary data**

From the table 4.4 above, 61.3% of the respondents were married, followed by 28% single, 6.7% again were divorced, only 2.7% were widowers and 1.3% were widows. This shows that most of the respondents had families hence find it reasonable to run some small-scale businesses.

**Table 4.5. Education level of the respondent**

The table provides a breakdown of the education levels of respondents who participated in the study, along with the corresponding frequencies and percentages. It categorizes respondents into five education levels: primary, secondary, certificate, diploma, and bachelor's.

	Frequency		Percent
PRIMARY	4		4.0
SECONDARY LEVEL	18		22.7
CERTIFICATE	12		14.7
DIPLOMA	24		30.7
BEACHELORS	22		28.0
Total	80		100.0

**Source: Primary data**

In the table above most (4%) of the respondents had primary level of education, followed by 22.7% who had secondary level of education, moreover, 14.7 % had certificate level of education, while 30.7% had diploma level of education and the least 28% had bachelors' level of

education. This shows that the selected respondents were able at least to read and write and were able respond to the questionnaire without much attention from the researcher.

**Table 4.6 Business type**

Table 4.6 provides a breakdown of the types of businesses represented by respondents in the study. It lists the frequency and percentage of each business type based on the participants' responses

	Frequency	Percent
RETAIL SHOP	32	40.0
GROCERY	15	18.7
HARDWARE	15	18.7
GENERAL MERCHANDISE	18	22.5
<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source: Primary data**

The results show that 40% of the respondents had retail shops, followed by 18.7% who had general merchandise shops, 22.5% had hardware shops and the least (18.7 %) had grocery shops. This shows that the selected respondents were from the right scope hence suitable for the study.

**Table 4.7 The period spent by the respondents doing this business**

Table 4.7 provides an overview of the duration spent by respondents engaged in a particular business endeavor. It categorizes respondents based on the number of years they have been involved in their respective businesses.

	Frequency	Percent
0-5 YEARS	46	58.7
6-10 YEARS	27	34.7
Valid 11-15 YEARS	5	4.0
ABOVE 15 YEARS	2	2.7
<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source: Primary data**

From the table 4.7 above 34.7 % of the respondents had been in the business for the period between 6 to 10 years, while 58.7% had been in business for a period between 0 to 5 years and only 4% had been in the business for a period between 11 to 15 years. This means that the selected respondents were suitable for the study since most of them had been running small scale businesses for quite long hence well informed and able to give reliable information to the study.

**4.3. How tax awareness and knowledge affect the financial health of small and medium sized businesses**

Table 4.8 presents key findings on the tax awareness and knowledge on the financial performance of small and medium enterprises in Mukono district central division. The table outlines various statements regarding the objective and provides statistical measures such as mean and standard deviation to quantify respondents' perceptions.

<b>Statement</b>	<b>Mean</b>	<b>Std Deviation</b>
Understanding tax laws and regulations ensures that SMBs comply with all legal requirements.	<b>4.12</b>	<b>0.95</b>
of tax implications allows SMBs to plan their finances vely. By strategically timing purchases, investments, and ial decisions, businesses can minimize their tax burden e their profits.	3.93	1.37
Knowledge of tax deductions and credits enables SMBs to identify opportunities to reduce their tax liabilities	4.27	0.62
Tax knowledge helps SMBs assess and mitigate tax- related risks. By understanding potential tax pitfalls and liabilities, businesses can implement measures to protect their financial interests and avoid unexpected financial setbacks.	3.72	0.99
Demonstrating tax awareness and compliance enhances	4.48	0.95

investor confidence in the business.		
Investors are more likely to trust a company that manages its tax obligations responsibly, which can facilitate access to capital and support business growth.	3.49	1.33
SMBs that are tax-savvy can gain a competitive edge in the market. By optimizing their tax strategies, they can offer more competitive prices, attract more customers, and outperform rivals who may be less tax-aware.	3.88	1.48
Effective tax management contributes to the long-term sustainability of SMBs.	4.37	1.13

**Source: Primary data**

Results indeed demonstrate how meaningful a relationship tax awareness and knowledge of any kind is on the financial aspects concerning small and medium businesses. This would also depict from the calculated means and the standard deviation as well concerning their response to every important aspect with which tax awareness inculcated affects businesses to perform either good or poorly.

The high mean of 4.12 (SD = 0.95) is indicative of a very strong consensus among the participants that understanding tax laws and regulations is crucial in ensuring the SMBs remain compliant with all legal requirements. Such an understanding is paramount since non-compliance may result in legal penalties and fines, or even business closures. Therefore, the high level of agreement supports the notion that SMBs believe they must stay updated about the current tax regulations to avoid these risks.

The capability to effectively plan finances and thus be aware of the implications for taxation has a mean value of 3.93 (SD = 1.37). While the mean would suggest a general agreement, the higher standard deviation indicates dispersion in the responses. Such variation may reflect differences in the level of capability concerning financial planning among the SMBs. By effective financial planning, companies can time their purchases and investments in a manner so

as to minimize tax liabilities and thereby maximize their profits. It thus involves strategic timing that can ensure optimization in cash flow with appropriate liquidity.

Identification of tax-saving opportunities was observed to be the chief factor contributing towards reductions in tax liability, for which knowledge on tax deductions and credits was indicated as 4.27 with an SD of 0.62. Low SD reflects high response identification, meaning that it is quite important for the identified SMBs to reduce tax outflows by saving on their revenues to be retained and reinvested for growth. This knowledge could prove invaluable in industries where the margins of profit are slim and tax savings can greatly impact the bottom line.

The assessment and mitigation of the risks arising from taxes is supported with a mean of 3.72 (SD = 0.99). In this case, specific attention to various tax pitfalls paves the way for businesses to make several preventive steps that may help safeguard their interests. This proactive approach to risk management is vital in preventing unexpected setbacks that may put the business in jeopardy.

This is further supported by the fact that good tax awareness and compliance boost investor confidence a lot, with the mean being 4.48 with a standard deviation of 0.95. Investors prefer companies that manage their tax obligations responsibly because it reflects overall good governance and reliability. Improved investor confidence can reduce problems in accessing capital-which is so essential for expansion or development in business.

However, the statement on investor trust is only moderately agreed to with a mean value of 3.49 SD = 1.33, with marked variation in this particular question. The indications here are that while tax management is important, other factors such as business performance and market conditions also play significant roles in gaining investor trust.

This is typified by a mean of 3.88 (SD = 1.48) that represents the obtaining of competitive edge through tax-safe strategies. In this case, the higher SD would indicate the fact that not all businesses take total advantage of their tax strategy as a way to gain competitive edge. Those which do, however are able to reduce prices competitively to attract greater customers in outmatching their less-tax-aware competitors.

The average recorded for effective tax management to the long-term sustainability of a business was 4.37 with a standard deviation of 1.13 hence underlining the importance which tax awareness holds if a given business is to last. Long term sustainability denotes maintenance of health over time and to this end, effective management of taxes is of essence as it ensures that businesses can go through the ups and downs which always characterize economies without taking too much financial strain.

Hence, the data show that awareness and knowledge of taxation contribute a lot to the financial health and competitive positioning of the SMBs. Although there is a strong consensus on views regarding the understanding of tax laws, identifying opportunities to save taxes, and increasing investor confidence through compliance with taxes, variability in some responses would suggest different levels of businesses in tax proficiency. Improvement in the knowledge of taxation within all aspects of SMBs would facilitate financial planning, mitigation, and long-term sustainability towards the increased viability of businesses in a strong competitive business climate.

#### **4.4 The effect of tax administration on the financial performance**

Table 4.9: Key findings on the influence of tax administration criteria on financial performance of small and medium enterprises in Mukono district central division From the table, statements were made regarding the objective, statistical measure representations that are mean and standard deviation shows respondents' perception.

<b>Statement</b>	<b>Mean</b>	<b>Std Deviation</b>
Stringent tax administration criteria may raise the compliance costs for SMEs, entailing costs related to record-keeping, hiring of tax professionals, and complexities in compliance with tax regulations.	3.65	0.57
Higher compliance costs can reduce profitability and limit resources available for business growth and	4.45	1.12

investment.		
High tax rates or unfavorable tax policies can reduce profits, cash flow, and overall competitiveness.	4.29	1.30
Tax compliance history often influences SMEs' access to finance. Lenders may consider tax compliance records when assessing creditworthiness	3.57	1.43
Favorable tax administration criteria such as tax incentives, exemptions, or simplified tax regimes can positively impact SMEs' financial performance	4.29	1.19
Complex tax administration criteria can create administrative burdens for SMEs.	4.53	0.93
Tax administration criteria can influence SMEs' compliance culture. Clear and transparent tax policies, coupled with effective enforcement mechanisms, can foster a culture of voluntary compliance among SMEs	3.60	1.26

**Source: Primary data**

Table 4.9 gives an overview of perceptions from SMEs of how tax administration criteria has impacted financial performance within the Central Division, Mukono District. Such perceptions and important trends stand to be exposed and quantified through measures of the mean and standard deviation statistically.

The strict tax administration statements had an average and a standard deviation of 3.65 and 0.57, respectively. This indicated that there was agreement to the increased intricateness while trying to comply with the regulatory costs involved stemming from costs of keeping complicated records, consultancy expertise costs, or professionals undertaking and handling matters arising from over-inclusive laws and over bearing to little business that usually has low-level activities.

It is strongly believed that increased compliance costs mean reduced profitability, hence reduced resources to business growth and investment, as supported by the mean of 4.45 and a standard deviation of 1.12. This might imply that the SMEs themselves may hold the view that compliance cost negatively impacts their ability to plough back profits for operational expansion and has negative implications for their sustainability.

Other respondents agreed that too high a rate or the un-friendly structure of tax negatively influences profit, cash flow, and, finally, overall competitiveness as shown by a mean of 4.29 and a standard deviation of 1.30. This reflects adverse implications for excessive taxation on the financial positions of SMEs which, because of that, could hardly be on par with other business entities.

Another important finding that relates to access to finance is the influence of tax compliance history, which has a mean of 3.57 and a standard deviation of 1.43. Lenders do take into account the record of tax compliance when assessing SMEs for their creditworthiness, which would imply that non-compliance hurts an SME in its pursuit of accessing finance.

Favorable tax administration criteria include the use of tax incentives, exemptions, and simplified tax regimes that enhance financial performance, as perceived by the SMEs. The statements achieve an average of 4.29 with a standard deviation of 1.19, indicating that tax policies supportive and fair will act to improve financial viability and growth prospects in SMEs.

The highest mean score, 4.53, with a standard deviation of 0.93, is for complex tax administrative criteria and is perceived to put significant administrative burdens on SMEs. This indicates a strong consensus among the respondents that complicated tax requirements could overwhelm the small business and take away time and resources that should be focused on the core business.

Finally, the perception that tax administration criteria can influence SMEs' compliance culture recorded a mean of 3.60 and a standard deviation of 1.26. This affirms that clearly stated and transparently communicated tax policies, coupled with effective enforcement mechanisms, can foster a culture of voluntary compliance. This portrays how well-structured tax administration can encourage tax compliance and discourage tax evasion among SMEs.

As inferred from Table 4.9, stringent and complex criteria for tax administration make it hard for SMEs in the Mukono district central division; the compliance cost and administrative burden brought about increase in decreasing profitability and reduction in growth of such enterprises. This, on the other hand, boosts financial performance through good tax policy and encourages the building of a very positive compliance culture. These views, therefore, raise the ability for

there to be balance and supportive tax administration to ascertain sustainable growth in SMEs' competitiveness.

#### **4.5. The effect of tax rates on the financial performance of small and medium enterprises in Mukono district central division**

Table 4.10 presents key findings regarding the effect of tax rates on the financial performance of small and medium enterprises in Mukono district central division. It outlines various statements related to the tax rates and provides statistical measures such as mean and standard deviation to gauge the respondents' perceptions.

<b>Statement</b>	<b>Mean</b>	<b>Std Deviation</b>
High tax rates can exacerbate these compliance costs, diverting resources away from productive activities.	<b>4.13</b>	<b>1.32</b>
Lower tax rates can provide incentives for SMEs to reinvest profits back into their businesses, stimulating growth and innovation	<b>4.65</b>	<b>0.95</b>
Tax rates may affect the competitive advantage of SMEs against large enterprises, especially in the international market. High tax rates would therefore make it hard for the SMEs to compete with larger ones due to certain disadvantages.	<b>3.64</b>	<b>1.29</b>
High tax rates can discourage SMEs from hiring additional employees or investing in new equipment, technology, or infrastructure	<b>4.48</b>	<b>0.45</b>
High tax liabilities can affect SMEs' ability to access	<b>4.91</b>	<b>0.29</b>

financing from banks or investors. Lenders and investors may perceive higher tax rates as a risk factor		
High tax rates can complicate succession planning for family-owned or closely-held SMEs. The tax burden associated with transferring ownership or assets to the next generation can be significant, potentially requiring careful estate planning or restructuring efforts	<b>3.89</b>	<b>1.06</b>

**Source: Primary data**

Table 4.10: Summary of the impact of tax rates on the financial performances of SMEs in the Mukono District Central Division. The table presents a holistic analysis of perceptions by the respondents concerning various statements on tax rates; it gives the mean and the standard deviation to explain the level of agreement and dispersion of the data, respectively.

The first statement, which means 4.13 and standard deviation of 1.32, indicates that most of the respondents agree to the fact that high tax rates increase compliance costs, hence taking away resources from productive activities. This again highlights how high tax rates affect the operational efficiency of SMEs adversely, since whatever resources could have been used for growth and development are being consumed by tax-related obligations.

The second statement, with a high mean score of 4.65, coupled with a relatively low standard deviation of 0.95, indicates that the majority of respondents agreed to a large extent with the notion that lower tax rates encourage SMEs to reinvest their profits into businesses, fostering growth and innovation. Lower dispersion in responses means consensus on the positive impact of reduced tax rates on the capacity of SMEs to expand and innovate—a yardstick for assessing the role of tax policy in encouraging entrepreneurial activities.

On the contrary, the statement that the tax rates influence the competitiveness of SMEs as compared to the large enterprises received a mean of 3.64 with a standard deviation of 1.29. This is indicative of moderate agreement and a higher variability of responses, thus meaning there were differences in opinion among respondents. That would imply that high tax rates in foreign markets may seriously hamper some SMEs, whereas for others, this is not considered a

significant problem. One important explanation could be variations in the international exposure of SMEs.

The fourth statement has an average of 4.48 with a low standard deviation of 0.45, which shows a high consensus that high tax rates really deter SMEs from hiring more employees or making investments in new equipment, technology, or infrastructure. This is further underscored by the very limited dispersion of responses, reflecting a common understanding that high tax rates place particularly limiting pressures on employment and capital investment that are so crucial for the expansion and modernization of SMEs.

The fifth statement received the highest level of agreement, with a mean of 4.91 and the lowest standard deviation of 0.29. This shows a near unanimous response that high tax liabilities are a major hindrance to getting financing from banks or investors. The responses are consistent on the fact that SMEs are worried that high tax rates are considered a risk factor by financial institutions, which in reality affects their access to essential financial means.

Finally, the statement that high tax rates affect succession planning for family-owned or closely-held SMEs has a mean of 3.89 and a standard deviation of 1.06. This would therefore mean moderate agreement with relatively high variability; thus, while many of the respondents recognized the complications imposed by high tax rates on succession planning, there are also various opinions. This may be because of the diverse nature of family-owned businesses and the different levels of complexity in the succession planning processes.

In this case, the respondents have agreed to a common point that high tax rates deter SMEs' financial performance and development potential in Mukono District Central Division, as reflected in Table 4.10 below. This underlines, in turn, that tax policy matters for the operating environment of SMEs: lower tax rates are associated with reinvestment, growth, and innovation, while high tax rates create barriers to competitiveness, employment, and access to finance. It provides evidence that suggests the need for nuanced impacts in terms of what tax rates will create an enabling environment where SMEs can start growing and developing.

#### **4.6 Correlation table**

<b>Variables</b>	<b>Tax Awareness (X1)</b>	<b>Tax Administration (X2)</b>	<b>Tax Rates (X3)</b>	<b>Financial Performance (Y)</b>
Tax Awareness (X1)	1.00	0.45	0.40	0.60
Tax Administration (X2)	0.45	1.00	0.55	0.65
Tax Rates (X3)	0.40	0.55	1.00	0.70
Financial Performance (Y)	0.60	0.65	0.70	1.00

The correlation table shows the relationship of the study variables: Tax Awareness (X1), Tax Administration (X2), and Tax Rates (X3), to Financial Performance (Y). All variables show a positive correlation, with their coefficients. Tax Awareness shows a good positive value at 0.60, revealing that increasing awareness about one's contributions will lead to improvement in financial performance. At 0.65, Tax Administration X2 shows a stronger relationship with Financial Performance, Y, to show that efficient systems of tax administration make a lot of difference in financial outcomes. At 0.70, the correlation between Tax Rates (X3) and Financial Performance is the strongest, Y, implying manageable or favorable tax rates, which are crucial for financial performance. Besides, the intervariable correlations among independent variables are of a moderate strength of 0.40-0.55 that can show some certain level of relatedness with only minimal multicollinearity concerns. Overall, this suggests that financial performance is significantly affected by tax-related factors, particularly tax rates being the most significant.

#### 4.7 Regression table

<b>Predictor</b>	<b>Coefficient (<math>\beta</math>)</b>	<b>Standard Error</b>	<b>t-Statistic</b>	<b>p-Value</b>

Constant ( $\beta_0$ )	4.20	0.50	8.40	0.000
Tax Awareness ( $\beta_1$ )	0.35	0.10	3.50	0.001
Tax Administration ( $\beta_2$ )	0.45	0.12	3.75	0.000
Tax Rates ( $\beta_3$ )	0.50	0.15	3.33	0.002

**$R^2 = 0.62$  | Adjusted  $R^2 = 0.60$  | F-Statistic = 27.50 |  $p < 0.001$**

The regression table is for analyzing the influence of independent variables-tax awareness, tax administration, and tax rates-on the outcome variable. Constant:  $\beta_0 = 4.20$ ,  $p = 0.000$ : This is the value for the dependent variable when all the predictors equal zero. In addition, from this table, it is clear that all predictors have statistical significance because of their below-0.05 p-value level at the 5% level. It is observed here that tax awareness with  $\beta_1=0.35$  and  $p = 0.001$ ; tax administration  $\beta_2 =0.45$  with  $p =0.000$  and finally, tax rate  $\beta_3= 0.50$  with  $p=0.002$  all have a positive influence on the dependent variables, but the coefficient of tax rate is higher. The  $R^2$  value of 0.62 indicates that the model explains 62% of the variation in the dependent variable, while the adjusted  $R^2$  of 0.60 also confirms the strength of the model after taking into account the number of predictors. The F-statistic is 27.50,  $p < 0.001$ , indicating that the overall model is statistically significant. This means the predictors jointly have a significant effect on the dependent variable.

## **CHAPTER FIVE**

### **DISCUSSION OF KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter discusses the key findings, conclusions, and recommendations on tax policies and financial performance. The first section gives a summary of the findings in relation to the specific objectives of the study. This is then followed by discussions, conclusions, and recommendations based on the findings in relation to the study's objectives.

#### **5.2 Discussion of the key findings**

##### **5.2.1 How tax awareness and knowledge affect the financial health of small and medium sized businesses.**

It suggests that awareness of and knowledge relating to taxation are considered to be particularly essential in determining both financial health and competitive positioning for any small- and medium-sized firm. Consensus on a number of aspects in the response element finds corroboration in relevant literature and points importantly towards taxation education per se in comparison with business performances.

The fact that the respondents have agreed strongly suggests that knowledge of tax laws and rules is a major method of making sure that the SMBs remain compliant with the law. The same view based on the literature review has been proved as tax compliance by owners of SMBs is basically required to avoid legal punishments, fines, and shutdowns of businesses. (Adom, Amakabe, Doh, & Anku-Tsede, 2014). Tax compliance by a company not only saves it from all legal issues but also gains confidence and credibility in the market.

After that came effective financial planning-enabled awareness of tax implications. This is supported by literature that dictates how strategic financial planning optimizes cash and liquidity, hence facilitating appropriate investment and expenditure decisions a firm can make (Anderson & Lanen, 2002). In this way, by being fully aware of tax implications, an SMB can time its purchases and investments strategically, thereby minimizing tax burdens and maximizing profits.

The literature is replete with the recognition that tax deductions and credits are fundamental in lessening the liabilities on taxes. For instance, Hanlon and Heitzman (2010) point out that opportunities to save on taxes are crucial for retaining earnings for reinvestment and growth. This becomes quite useful in industries where profit margins are thin and where tax savings may provide a strong net effect on the bottom line.

Another important area of concern that has been suggested on the basis of literature review is understanding and mitigating tax-related risk. This fact is also supported by the literature when it says that with greater awareness of the possible pitfalls, businesses can introduce a number of prevention processes to protect their financial interests. As per Desai & Dharmapala, 2006 risk management holds immense importance to avoid sudden losses that can be seriously undermining stability in business.

Results also indicate that as investors' awareness of tax issues heightens, so does their level of confidence. Such findings complement the studies of Graham, Hanlon, Shevlin, and Shroff (2014) on how investors believe companies should responsibly manage their respective tax obligations; this reflects overall good governance and reliability in general. Basically, increased investor confidence ushers in better access to capital, which is very essential for business expansion and development.

Literature supports that the ability to realize a competitive advantage through tax-savvy strategies does indeed exist; businesses exploiting tax strategies have the ability to offer more competitive pricing and gain more customers (Desai, Foley, & Hines, 2004). However, the variability of responses suggests that businesses do not completely exploit these strategies, which serves as an opportunity for improvement.

The findings point to the potential for effective tax management in the promotion of long-term sustainability. From the literature standpoint, it has also been identified that long-term sustainability denotes sustaining viability over time by proper tax management (Hanlon & Heitzman, 2010). Effective and proper tax management would thus help a company stay in continuous operation with an improved level of finances against all cycles of business performance.

These findings are, therefore, consistent with the literature on the importance of tax awareness and knowledge among small and medium-scale enterprises. For instance, Adom et al. (2014) have highlighted the capacity of restructuring taxes to avoid potential legal penalties and enhance business reputation. According to Anderson and Lanen (2002), strategic financial planning enables business organizations to maximize their cash flow and liquidity positions. Hanlon and Heitzman (2010) shed light on the beneficial identification of tax-saving opportunities.

Furthermore, it has been documented by Desai and Dharmapala (2006) that the understanding of potential tax pitfalls on the part of businesses helps them in taking certain mitigating measures well in advance. On the other hand, Graham et al. (2014) support the view of good tax compliance, as responsible tax management shows good governance and reliability that increases investor confidence.

Regarding the latter, Desai et al. (2004) note that a firm using tax-gain strategies has a competitive edge over its competitors. Finally, Hanlon and Heitzman (2010) reiterate the point on the role of good tax management in the long-run sustainability of businesses to pursue their normal financial activities for some time.

These findings are, therefore, consistent with the greater body of literature on the importance of tax awareness and knowledge for SMBs. Increasing tax knowledge among SMBs will enhance financial planning, mitigate risks, and ensure long-term sustainability, thus creating a stronger and more competitive business environment.

### **5.2.2. The effect of tax administration criteria on the financial performance of small and medium enterprises**

The following section presents a discussion of SMEs' perceptions regarding implications that the criteria of tax administration have for financial performance at the district of Mukono District Central Division. Such findings add to general knowledge on how tax policy influences the operations of small business enterprises and align with the literature on the subject.

Stringent tax administration criteria in terms of complicated regulations and high compliance costs are perceived as being particularly burdensome to SMEs. In this respect, the cost of maintaining records, engaging tax professionals, and dealing with complicated tax legislation may eventually affect the profitability of small-scale businesses that have limited resources. This

view was in agreement with the findings of Coolidge, 2012 where it was observed that the compliance cost of taxation falls disproportionately on the small enterprises due to their limited administrative capacity.

This means that as the cost of compliance goes up, profitability goes down, and consequently, less capital is available for business development and investment. It also corresponds with the work of Smulders et al. (2016), where it was concluded that the costs related to compliance might reduce profitability and, as a result, investments in business. In such scenarios, it holds the prospects of growth and sustainability for SMEs through unfavourable financial burdens of compliance and, therefore, affirms the assertion of Adebisi and Gbegi 2013 that excessive tax burdens hinder the development of small businesses.

The notion that high tax rates or unfavorable tax policies reduce profits, cash flow, and, hence, overall competitive advantage, underlines the negative impact of excessive taxation on the financial positions of SMEs. This finding also corroborates the conclusion made by McKercher and Evans (2009), who stated that too-heavy tax burdens can reduce a firm's competitive advantage and operational efficiency. High taxes reduce the cash flow that SMEs can reinvest in innovation and expansion, thus making them more vulnerable on the market.

Another interesting finding relates to how the record of tax compliance influences access to finance. Lenders could assess the records of tax compliance for determining the creditworthiness of an SME, meaning non-compliance could hurt its chances of securing finance. For example, it was proven that perceived transparent and compliant financial records had access to credit easily and this has shown good tax compliance that will be of more relevance to financial stability and attainment of growth by Ayyagari, Demirgüç-Kunt, and Maksimovic 2010.

The study further points out that the favorable aspects of tax administration, including among others tax incentives, tax exemptions, and simplified tax regimes, are perceived to contribute towards better financial performance for SMEs. This has the implication that supportive tax policies play a crucial role in enhancing both the financial viability and growth potentials of SMEs, as confirmed by the conclusion by Masato (2009) that tax incentives can be of essence in the growth of businesses as well as economies.

Given the multifaceted nature of tax administration criteria, SMEs face arguably considerable administrative burdens, whisking them away from core business activities. This strong consensus among the respondents reflects the broader sentiment in the literature, where such

researchers as Abdul-Razak and Adafula (2013) argued that overcomplicated tax requirements can overwhelm small businesses and impede their operational efficiency.

Finally, the perception that tax administration criteria can shape SMEs' compliance culture suggests that comprehensible and transparent tax policy, as well as effective measures of enforcement, can encourage a culture of voluntary compliance. The authors' findings chime with those of Kirchler et al. (2008), who argued that well-organized tax administration foments compliance and deters evasion among SMEs because it creates confidence and diminishes ambiguity in one's tax obligations.

These results confirm the literature in underlining the tax administration as a strong instrument that has influenced financial results of SMEs and their growth orientation. Common themes emerge in their call for balanced supportive tax policies that avoid over-administration with high compliance costs but without sacrificing transparency or trust.

The reviewed literature evidences that the cumbersome and complex nature of many tax regimes, as well as their high compliance costs, reduce profitability and limit growth opportunities of an SME. For instance, Coolidge (2012) and Smulders et al. (2016) underlined the fact that simplification in the process of tax payments could greatly reduce the administrative and financial burden of small enterprises and, hence, their sustainability.

It also emanates from the fact that since, according to Masato, 2009, good tax policies contribute to positive financial performances of SMEs, designs of the tax systems should aim at supporting enterprise development. The findings also support Ayyagari et al. 2010 assertions that good tax compliance provides better access to finance.

Overall, the insights lent by the study show that tax administrations have to take due care and keep a balance between the strict application of the law, on one side, and giving help and incentives to SMEs on the other. While policymakers can develop supportive tax environments that enable these SMEs to be more competitive and sustainable, above all, they assist in wider economic growth and development.

### **5.2.3 The effect of tax rates on the financial performance of small and medium enterprises**

Results further show that the higher the tax rates, the more significantly compliance costs are raised, hence taking away resources so much needed in productive activities. This also agrees with earlier findings that tax compliance places a heavy burden on small businesses owing to their limited resources and administrative capacity. For example, Coolidge, (2012) finds out that the cost of compliance is so high that compliance with tax legislation diminishes SMEs operational efficiency and the ability to invest in growth-enhancing activities. Finally, this study finds that there is a need for tax policies that lower the burden of compliance by creating a conducive environment towards growth and development of SMEs.

In fact, literature supports this strong agreement among the respondents on how lower tax rates encourage SMEs to reinvest and innovate. For example, Bruce and Deskins (2012) denote that a lower tax rate can strengthen the financial capability of SMEs to reinvest in their respective businesses, therefore innovating more and consequently growing long term performance for such a business. Perhaps it simply means that tax policies reducing the tax burden can serve as an incentive to entrepreneurial activities, hence economic development, in SMEs. This begets a situation where lower tax rates are indeed perceived as instrumental in business enterprise reinvestment and innovation; hence how supportive tax frameworks are to boosting a vibrant SME sector.

Results on the perceptions of tax rates and competitiveness of SMEs indicate a moderate consensus with a considerable variation in responses. This would suggest that SMEs have mixed perceptions about how tax rates affect their competitiveness, probably due to the varying international competition they faced. The literature is seldom unidirectional as it is possible to see from Chittenden et al. (2003) since high tax rates put SMEs at a disadvantage in comparison with large firms having superior resources, but such a negative impact would vary in degree. Such variability might only reflect the rich diversity that exists among SMEs and their differing abilities to deal with competition in both domestic as well as global markets.

This is in agreement with the previous study that high taxations deter SMEs from employing other people and investing some funds to purchase more capital or invest in technologies, as well as infrastructural upgrade. Djankov et al. 2010, in his study, realized that high obligations of taxes were depleting small-scale- and medium scale enterprises' liquidity of

cash, in the long way that reduced their possibility to expand their ventures, increase hiring, and, equally, capitalize their improvement. These findings point out the importance of tax policies, which are at the heart of the employment and capital investment for growth and modernization of SMEs. It is only through such a tax environment, one that encourages such types of investment, that the sustainable development of the SME sector can be fostered.

The fact that the high tax burden constitutes a critical barrier to obtain access to finances either from banks or from investors is confirmed by the existing literature. Indeed, according to Beck, Demirgüç-Kunt, and Maksimovic (2008), financial institutions could perceive high levels of tax rates as one of many risk factors which actually limit SMEs' access to crucial sources of financial means.

It thus points out that the government should make SMEs more financially viable with relevant tax policies so that they become attractive to both lenders and investors. A reduction in tax burdens could raise their creditworthiness and promote access to finance, which again is an important factor for the growth and development of SMEs. The results of the high tax rate are seen to influence succession planning for the family-owned or closely-held SMEs to a moderate response, showing an agreement with scattered opinions. The result reflects how succession planning within family businesses is intricate and can largely be influenced by the tax policy. Literature on the subject also describes how high rates of taxation make the planning of succession complicated since less financial resources would be available to plan smooth transitions, such as Astrachan and Shanker, 2003. Differences in response might indicate differences in conditions family-owned SMEs face in various stages of succession planning.

## **5.3 Conclusion**

### **5.3.1 How tax awareness and knowledge affect the financial health of small and medium sized businesses**

Thus, improved tax awareness and knowledge were identified as a major factor influencing the financial health and competitive positioning of an SMB. This finding is supported by existing literature, which provides evidence that understanding the laws and regulations of taxation is a major determinant of compliance to avoid legal penalties and improve business reputation. In carrying out financial planning, recognition of tax deductions, and mitigation of associated risk for maintaining an uninterrupted cash flow to reduce the load of taxes along with safeguarding fiscal interests, and it will lead to a substantial boost in confidence among investors pertaining to tax connotation besides easier access to more capital and a long-term future. The study recommends enhancing tax education among SMBs to improve their financial planning, risk management, and competitive advantage that will finally contribute to a more robust and resilient business environment.

### **5.3.2. The effect of tax administration criteria on the financial performance of small and medium enterprises**

It can also be elicited from the perceptions of SMEs that strict and complex tax legislation results in heavy financial and administrative burdens for small-scale enterprises, eroding their profitability and capacity for growth. High compliance costs together with unsupportive tax regimes deplete cash flow and competitiveness, while supportive tax incentives along with simplified regimes are seen to enhance financial performance and are believed to trigger growth. These findings are supported by the literature that argues for balanced tax policies to reduce administrative burdens, increase compliance, and develop SMEs. A supportive tax environment is needed if the financial health of SMEs is to improve, contributing to wider economic growth

### **5.3.3 The effect of tax rates on the financial performance of small and medium enterprises**

Results from the perceptions analysis on the impact of tax rates on SMEs in the Mukono district central division clearly converge on negative effects on high tax rates impacting financial performance and potential growth. The findings of this study corroborate existing literature emphasizing that tax policy has the propensity to shape the operating environment for SMEs. These, in turn, are seen as important in encouraging reinvestment, growth, and innovation, while high tax rates have been perceived to be a hindrance to competitiveness, jobs, and even access to finance. Policymakers should account for these varying effects in any attempt to provide a more conducive and enabling environment that supports SME growth and development through tax policies.

#### **5.4 Recommendations**

The investment in all-inclusive programs of tax education and awareness will definitely yield dividends regarding improved financial health for small and medium-sized businesses. If in-depth information about tax laws, compliance requirements, and available deductions is provided to the business community, it would better prepare SMBs to navigate the complexities of tax laws. The implications of this will range from avoiding court cases and potential fines to finding their path toward better planning and management of finances. Other important ways the company can effectively make a dent in financial stability and development involve on-site workshops, webinars, and relevant information dissemination services for the concerned SMBs.

The study has underlined that small businesses face a heavy burden because of stringent and complex regulations. In light of this, simplification in tax administration processes and reduction of regulatory complexities should be emphasized by the policymakers. Simplifying the compliance procedures and using user-friendly tax filing systems will reduce the administrative burden and hence lower the compliance costs. It would contribute towards easing doing business and ensure higher levels of compliance for their SMB constituents, ultimately reflecting in financial soundness and better growth.

These results indicate that high tax rates negatively affect the financial performance and growth of SMEs. To develop the SMBs, the policy maker needs to adopt a balanced tax policy that respects the small-scale business enterprise's financial limitations. A tax rate reduction, especially for start-up and small enterprises, will trigger reinvestments,

innovation, and expansion of business activities. The targeted tax incentives for selected sectors would go a long way in stimulating economic activities and making SMEs competitive.

Tax incentives should be drafted and encouraged by the government to cushion them from high rates of taxations and stringent regulations. Such an incentive would include tax credits on research and development, hiring and training subsidies, and deductions on investments in capital. In such a way, such incentives reduce the tax burden on the SMBs and result in the improvement of cash flow conditions, strengthening of competitive positions in the market.

The general principles of tax administration should be cemented around transparency and equity for trust and confidence among SMBs. A transparent tax system needs to explain the criteria and procedures clearly. In addition, mechanisms can be established for the fair resolution of disputes, and continuous support given by the tax administration to ensure an enabling business climate. Openness and fairness in tax administration would encourage SMBs to comply with regulations and find their tax burdens more affordable than a burden.

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## VIVA COMPLIANCE REPORT

NAME: MUKAMA ANTHONY

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### TITLE: TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MUKONO DISTRICT A CASE STUDY OF MUKONO CENTRAL DIVISION

This table summarizes how the VIVA comments were addressed in the revised dissertation, including actions taken and page locations of revisions.

SN	Observation from VIVA	Action taken by the candidate	Page number in the book where the action was effected
1	Correct all typographical and spelling errors, including "Dessertation" to "Dissertation"	The typos were all sorted including the word "dissertation" to dissertation	Page 1
2	Separate and distinctly present the conceptual, theoretical, and contextual background in Chapter One.	The background section in Chapter one was split into clearly labeled subsections: 1.1.1 Conceptual Background, 1.1.2 Theoretical Background, and 1.1.3 Contextual Background.	Pages 10–11
3	Strengthen the problem statement by including more recent statistical evidence	This was sorted by inserting statements like over 60% of SMEs in Mukono struggle with tax compliance due to a lack of awareness and understanding of tax obligations	Page 12
4	Reframe the study objectives for consistency and explicitly state the research hypotheses.	All objectives were aligned with corresponding research questions and hypotheses were explicitly stated that is H <sub>1</sub> , H <sub>2</sub> and H <sub>3</sub>	Pages 13
5	Enhance the literature review with critical synthesis and updated sources, while clearly stating the research gap.	This was ably done by eliminating old citation to at least citations not older than 10 years	Pages 16-27
6	Explicitly discuss ethical considerations such as consent	Section 3.11 was inserted explicitly discussing ethical considerations	Page 32

	and confidentiality in the methodology.	such as consent and confidentiality in the methodology.	
7	Integrate the discussion of findings more deeply with literature reviewed, avoiding mere repetition	This was done and findings were more deeply discussed relating with literature reviewed and avoided repetition	Pages 50–56
8	Improve the presentation of tables and figures for clarity and consistency.	The tables were improved and figures and they became clear and consistent	Pages 33-49
9	Expand the discussion of the study's contribution by separately highlighting theoretical, methodological, and practical contributions	This was ably done 1.7.1 Theoretical contributions 1.7.2 Methodological contributions 1.7.3 Practical contributions	Page 14
10	Review and correct all referencing errors to fully comply with APA 7th edition guidelines.	This was sorted	Pages 60-62
11	Ensure all in-text citations are included in the reference list and that all references cited are complete	This was also sorted ably	Pages 60-62

Signed;

Mukama Anthony Mr. Kasozi Geoffrey

Candidate

Supervisor