

**TAX ADMINISTRATION AND PERFORMANCE OF BUSINESS ENTERPRISES IN  
UGANDA: A CASE STUDY OF KABALE MUNICIPALITY**

**BY**

**NAHABWE HILDA**

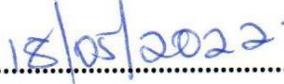
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**A DISSERTATION SUBMITTED TO THE DIRECTORATE OF POSTGRADUATE  
TRAINING IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF A MASTER'S DEGREE IN BUSINESS ADMINISTRATION OF  
KABALE UNIVERSITY**

**MAY 2022**

## DECLARATION

I, Nahabwe Hilda, hereby declare that this dissertation titled, "Tax Administration and Performance of Business Enterprises in Uganda," a case study of Kabale Municipality is my original work. It has never been presented to any institution of learning for any award, and the research has been properly referenced and acknowledged.

Signature.......... Date..........

**Nahabwe Hilda**

**2019/A/MBA/005/W**

## APPROVAL

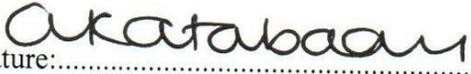
This is to certify that dissertation titled, "Tax Administration and Performance of Business Enterprises in Uganda" a case study of Kabale Municipality is done by Nahabwe Hilda as a requirement for the award of Master's Degree in Business Administration, under our supervision. It is now ready for submission to Kabale University for examination, with our approval.

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Signature:  Date: 19/05/2022

**MRS. ANNY KATABAAZI-BWENGYE**

**SUPERVISOR**

## **DEDICATION**

I dedicate this dissertation to my family for their enormous support and understanding while I was undertaking this research. This piece of work is a result of your tireless efforts and support.

## **ACKNOWLEDGEMENTS**

I acknowledge all those who supported me in the completion of this work. First and foremost, I give gratitude and honour to the almighty God for the spiritual, health and physical blessings throughout the last few years while I was pursuing this study.

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## LIST OF ABBREVIATIONS

CET	Common External Tariff
DTF	Distance to Frontier
KMC	Kabale Municipal Council
KMDF	Kabale Municipality Development Forum
MBA	Master of Business Administration
MTN	Mobile Telephone Network Company
OECD	Organisation for Economic Development
PVoC	Pre-Export Verification of Conformity
RBV	Resource Based View
SAQ	Self-Administered Questionnaires
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
TBT	Technical Barriers to Trade
TIN	Tax Identification Number
TREP	Taxpayer Registration Expansion Programme
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investments Authority
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
VAT	Value Added Tax

## **ABSTRACT**

The purpose of the study was to establish the relationship between tax administration and performance of business enterprises in Kabale Municipality. This research was steered by four distinct objectives, namely: to assess the effect of tax registration on performance of business enterprises in Kabale Municipality; to establish the effect of tax assessment on performance of business enterprises in Kabale Municipality; to determine the effect of tax mobilization on performance of business enterprises in Kabale Municipality; and, to assess the effect of tax incentives on performance of business enterprises in Kabale Municipality. The research used a descriptive research design due to its ability to hold fact-finding inquiries of various kinds where the researcher simply reports what has happened, and a cross-sectional research design was adopted to collect data from different categories of people. A population of 220 registered business enterprises and 10 technical revenue staff was considered in the study. A sample size of 150 respondents was drawn from the population based on Krejcie and Morgan sampling formula of 1970. The study employed simple random, convenient and judgemental sampling techniques. Data was collected through primary sources using structured questionnaires. An interview guide was used to collect data from key informants. Data was also collected using secondary sources such as dissertations, books, journals and the internet which enabled the researcher to obtain relevant and supporting literature. Quantitative findings from a response rate of 98.66% were analysed and presented in tables and charts. Interpretation of data and inferences were made to describe the research findings. The study findings revealed that tax assessments and tax incentives significantly affect business performance in Kabale Municipal Council. The study findings also revealed that tax registration and tax mobilization have an insignificant effect on business performance of enterprises in Kabale Municipality. In due regard, the study recommends that tax assessments and tax incentives be reinforced so as to continuously step up business performance in enterprises in Kabale Municipality.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

The study was carried out under the topic “Tax administration and performance of business enterprises in Uganda, a case study of Kabale Municipality”. Tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability (Bird, R.M, 2014). Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. Good tax administration requires a strong technical capacity by the administrative agency but also a well-designed tax (Matarirano et al., 2019). Performance is understood as the ability of a company to attain its goals using resources in an efficient and effective manner, the goals of the organisation include survival, profit making and expansion (Kitinisa, 2004). This chapter consists of the background to the study, statement of the problem, purpose, objectives of the study, hypotheses, scope of the study, significance, and definition of terms and concepts of the study.

#### **1.1 Background to the study**

This section entails historical background, theoretical background, conceptual and contextual background. This is discussed in the following sub-divisions.

##### **1.1.1 Historical perspective**

The first record of organised taxation comes from Egypt around 3000 BC and is mentioned in historical sources including the Bible. In the book of Genesis 47:24, it describes the collection of taxes by the Egyptian Kingdom explaining that the Pharaoh would send commissioners to take one-fifth ( $\frac{1}{5}$ ) of all grain harvests as a tax. Tax practice continued to develop as Greek civilisation overtook much of Europe. The first Greeks had a precise tax system where taxes like sales taxes, inheritance taxes, land taxes, poll taxes and taxes on imports and exports were imposed on citizens to pay for wartime expenditure (Barungi, 2018).

Globally, taxation plays an important role in deploying its function of money regulator, enabling the realisation of surplus value and the accumulation of capital in the majority of the economies (Andres Blanco, 2022). According to the Organisation for Economic Development (OECD), taxes are explained as

a mandatory, unrequited payment to the government. These are unpaid in the sense that the benefits provided by the government like education services, health services and road construction to taxpayers are not normally equal or in proportion to their payments.

The basic role of tax administration is to raise tax revenues; therefore an effective tax system is crucial for both developed and developing countries since adequate revenue collection is a determinant of economic growth. However, even the effectiveness of the best institutional design of tax administration is also significantly conditioned by tax laws. Complex tax laws make the role of tax administration harder in terms of costly enforcement process, increased taxpayer compliance costs, among others, which lead to high rates of tax fraud (Martinez-Vazquez et al., 2022). In the evaluation of performance of business enterprises, Twesige and Gasheja (2019) highlighted that the goal approach provided good results in the assessment of business enterprises due to its straightforwardness. According to Adebisi and Gbegi (2013), business enterprises in Western Africa were faced with high taxes, multiple taxation, complex tax regulations and lack of education about tax-related issues. Findings revealed that multiple-taxation has a negative effect on small medium enterprises' survival and the relationship between small medium enterprises' size and ability to pay taxes is significant.

Business enterprises play a big role in the Kenyan economy. While their contributions to development are generally acknowledged, they face obstacles that limit their survival and development. The non-performance of business enterprises in developing countries like the East African states is higher than the developed countries because they lack availability of business information, high cost of obtaining financial capital for reinvestment and lack of managerial experience which affects their initiation and growth (Mbugua, 2019). The serious decrease in the financial performance of business enterprises in recent years in Uganda led to a decrease in profit available for tax remitted to the government. The need for business enterprises to generate more business returns from its internal sources has therefore become a matter of extreme urgency and importance in taxation. This need for taxation has underscored financial performance on all parts of business enterprises and even in the government to look for new internal sources to get revenue.

In Uganda, the history of taxation can be traced in times of the initial British colonial administrators which involved “compulsory public works such as road construction, the building of administrative headquarters and schools” among other works. The hut tax commenced the genesis of formal taxation in the early

1900s. Conversely, the first common tariff was introduced that involved a 5% import tax rate for the goods entering East Africa through the port of Mombasa, Kenya, destined for Uganda (Ojo, 2017).

In Kabale, 95% of the business enterprises are locally owned and managed by individuals who normally acquire loans from financial institutions. For example, a report by Centenary Rural Development Bank, Kabale Branch for the year ended 31/12/2021 revealed that the bank had given out loans to 5,665 business owners and had an outstanding loan balance of 46,527,535,973= and these businesses bear a tax burden which range from corporation tax, rental tax, presumptive tax, trading licences and property tax among others which has affected level of profitability, hence poor performance. Thus, it is against this background that the researcher undertook this study to investigate more about the effect of tax administration on the performance of business enterprises in Kabale Municipality.

### **1.1.2 Theoretical perspective**

This study was steered by the Ability to Pay Theory of taxation.

The ability to pay philosophy of taxation maintains that taxes should be levied according to a taxpayer's ability to pay. It was advanced by Adam Smith, a Scottish economist, philosopher and also considered the father of economics in 1776. Smith proposed that taxation should follow four principles of fairness, certainty, convenience and efficiency. It was further advanced by Swiss philosopher Jean-Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste (1767-1832) and the English economist Stuart Mill (1806-1873). Similarly, the ability to pay principle affirms that the amount of tax an individual pays should be independent on the level of burden the tax will create relative to the wealth. It guarantees that the real amount of tax paid is not the only factor that has to be considered and that other issues such as ability to pay should also be factored into a tax system. The belief behind this principle is that business enterprises that earn high income can afford to pay more taxes than lower income earners. The application of this system gives rise to a progressive tax system where individuals/firms with higher incomes are taxed highly than those with lower incomes (Kenton, 2020).

In West Africa, Nigeria in particular, the average amount of individuals that were willing to pay taxes was lower in rural areas (611 Naira) compared to urban areas (463 Naira). These results were influenced by household size, level of education, occupation and household income. In addition, only 65% of the households had the ability to pay the average premium (Yewande, 2019). This opinion requires a fair tax system which is very popular in industrial economies where individuals/firms having more revenue/wealth

with the ability to pay more income taxes ought to be levied higher tax rates than individuals/firms with less revenue/wealth (Chigbu, et al, 2012).

In Uganda, the ability to pay requires that the tax burden be spread between individuals/firms based on their ability to pay while supporting the principle of equity and fairness within the taxation system, (Barungi, 2018). According to the study, the tax burden should be distributed among the members of the society based on the principles of equity and fairness according to their ability to pay and this leads to a progressive tax system. Therefore, there should be a simplified tax administration system, fair taxes and tax incentives like exemptions, reductions and tax holidays so as to promote business performance of enterprises in Kabale Municipality.

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). It is a recent extension of the resource-based view of the firm very adequate to the present economic context. Knowledge is considered a very special strategic resource that does not depreciate in the way traditional economic productive factors do and can generate increasing returns through creation and innovation (Curado, 2006).

Knowledge-based view of the firm is a management concept of organisational learning that provides a firm with strategies for achieving competitive knowledge. This is achieved through increased employee involvement in formulation of operational goals and long-term transformational objectives of the firm. The continuous acquisition and transfer of knowledge within a business organisation is necessitated by such factors as ever changing competitive conditions in markets initiated by globalisation, frequent deregulations and technical advancements.

### **1.1.3 Conceptual perspective**

Performance of a business enterprise refers to the ability of business to meet essential standards, increase market share, improve facilities, ensuring returns on profitability and total cost reduction and once this is achieved, a business is believed to be performing effectively (World Bank Enterprise Survey, 2013). Performance measures are quantitative and qualitative ways that specify and define performance. They

provide a tool for an organization to manage progress towards achieving pre-determined goals, defining key indicators of organizational performance and customer satisfaction.

Performance is described as outcomes, end results and achievements (negatives and positives) arising out of organizational activities (Kintu, 2019). They stated that it is essential to measure strategic practices in terms of outcomes. Those outcomes vary along a continuum of categories such as: financial measures (Return on Assets, Return on Equity, turnover, Profit Before Tax); measures of output of goods and services such as number of units produced, number of clients attended to, number of errors in the process, customer satisfaction indexes or measure of employee satisfaction (Yu, 2013). For reasons of this study, the financial performance methods that can be adopted consist of; “return on assets, and return on equity, profitability” that are used to establish the development of business enterprises. Similarly, the non-financial performance methods to be used are “marketing effectiveness, growth, and employee satisfaction.

Tax administration refers to a structure/policy of identification of potential taxpayer, collection and laws governing taxation (Mayende, 2013). Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. Good tax administration requires strong technical capacity by administrative agency but also a well-designed tax (Kangave et al., 2016).

#### **1.1.4 Contextual perspective**

Business enterprises in Uganda foster economic growth and development to a greater extent. Most reports on business performance show that small and medium enterprises represent more than 90% of all companies globally and are the primary drivers of productivity and growth. Nevertheless, the growth of these enterprises is associated with limited access to finance services, high taxes and lack of access to markets for their finished products (World Bank Report 2017). In addition, to facilitate an easy registration of patents and business undertakings, Uganda Registration Services Bureau (URSB) was formed by an Act of Parliament in 1998 to ease on business registration. Uganda Investment Authority (UIA) was set up under the Investment Code 1991(revised in 2019) to initiate and support measures that enhance investment in Uganda and advise the government on appropriate policies that are conducive for investment promotion and growth. More to that, different sectors have unique laws governing licensing in those sectors. For example, financial institutions are governed by the Financial Institutions Act (2004)

with its subsequent amendments. In the same way, the mining sector is regulated by the Uganda Mining Act (2003).

According to the Kabale Municipality Development Forum (KMDF,2021), there are many business men and women engaged in different businesses such as small, medium and large-scale businesses but the majority of these business people are ignorant about Government policies like taxation because the majority of the business owners are unable to interpret tax laws and regulations and the internet supply in Uganda is not reliable, or in other cases the cost of internet adds extra burden to business operators. Various categories of such business enterprises have been considered for this study and include: Retail and wholesale Trade, Hotel and Restaurant, Computer and Electronics Repairs, Entertainments, Joints and bars, Metal fabrication, Manufacturing, and Food Processing.

Most businesses in Kabale are faced with the challenge of multiple taxes which range from Corporation tax, Value Added Tax, Rental tax, Presumptive tax, trading licences, property tax and local service tax. Besides, the 2005/2006 fiscal year report stipulates a huge hike in tax charges; for example, VAT increased from 17% to 18% and this affects the performance of business enterprises. An increase in tax rate could increase the cost of production and eventually lead to the collapse of a business. As tax rates continue to increase, firms tend to adopt survival strategies including tax evasion and increases in prices of final products (Myame, 2017). This also activates the need for an in-depth study of how tax administration affects enterprise performance. This study therefore sought to examine the effect of tax administration on the performance of Business Enterprises in Uganda, focusing on Kabale Municipality.

## **1.2 Statement of the Problem**

Return on investment, return on assets and business growth, among others, as major elements of business performance are still considered the major goals of business enterprises. Profits are desirable by the business to ensure long-term survival of the business (Abanis et al, 2013). Whereas Uganda has the highest rate of business start-ups, it is also among the countries with the highest number of Small Medium Enterprises that perform poorly and close business before their first birth-day in business (Ernst& Young, 2011; Namatovu et al., 2010; Tushabomwe-Kazooba, 2006). This forms an area of concern to the owners of businesses, most especially if the attainment of such goals is constrained. Previous studies which studied Small Medium Enterprises like Degryse et al (2010) and Alfo (2006) used Agency Theory and Pecking Order Theory respectively to expound on the subject. Moreover, the theories applied were inadequate in explaining business performance, thus requiring application of the resource-based view, and

knowledge-based theory as they point out resources in form of finances and knowledge as a requirement for understanding financial management practices to help curb the performance problems of SMEs.

Business enterprises in Uganda make up over 70% of the economy and contribute above 20% of the Gross Domestic Product. Their work comprises service provision, selling of goods, agriculture and furniture making, among others, (Deloitte Report, November 2017). Kabale Municipality Annual Reports indicate 100% as the expected target of business performance in Kabale Municipality for the Financial years 2019/2020 and 2020/2021. However, 65% and 59% was realised respectively yet these enterprises are required to comply to URA regulation of paying taxes. These rates appeared to take an upward trend which led to closing of some business enterprises in the municipality (Kato, 2017). Whereas tax administration had been done in Kabale Municipality, not many taxes have been duly paid, and instead they have been considered as a burden by the business owners. Traders lacked knowledge of how much tax administration contributes to their business performance (KMDF, 2021).

The shortfalls in the performance of business enterprises together with the poor tax policies in Kabale Municipality affect the ability of these enterprises to mobilize the required financial and non-financial resources. Furthermore, the poor performance of business enterprises if not immediately addressed would affect economic growth and development since they contribute highly to the economy (Barungi, 2018). This prompted the researcher to investigate more about how tax administration affects performance of business enterprises in Kabale Municipality.

### **1.3 Purpose of the study**

The purpose of this study was to establish the relationship between tax administration and performance of business enterprises in Kabale Municipality.

### **1.4 Specific Objectives**

- i. To assess the effect of tax registration on performance of business enterprises in Kabale Municipality;
- ii. To establish the effect of tax assessment on performance of business enterprises in Kabale Municipality;
- iii. To determine the effect of tax mobilisation on performance of business enterprises in Kabale Municipality;
- iv. To assess the effect of tax incentives on performance of business enterprises in Kabale Municipality.

## **1.5 Hypotheses**

The study sought to address the following hypotheses:

- i. H<sub>1</sub>.Tax registration significantly affects the performance of business enterprises in Kabale Municipality.
- ii. H<sub>2</sub>.Tax assessment significantly affects the performance of business enterprises in Kabale Municipality.
- iii. H<sub>3</sub>.Tax mobilisation significantly affects the performance of business enterprises in Kabale Municipality.
- iv. H<sub>4</sub>.Tax incentives significantly affect the performance of business enterprises in Kabale Municipality.

## **1.6Scope of the study**

### **1.6.1 Content scope**

The study was conducted to establish the relationship between tax administration and performance of business enterprises. In this study, tax administration was the independent variable while performance of business enterprises was the dependent variable.

### **1.6.2 Geographical Scope**

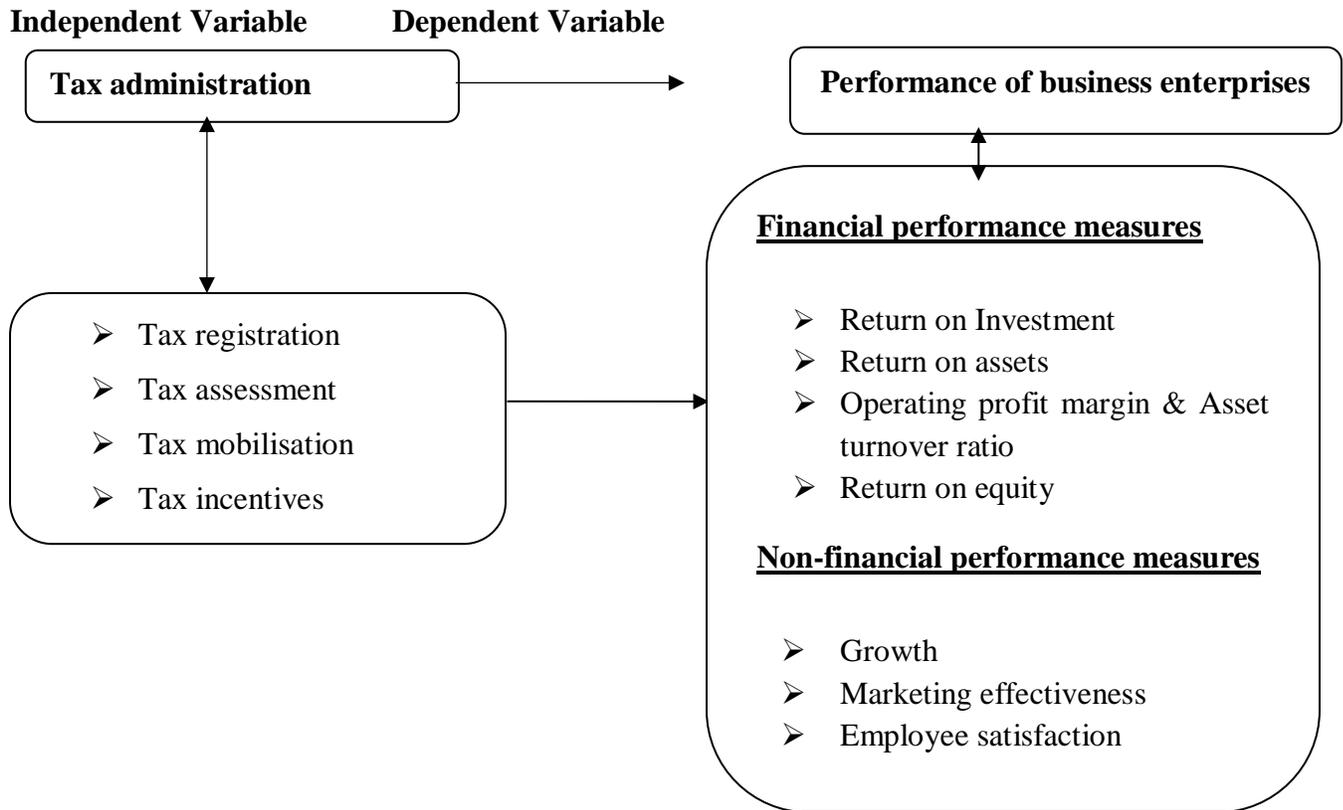
The study was conducted in Divisions of Kabale Municipality. These are Central Division, Southern Division and Northern Division. The study specifically targeted business enterprises operating within the above divisions that makeup Kabale Municipality. More so, focus was also on tax officials from Kabale Municipal Divisions and Uganda Revenue Authority as key stakeholders in providing data relevant to the study.

### **1.6.3 Time scope**

The research covered an operational period of Ten Years (that is from 2011 to 2021). The reason for this time period was to reflect on current information relating to tax administration and performance business enterprises. This enabled the researcher to gather relevant, current and adequate data regarding the study under investigation.

## 1.7 Conceptual Framework

The conceptual framework below focused on the relationship between tax administration and performance of businesses in Kabale Municipality.



**Source: Researcher (2021)**

From Figure 1 above, tax administration as an independent variable was categorized using four elements namely: Tax registration which includes registration of all eligible business enterprises in the Municipality and was believed to have a bearing on the performance of business enterprises. Secondly, tax assessment was defined as the clarity of taxation rates, correct level of taxation and fair taxation, which if effectively considered by the tax authority and municipal authorities, would characterise businesses' improved performance. Furthermore, tax mobilisation formed the third construct of tax administration which constituted tax collection. Lastly, tax incentives formed the fourth construct and constituted tax holidays, reduction in tax rates, tax rebates and tax exemption duties as these are believed to have a bearing on the expected performance of business enterprises. Tax incentives enhanced the effect of tax administration on business enterprises' performance significantly. These directly affect the Dependent Variable (DV) which was the performance of business enterprises that consists of

“financial measures; return on investment, return on assets, operating profit margin & asset turnover ratio, and return on equity while non-financial measures; growth, marketing effectiveness, and employee satisfaction”.

### **1.8 Significance of the Study**

The study contributes knowledge on improving tax administration policies by providing important information regarding different situations.

The tax authority and government would benefit since the study would provide suggestions that may guide them in adjusting tax policies that suit the requirements of business enterprises.

To scholars and researchers, the findings of the study would contribute knowledge and information to the existing literature about taxation and performance of business enterprises.

The study is helpful to business owners by helping them to understand the dynamics and challenges in the business environment as well as procedures as the study findings revealed how important it is for them to tightly observe the tax administration policies in order to realise better performance and hence growth of their businesses.

### **1.9 Justification of the study**

In Uganda, business undertakings contribute about 90% of the private sector production that make the major avenue for job creation and income generation in the country (Barungi, 2018). However, major finances of these small firms make them extremely reliant on business development services to offer capability as well as sustenance for progress in fields like: “training, advice, information, business planning, marketing, technology, communications and other services” (UIA, 2018). On the other hand, small enterprises employ between 5 and 49 and have total assets between 10 million Uganda shillings but not exceeding 100 million. The overall goal of the small medium enterprises division is: developing sustainable domestic investments and small medium enterprises (UIA, 2020).

Different writers have come up with various views on taxation administration and business performance; it must be well known that poor tax registration, assessment and mobilisation largely affected small business performance (Barungi, 2018). Furthermore, taxation hindered the performance of small and entrepreneurial enterprises, thus more tax relief measures are imperative and being advocated for by SMEs. It was hence important to establish how tax administration is influencing the performance of business enterprises in Kabale Municipality to provide a profound basis for decision making in regard to taxation and subsequent performance of SMEs. Therefore, the study established reasons why such tax

administration policies remained a concern and came up with remedies or recommendations for strengthening the business enterprises in Kabale.

### **1.10 Definition of terms and concepts of the study**

**Tax:** is a compulsory payment levied by the government on individuals or companies to meet the expenditure which is required for public welfare (Adam Smith,1776).

**Taxation:** refers imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditure; although they serve other purposes as well (Charles, 2022).

**Tax administration:** refers to the identification of the taxpayer, assessment of tax payable, collection of taxes and enforcement of tax liability (Bird, 2014).

**Tax assessment:** is the determination of the amount to be paid by the taxpayer in respect of a particular revenue item and raising a formal notification of the amount to be the basis for its determination, the due date and mode of payment among others to the taxpayer. The assessment exercise helps governments to keep a record of the amount and due date for payment of the respective revenue items, the name, location and other details of the taxpayer (Fjeldstad, 2003).

**Tax incentives:** means the specific provisions of the tax code granting preferential treatment to certain activities, investments or taxpayers (Mayende, 2013).

**Business performance** The Company's ability to make the best use of the resources it manages in its business activities. Also, business performance is a set of analytic processes that enables the management of an organization's performance to achieve pre-selected goals (IGI Global, 1988-2022).

**Return on investment:** is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost (Jason Fernando, 2022).

**Return on assets:** refers to a financial ratio that indicates how profitable a company is in relation to its total assets. Corporate management, analysts, and investors can use return on assets to determine how efficiently a company uses its assets to generate a profit (Marshall Hargrave, 2022)

**Profitability** measures management efficiency in the use of organisational resources in adding value to the business of the firm (Nishantini & Nimalathan, 2013).

**Return on equity (ROE)** is a gauge of profit generating efficiency and a strong measure of how well the management of a firm creates value for its shareholders (Kharatyan, 2016).

**Business Growth:** is a stage where the business reaches the point for expansion and seeks additional options to generate more profit. Business growth is a function of the business lifecycle, industry growth trends, and the owners' desire for equity value creation (Attract Capital, 2022).

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter includes review of literature relating to the relationship between tax administration and performance of business enterprises. The chapter presents the theoretical review, actual review and empirical review. The review focused on the major themes of the study, that is: to establish the relationship between tax registration and performance of business enterprises; tax assessment and performance of business enterprises; tax mobilisation and performance of business enterprises; and relationship between tax incentives and performance of business enterprises.

#### 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 ability-to-pay philosophy of taxation maintains that taxes should be levied according to a taxpayer's ability to pay. It was advanced by Adam Smith a Scottish economist, philosopher and also considered the father of economics in 1776. Smith proposed that taxation should follow four principles of fairness, certainty, convenience and efficiency. It was further advanced by Swiss Philosopher Jean-Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste (1767-1832) and the English economist Stuart Mill (1806-1873). The application of this system gives rise to a progressive tax system where individuals/firms with higher incomes are taxed highly than those with lower incomes (Will Ken, 2020). The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrenders money to the government for private use.

Nevertheless, there was no stable proposal for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured for every taxpayer's surrenders the same absolute degree of utility obtained from their income or; each taxpayer sacrifices the same proportion of utility obtained from their income; or each taxpayer gives up the same utility for the last unit of income. This theory proposes that tax policies towards business enterprises should be considerate enough to facilitate their profitability, financial performance and

survival and thus their compliance. By assessing the impact of taxation on financial performance and capabilities of business enterprises, this study proposed appropriate tax policies that can favour the existence of business enterprises through the determination of their ability to pay the taxes imposed by the tax authorities (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 addressed the gap by determining how knowledge management-based managerial and organisational practices are related with business performance. Thus, the two theories were used since they contain the theories of taxation and performance of business enterprises which are the essential variables that are used in this research.

### **2.3 Empirical Literature Review**

### **2.3.1 The effect of tax registration on performance of business enterprises**

Uganda Registration Services Bureau Act Cap 210 is mandated to register all business entities in Uganda that are required by law to be registered. The bureau was formed by an Act of Parliament in 1998 in Uganda. All businesses operating in Uganda are typically required to obtain one or more licenses and permits depending on the activities of their enterprise to facilitate business start-ups according to the Uganda Registration Services Bureau (URSB 2016). In addition, its charged with civil registrations (marriages, divorces), business registration and patents and intellectual property rights as required by law (URSB, 2020). Uganda Investment Authority (UIA) was set up under the investment code 1991(revised in 2019) to initiate and support measures that enhance investment in Uganda and advise the government on appropriate policies that are conducive for investment promotion and growth. Different organs have unique laws governing licensing in those sectors, For example, financial institutions are controlled by the Financial Institutions Act (2004) with its subsequent amendments. Similarly, the mining sector is regulated by the Uganda Mining Act (2003).

Apart from registration, taxation and customs laws and regulations are applied. For example, the Value Added Tax Act Amendment (2020) streamlines the operations of VAT domestically and at customs, the East African Customs Management Act (2004) jointly with the East African Community Customs Management (Amendment) Bill (2017) streamline the operations of customs activities at all East African border points. In addition, the Common External Tariff (CET) was established to guide on all duties for commodities imported from outside the East African Community.

Today in Uganda, under the Tax Payer Registration Expansion Programme (TREP), business enterprises are required to register for both business licensing and tax at one point to simplify tax administration processes for improved compliance leading to increased revenue collection. In Kabale Municipality, Uganda Revenue Authority, Uganda Registration Services Bureau and Kabale Municipal Council Local Government work in collaboration to ensure that all the taxpayers are registered to help improve on revenue assessment and mobilisation. This means that all Business enterprises leave the registration point with both the business operational license and the Tax Identification Number (TIN), (URA, 2020).

However, protocol is not a main objective for Business enterprises as they majorly focus on expanding sales for business growth. Although tax and local authorities want Business enterprises to be registered and formalize their operations in order to collect tax revenue, Business enterprises want to remain informal to avoid paying taxes. It has been noticed in Lima, Ohio (United States) that obtaining a trading license

does not guarantee increase in firm revenue. Therefore, Business enterprises find no urgency in formalization. Besides, 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, 2019).

Tax registration of business enterprises may also induce irregular payments because people feel that to survive in business, pay irregularly at below the rates. It can be argued that the tax rates imposed on business enterprises can hinder performance, for instance, the excise duty imposed on items can increase their selling price, which may reduce the sales volume. The empirical findings of Godin and Hindriks (2015) among Ghanaian manufacturing firms indicate that tax burden increases as 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. 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 fraudulent; this is coupled with bureaucratic hurdles which hamper efficiency (Investment Climate Statement, 2017).

Following the East African Customs Protocol, East African states have structured the customs procedures. Before the protocol, each member state was following 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 Customs Management (Amendment) Bill (2017) regulate customs business at all East African border points. The Uganda National Bureau of Standards introduced a Pre-Export Verification of Conformity (PVoC) following the World Trade Organisation's notification requirements and the Technical Barriers to Trade (TBT) article 5. The PVoC requires that all commodities imported to Uganda are verified for quality from their country of Origin. However, the clearance requirement challenges traders since they buy and import merchandise from open market rather than manufacturers (Musoke, 2018).

In addition, to ensure that customs regulations are implemented in a proper and efficient manner, new technology such as single customs territory has been introduced. The single customs territory enables traders to comply with customs procedures, and pay customs taxes at one entry point within a maximum of two days (Nakaweesi, 2018). The United Nations Doing Business report (2017) indicates that URA introduced one-stop centre at Malaba in an effort to expedite customs clearing processes. There are also similar competing views on whether and how the length of time a formal enterprise spent unregistered

influences subsequent firm performance. The conventional view, based on the assumption that unregistered enterprises are performing poorer, is that the greater the length of non-tax registration, the worse would denote the subsequent firm performance (CC Williams, 2016).

However, based on the proposition that starting up unregistered businesses enhances subsequent business performance, it might be asserted that the greater their duration of non-registration, the greater will be their advantage over the registered ones at the outset. That is, the longer they do not suffer paying taxes, burdensome regulations and bribery from public sector for instance, the more the advantages over those starting up registered are consolidated and the greater are differential in subsequent firm performance. This is the case where ‘weak’ formal institutions provide few benefits to formalization (Kistruck, Webb, Sutter & Bailey, 2015) and thus, the costs of non-registration outweigh the benefits of registration (for example, access to credit and human capital, opportunities to acquire government contracts, outsource from large firms, access training and business support programmes). The above study further points out the relationship between tax administration and performance of business enterprises, though it did not cover Kabale Municipality. This was one of the reasons for the researcher to undertake this study in the context of Kabale Municipality.

### **2.3.2 Tax assessment and performance of business enterprises**

A fair and effective taxation and assessment system is an important tool that begins with transparency and accountability to the taxpayers that demand concise but clear information on effective tax burdens. Adebisi et al (2013) revealed that multiple-taxation has a negative effect on small and medium enterprises’ survival and the relationship between SME’s size and ability to pay the taxes that are assessed is significant. Thus, the government should come up with uniform tax policies that will favour the development of SMEs in Nigeria and consider the size of the businesses when setting tax policies. Many businesses close up due to tax-related issues like multiple taxes to enormous tax burden that affect the performance of businesses. Thus high tax assessment rates have got an impact on the performance of business enterprises.

The preference of tax assessment should depend on the tax choice accorded by small businesses to promote the performance of business enterprises which can be done by lowering tax rates, offering tax holidays as well as reliefs to the small businesses (Atawodi and Ojeka, 2012). The essential aim is to ensure that tax income is successfully increased through methods that suit the country’s environment and administrative ability. A SEATINI-UGANDA (2017) survey in Uganda suggested that taxation was one of the major

impediments to the growth and development of Business enterprises since the high tax rates inversely affected the performance of small firms. Amidst other hurdles to business growth were: initial firm size, human capital, sources of finance to start up, nature of firm's acquisition and government fiscal policy. This confirms the importance of tax assessment towards elevating the performance of business enterprises in Uganda.

Tax policy is one of the factors that comprise the businesses' economic environment. The study recommends that for the business enterprises to get well equipped, have enough funds for reinvestment and survive in a competitive market, the rate of tax levied on the businesses should be lower (Ocheni, 2015). Tax incentives serve as a catalyst to business growth and therefore should be increased highly in order to attract many investors in the country. Furthermore, in the study by Olutayo et al (2015), both financial and non-financial performance indicators on the life span of the business enterprise are used. It emphasised that both financial that is net profit before tax and non- financial (operational) indicators have got an influence on the firm's performance. In addition, the emphasis should not only be placed on commencement but also on the sustainability and longevity of the firms that are operational in the country (Uganda). Abanis et al (2013) assert that small and medium enterprises are seen as the driving force for the promotion of the country's economy because of their contribution. Return on investment, return on assets and business growth, among others, as major components of business performance are still considered the major goals of business enterprises. Thus the owners of business enterprises should develop a positive attitude towards adopting financial management practices like book keeping, filing of tax returns, among others, as these help in achieving the desired business performance of the firm.

The effect of the tax system on the growth of small and medium enterprises by Mungaya, Mbwambo and Tripathi (2012) found out that high tax rates hike the cost of production within business enterprises which greatly affects performance of these firms and therefore should not be ignored. In supplement, Gordon (2019) also pointed out that high tax assessments coupled with complex tax systems have negatively affected performance of business enterprises.

Performance of business enterprises is repeatedly troubled by the high tax assessments and unclear tax system. Taxation as a significant aspect of the economy since it affects numerous economic activities including the establishment and development of Business enterprises. Taxes hike the cost of production of goods and services which eventually cause prices of goods to increase thus affecting the final consumers. On the other hand, revenue mobilized from taxes represents major funding for government

expenditure. Generating favourable conditions for business prosperity at the same time upholding tax compliance is still a challenge in most countries (Swistak, 2016).

In accordance with the OECD survey report (2019) on the taxation of business enterprises, the findings indicated that fourteen countries had adopted the reduced corporate tax assessments for business enterprises to improve their performance. This is supplemented with various strategies to support businesses' corporate tax rates that include: "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" (OECD, 2019).

The effect of tax assessment and financial performance in Ugeya, was studied by Okong (2018). The purpose of the study was to examine the effect of income tax rates on organisational performance. The study had adopted survey study as the research design. The research instruments were the use of questionnaires. The data was collected from secondary sources in 2009 to 2013 on the firm's earnings. The study used correlation analysis and chi-square to establish the relationship between individual variables in tax rates. The study found out that tax assessment is influenced by government demands. Therefore, the study only deals with tax assessment on revenue collection leaving the tax rate at which taxes are collected and their impact on performance business enterprises, which create a gap for this study.

High tax rates had a great effect on economic financial performance and regulations of money circulation. Progressive tax rates influence tax collection with increase in income tax. A similar study was done by Tusubira and Nkote (2013) who argued that effective tax assessment had a significant impact on business performance in terms of profitability. The total returns raised are more positive impact on tax rates in the firm equity of the company. Furthermore, the study indicated that influence of taxation rates is positively or negatively related to performance, tax imposed by the government affects the rate of interest rates charged on tax deductions which lead to more taxation than earnings.

High tax assessments 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 companies more often easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of system. Tax

assessment rates and the overall structure of the tax system, therefore, have a significant impact on the performance of business enterprises. The literature on tax assessment of business organisations was not only limited but also failed to show practical evidence on the influence of tax assessments on the performance of business enterprises. To attend to this literature gap, this study established the extent to which tax rates affect the performance of business enterprises in Kabale Municipality. The findings of the study revealed that the level of tax rates should be fair enough to foster the growth and development of business enterprises in Kabale municipality, and an effective tax assessment system be designed that aims at lowering tax rates which will support the growth of business enterprises in Kabale municipality.

### **2.3.3 Tax Mobilisation and Performance of Business Enterprises**

Taxation is the compulsory levy by the government and its agencies on income, salaries, profits, dividend, discounts, interests and royalties (Afuberoh, 2014). He adds that tax is levied against a company's profits, capital gains, and transfers. Furthermore, taxation is a science of imposing tax on citizens and a compulsory levy imposed and requires to be paid by every citizen (Ojo, 2017). The imposition of a tax is expected to generate income which shall be used in the provision of social amenities.

The European Parliament (2014) asserted that in recent years, domestic revenue mobilisation in developing countries gained increasing performance in the policy debate. Many factors explain this including benefits of taxation for state building. Governments in developing countries face challenges in mobilising tax revenues which result in a gap between what they could collect and what they actually collect. However, the significant contributors to these tax gaps include tax evasion, avoidance and exemptions by the business owners.

The tax system should be strengthened through having a clarified system of tax mobilisation that can enable business enterprise taxpayers to meet their tax obligations by designing essential tax rates that are not related to the taxable profits as indicated in the law but on an economic measure in which the impact on the tax base is included; intensifying tax incentives in order to develop the infant firms in business to stimulate the performance of business enterprises in the economy (Barungi, 2018). By URA training with Judiciary to tighten legal loopholes in revenue mobilisation (February, 2022), the authority is keen to engage and listen to the ideas, views and comments, continuous training, and equipping with information, knowledge and an understanding of Uganda's taxation laws, policies and tax administration practices to all stakeholders. Tax education programmes improve on taxpayers' attitude towards tax compliance which increases revenue collections. Thus, there should be

continuous tax education programmes to enable tax compliance such as sensitisation workshops for business owners to pay taxes (Mabonga, et al.,2015).

Revenue mobilisation has been recognised by the government as very important because it helps aid in delivering valuable services for citizens, and the necessary benefits for state building, wealth distribution to different regions as well as incentives for innovation, trade investment climate, building infrastructure among others (World Bank, 2015).The primary objective of the tax system is to raise revenue that will assist in offering better services to the citizens, developing the nation, encouraging innovation and trade in Greece. The taxes mobilised have helped to accumulate capital for expenditure in the development of the nation like road construction, improving health services and education services, among others. These taxes are paid by the business enterprises and hence have an effect on their performance. Thus there was need for the researcher to investigate more about the relationship between tax mobilisation and performance of business ( Kalogiannidis,2021).

The authorities and mobilisers of taxes should seek to balance their educational and assistance role with the enforcement role. According to Atawodi and Ojeka (2012), the rationale behind the whole system of tax is consistent with two of the three major theories of tax namely: the Ability-to-Pay Principle and the Equal Distribution Principle which emphasise equality and fairness. The Ability-to-Pay theory is of the view that individuals should be taxed based on the individuals' ability to pay while on the other breadth; the Equal Distribution Principle proposes that the incomes, wealth as well as the monetary transactions of the individuals should be taxed at a fixed percentage. This implies that the individuals who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes.

A higher tax rate increases the burden of the taxpayer and reduces his disposable income; hence, the probability of evading tax is higher (Dennis, 2014). Government needs to review tax bias against entrepreneurs and design tax policies for entrepreneurship as a remedy to market failures, while avoiding adverse side effects. Marginal tax rates exert a statistically and quantitatively significant influence on growth of firms. This leads to the conclusion that raising income tax inhibits the growth of small firms. Being highly innovative, business enterprises lead to the utilization of the available natural resources which in turn translates to increasing the country's wealth through higher productivity. Business enterprises have undoubtedly improved the standard of living of the majority people in the rural areas (UIA, 2018).

Uganda Revenue Authority Kabale Branch in their annual reports for the financial years 2019/2020 and 2020/2021 showed a declined performance in tax collection from 70% to 66%. This was due to the Covid-19 pandemic and the closure of the Uganda-Rwanda border, registering a shortfall of 4%. However, Uganda Revenue Authority is faced with challenges in tax mobilisation which include taxpayer compliance burden, lack of adequate resources to sustain and facilitate the operation of tax authorities, lack of modern technology, high levels of illiteracy and the problem of tax evasion and default by the tax payers. The government efforts towards tax mobilisation should be directed to improving tax collection and other tax reforms to fight against tax evasion, tax avoidance and other unlawful practices (Niwamanya, 2018). This study did not relate their observations to business performance and the scope of Kabale Municipality had not been explored. This prompted the researcher to explore more the effect of tax mobilisation and performance of Business Enterprises in Kabale Municipality.

#### **2.3.4 Tax Incentives and Performance of Business Enterprises**

Tax incentives refer to an exemption or relief granted to an individual or a firm to reduce the effect of taxation and thus encourage savings and investment. Globally, tax incentives have been offered by governments in order to attract investors and foster economic growth. The importance of addressing the governance of tax incentives was raised in 2011 by the IMF, OECD, UN and World Bank in their joint report to the G-20 on supporting effective tax systems in developing countries (G20 Report, 2011). Tax incentives have been used by governments as tools to promote a particular economic goal and they take form of exemptions, tax holidays, credits, investment allowances and preferential tax rates (United Nations 2018). In addition, different tax incentives were introduced and carried out like tax holidays, initial capital allowances, withholding tax exemption, Value Added Tax (VAT) reductions, income tax rate reductions, and preferential tax rates, carry forward losses and import duty exemptions, among others, within the business sector (Mayende, 2013).

State agents manage tax systems by using authorities conferred on them to collect tax and remit returns and reliefs (Kiser & Karceski, 2017). A reduction in the rate of corporate tax increases the incentives for incorporation and thereby increasing after-tax earnings. Numerous incentives have been incorporated into the Ghanaian tax system over the years. Among such incentives, as claimed by tax authorities, include, but are not limited to, tax rebates, reduced tax rates, tax holidays, incomes exempted, capital allowances, fresh graduate incentives, free-zone incentives, double tax treaties, capital gains exempted, import duty exemptions and exempted export duties (PwC Ghana, Ghana Tax Facts and Figures Report, 2019). The

creation of some special incentives is based on industry type, number of years of operating, nature of transactions, business size and origin of businesses and so forth.

Tax incentives are justified by the benefit theory of tax that advances taxes that agents pay should reflect the benefit that they receive from the mix of good and services they enjoy from the government (Scherf & Weinzierl, 2020). The benefit theory of tax sets the standard lens through which local taxation is based. Therefore, it posits that taxes should be zero or low for entities and individuals who receive no benefits from the state and high for those entities and individuals that derive the most benefits. The agency theory of tax incentive put forward that tax incentives compensate for other government-created obstacles in the business environment, thus using tax to respond to fiscal failure as much as market failure (Twesige & Gasheja, 2019). Therefore, offering incentive packages in the tax system enhances business growth in the country by supporting the government's agenda of economic growth, national development, job creation and improved general welfare of the citizenry.

Tax incentives are a significant strategic drive for business and industrial growth in Sub-Saharan States including Ghana. Besides, the more governments make revenue, the more they provide incentives to tax payers (Siyanbola et al., 2017). Analytically, it was found out that tax exemptions decrease tax burden of Business enterprises more than that of tax rates, which positions them to reinvest their capital for their further efficient functioning. Government's support such as tax reduction and simplification of tax system also stimulates Business enterprises' growth. An empirical comparative study in Uganda discovered that firms with incentives performed better than firms without incentives in terms of gross sales and value added. Better still, streamlining tax incentives were a strong stimulus to improving business performance (Mayende, 2013).

Tax reduction program is one of the most adopted government tax incentives which exempts firms/business enterprises from their tax liability and also relieves some businesses from certain tax deductions over the tax holiday. Certain tax incentives are observed to stimulate the growth and expansion of business enterprises due to the perception that these incentives reduce the tax compliance burden inflicted on the small and medium enterprises (Feyitimi et al, 2016).

Tax incentives offered by the government are as a result of numerous objectives the government may consider necessary for the country to achieve. These objectives may include correction of market imperfections faced by firms, reductions of transaction costs of firms, regional development, and prioritized investments, etc. This substantiates that tax incentives influence the performance of Business

enterprises (Mayende, 2013). Tax motives are special services of the tax code granting preferential treatment to certain activities, investments or taxpayers (Martin & Theresia, 2017).

The literature reviewed on tax incentives focused on the business unit in the business sector and thus ignores to scrutinize the effect of the ownership arrangement on taxation of business enterprises, which entails a clear linkage with the final recipient of business income (Godin & Hindriks, 2015). For example, some arguments in favour of special tax treatment of business enterprises rely on the specific ownership structure and the behavioural features of the owners rather than the SME itself. “Based on the above, this research will investigate how tax incentives implemented by the government have affected the performance of business enterprises.

Investment tax credit is basically a tax related incentive that allows the growth and development of business enterprises in a developing economy (Obafeni et al, 2021), he emphasised that there should be a friendly tax policy for all the start-up businesses preferably a tax holiday or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment. Feyitimi et al (2016) recommends that there should be a friendly tax policy for all start-up businesses preferably a tax holiday and it was found out that some business enterprises miss out on the tax incentives from the government yet they contribute to economic growth.

Profitability is a measure of the amount by which a company’s revenues exceed its relevant expenses; the results reveal that an increase in sales has raised profitability of business enterprise. Therefore tax incentives like reductions in tax rates and tax holidays lead to profitability of a business in a developing country like Uganda (Twesige & Gasheija, 2019). In addition, Barungi (2018) asserts that taxes affect the performance of Small and Micro Enterprises, thus more tax relief measures are paramount in business performance. It is therefore important to establish how taxation influences the performance of business enterprises in Kabale Municipality.

This research found out that tax incentives are important in rectification of market failures and that the preferred incentives are those that provide faster recovery of investment costs in reducing the operational costs for business enterprises by lowering the tax evasion which stimulates the progress and expansion of business enterprises in Kabale Municipality. Thus, the performance of business enterprises is dependent on the tax incentives in form of investment allowances, tax holidays and tax exemptions according to business enterprises.

## **2.4 Empirical review**

The consequences of poor tax administration: collections, financial performance and corruption (Chandler, 2013). The study was conducted to cater for scholar work at George State University. The study examines the aspects of tax administration impact on financial performance. The data was collected from 79 counties with macro-economic variables. The study reveals that tax administration is complex leading to unintentional tax evasion and significant gap on tax gap.

Tax reform reduces tax code complexity and increase the equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures and revenues. The tax authority provides greater assistance to taxpayers creating conducive environment for tax enforcement measures. Thus, the study did not examine the impact of tax administration such as the issue of corruption, tax enforcement measures, tax evasions and financial performance which creates financial performance gap.

The costs of tax administration tend to be disproportionately higher for business enterprises in most developing countries. Based on constructs made internationally comparing a multidimensional index of tax administration quality using information from Tax Administration Diagnostic Assessment tool, it shows that improved tax administration attenuates the productivity gap of business enterprises relative to larger and older firms, a result that is robust to controlling for other aspects of tax policy and economic governance and measures of quality of tax administration, (Dabla et al., 2017). From a policy perspective, evidence is provided that countries can reap growth and productivity dividends from improvements in tax administration and lower compliance costs faced by business enterprises.

Tax administration is vital for economic performance in both government revenue collection and business performance (Kangave et al., 2016). In Uganda, tax administration has gradually improved from manual forms to electronic system where taxpayers need to access tax information at their convenience and consult on tax matters 24 hours using the toll-free line. Furthermore, URA opened up a number of forms for tax education and sensitization, for instance: URA launched 'Ask URA' mobile application with Mobile Telephone Network Company (MTN), URA conducts workshops and seminars to vendors and landlords (Uganda Revenue Authority Annual Report, 2015/2016). The efforts are in favour of improving tax compliance with minimum cost to the taxpayer. It can be argued that once the compliance cost in terms of efforts, time and monetary losses to business enterprise are minimized, the resources saved may be utilized by businesses for market penetration hence increased sales and financing working capital or any other business activity.

In administering taxes, high tax rates may also induce irregular payments because people feel that to survive in business, they should 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 et al., (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 and affected cash management as the firm had to hold more cash on hand to settle debts and fulfill tax obligations on behalf of the customers (Sim, 2019).

Whereas tax/duty collection and business registration has been made easy through online platforms (online filing of returns and online business registration), the business community is complaining about bribery and irregular payments (World Economic Forum, 2017). Moreover, public servants are fraudulent; this is coupled with bureaucratic hurdles which hamper efficiency (United States Commercial Guides, 2017).

The impact of tax administration on revenue generation; The study noted that inherent power of the government to impose taxes is assured at all times of its tax revenue no matter the tax (Dennis, 2014). The government is fully to modernize and automate all tax systems to improve taxpayers' convenience in tax assessment and payment process while at the same time entrenching effective and modern human resources management practices in tax authorities. Thus, financial performance gaps were not addressed in relation taxation to small and medium enterprises.

In a study of revenue administration on taxpayer audit development for effective plans, technical guidance note and fiscal affairs department; the results indicated that tax administration in many developing countries appears to be that all taxpayers are potential criminals and that subjecting them to taxation is fundamentally a matter of identifying, controlling and catching those cheating (Martinez-Vazquez, 2019). There is no modern tax systems that can work on fear alone, problems of tax enforcement cannot be solved simply by calling in the tax police. Contrary to the study of Swistak (2016), there are many benefits from observing taxpayers more as clients than criminals. Taxpayers' services emphasize on reducing taxpayers' uncertainty by describing some of the recent services and communicate clearly what the law is, instead of changing it every year and taking compliance cost designing legal and administrative procedures. There was a problem in knowing how best to deal with taxation.

## **2.5 Summary of Literature**

Globally, studies have highlighted the role of performance in business enterprises. Most reports on business performance show that small and medium enterprises represent more than 90% of all companies globally and are the primary drivers of productivity and growth (World Bank Report, 2017). A lot of literature has been written on business performance where the resources that are possessed by a firm are the primary determinants of its performance but lack of understanding and consensus still remains a major issue. Therefore, there was need for the researcher to address the gap.

The literature review revealed that an efficient tax administration strategy through providing tax registration, assessment, mobilisation and tax incentives is very important in addressing the tax-related issues faced by business enterprises in Kabale Municipality. However, the empirical evidence on tax administration in business enterprises although thoughtful, it ignores satisfactory practices on the impact of tax administration on performance of business enterprises.

In addition, the choice of the tax registration and assessment should depend on the tax preference accorded to business enterprises to promote the growth of business enterprises which can be achieved by lowering tax registration and assessment costs, and offering tax incentives like exemptions and holidays to the business enterprises. This research strived to cover the raised literature gaps by examining “the effect of the taxation administration on the performance of business enterprises in Kabale Municipality” to cover the information gap.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology that was used in the study. It covers the research design, study population, sample population, size, sampling procedures, data collection methods and their corresponding data collection instruments, reliability and validity, data collection procedure, data analysis and the ethical considerations.

#### **3.2 Research Design**

The study utilized a descriptive survey design of all the business enterprises in divisions of Kabale Municipality. Descriptive survey design is a research design involved in either identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomena (Bryman, 2018). Across-sectional research design was adopted. This is because the design is used when different categories of people are being handled at the same time (Amin, 2005). Therefore, the researcher adopted a cross-sectional research design to enable her collect data from taxpayers and revenue officials and would deal with both qualitative and quantitative data and come up with valid and dependable conclusions and recommendations required for the study. The study aimed at providing detailed data on the subject under study for the entire population under investigation. A survey gave a description of some pertinent characteristics of the population as well as allow for inferences of cause and impact. A survey focused on a set of firms thus the business enterprises in Kabale Municipality as per this study. A triangulation of quantitative and qualitative research approaches was adopted, because it was important to exploit the synergies offered by different methodologies. Both primary and secondary data were collected through Interviews, Questionnaires and Document Review.

Survey designs were particularly of great value. For instance, when seeking help on identifying the impact of tax administration on performance of business enterprises in Kabale and in which case it may be difficult to understand the individual impact on one given case without considering relationships with each other (Cooper & Schindler, 2014). A descriptive survey design thus enabled researcher to collect in-depth data on population being studied and allowed the researcher to be more focused in giving specific and relevant recommendations.

### **3.3 Study Area**

The reason for selecting Kabale Municipality for the study was to investigate why there is poor performance of business enterprises as a result tax administration policy. The sample for the study was drawn from all the Business Enterprises in Divisions of Kabale Municipality. Since the accuracy of the sample depended mostly on the sampling frame, the researcher ensured a high degree of correlation between sampling frame and the population. The sample size was an important feature of the study, for making inferences about the study subject matter. In practice, sample size was a basis for sufficient statistical power (Morgan, 2001). Sample size was important primarily because of its impact on statistical power and the probability that a statistical test indicate a significant difference when there truly is one (Morgan, 2001).

### **3.4 Study Population**

The study was conducted from business enterprises operating in Kabale Municipality and also considered Technical Revenue Officials from Kabale Municipality. The study population concentrated on owners of business enterprises within Kabale Municipality. The study area was limited to Central, Southern and Northern Divisions that make up Kabale Municipality since the majority of the business enterprises are established in urban centres. Kabale Municipality has a population of approximately 54,565 people with 220 registered Business Enterprises (UBOS, 2021).

### **3.5 Sample size and Selection**

Sample size means the number of observations in a study (represented by n) or a subset of a population (Crestwell, 2013). The study sample constituted 150 respondents derived basing on Krejcie and Morgan's (1970) sampling table" (see Appendix 1), the researcher selected a sample size of 140 business owners from a target population of 220 registered business owners and 10 technical revenue officials from Kabale Municipality with the help of convenient and purposive sampling.

**Table 1:** Sample size and selection

Population Category	Population	Sample size	Sampling techniques
Technical Revenue Officials	10	10	Purposive
Retail and Wholesale	65	43	Convenient
Hotel and Restaurant	45	25	Simple random
Metal Fabrication	18	12	Purposive
Manufacturing	22	10	Convenient
Food processing	08	08	Purposive
Entertainment joints and bars	62	42	Simple random
Total	<b>230</b>	<b>150</b>	

*Source: Study population accessed from KMC Business Report (2021) and sample size determined using the Krejcie & Morgan model (1970)*

### 3.5.1 Sampling techniques

Both probability and non-probability sampling techniques guided the researcher in selecting respondents. The researcher used the probability sample since the research focused on the entire Business Enterprise population. All Owners and managers of Business Enterprises in Kabale Municipality were eligible to participate in the study.

The probability sampling approach involved selecting a sample in such a way that all the elements in the population have same chances of being selected (Amin, 2005).

In the non-probability approach (purposive sampling), the items in the population do not have a well-defined chance of being selected (Sekaran & Bougie, 2010). Purposive sampling was used whereby the researcher based on personal experience and knowledge about the population to determine which Business Enterprises have thorough information to take part in the study. The researcher included only those respondents who had an understanding about the business categories in the study area. Thus, purposive sampling was conducted for the owners of the businesses with experience and knowledge and Technical Revenue officials in the municipality.

### **3.6 Data Collection Sources**

#### **3.6.1 Primary Data**

Primary sources included data in original materials gathered by the researcher in its original form on which research is based (Amin 2005). Respondents were given questionnaires and structured interview guides that they filled and at the end the researcher aggregated the responses that constituted the data and later results of study.

#### **3.6.2 Secondary Data**

Secondary sources offer interpretation or analysis based on primary sources. Other publications from secondary sources like dissertations, publications, journals and the internet were accessed to obtain relevant and supporting literature (Amin, 2005).

### **3.7 Data collection methods**

Quantitative and qualitative methods of data collection were employed during the study. Questionnaire survey method was used to pool quantitative statistics, while the interviews were employed to gather qualitative information. A better collection method was chosen that conformed the purpose of the study.

#### **3.7.1 Questionnaire Survey Method**

Questionnaires are one of the most commonly used tools in survey with a large number of participants. In this study, a structured questionnaire was utilized. A self-administered Questionnaire was utilized for this method. Questionnaires are ideal for saving time, are cost effective and provide room for high response rate (Creswell, 2018). The questionnaires provided room for confidentiality, and were ideal for sensitive areas of study like on tax administration and business enterprise performance. The respondents had to choose options basing on their level of agreement with the questionnaire items.

#### **3.7.2 Interview Method**

In this study, interviewing was adopted. The researcher engaged respondents in a face to face interview focused on the study topic and the objectives. Interviewing is a data-collection instrument that involves oral questioning of respondents either individually or as group (Chaleunvong, 2009). The responses to the interview questions were written down during the interview. In-depth interviews were used to obtain data from key informants such as the proprietors and top management staff who were purposively selected because of the information they held. Face to face interviews were held with revenue officers and business enterprise owners to get the right information and establish a rapport with the respondents.

The interviews were structured comprising a set of issues on tax registration, tax assessment, and mobilisation and tax incentives. This interview method was used to gather information from the business proprietors, and other revenue officials since these people have in-depth information concerning taxation policies and how they are influencing the performance of business enterprises in Kabale Municipality.

### **3.8. Data Collection Instruments**

#### **3.8.1 Questionnaires**

A questionnaire refers to a compilation of questions, which helped the researcher to gather necessary research data for the study. This study considered closed-ended questionnaire (Mugenda & Mugenda, 2013). Self-Administered Questionnaires (SAQ) were employed to gather data from the study elements in a structured manner. SAQs with one open ended question per section designed for business enterprise owners to give additional or express their mind while the rest were close ended questions (Appendix III). Questions were designed using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree) for easy measurements of variables (Jackson, 2009). The questionnaire was employed on business owners in Kabale Municipality and revenue officials of Kabale Municipality.

#### **3.8.2 Interview Guide**

In this study, interview guides were designed (Appendix IV). Interviews are used for collection of data that involves face to face, telephone or focus group discussion groups between the researcher and interviewee(s) (Creswell, 2013). The guide involved unstructured and generally open-ended questions that allowed probing for in-depth information from participants. This guide enabled the gathering of facts from business proprietors, and other top management officers in these enterprises and technical officials in tax administration since these people have in-depth information concerning tax administration policies and performance of business enterprises.

### **3.9 Validity and Reliability**

#### **3.9.1 Validity**

The study tools were pre-tested for their face and content validity. For face validity, the tools were reviewed by supervisors who made comments on the questions in the questionnaire and the interview guide. The questions found vague as suggested by the supervisor were eliminated or rephrased. To measure this, each of pretest respondents were requested to rate the questions in questionnaire and interview guide indicating if the questions are Relevant (R) or irrelevant (IR) as a way of showing their level of agreement or disagreement with the fact in questions. From respondents' rating, Content Validity

Index (CVI) was computed using the following formula:  $CVI = \frac{R}{(R+IR)}$ . The tools were considered valid, if their CVI was 0.7 and above as recommended (Amin, 2005).

$$CVI = \frac{39}{(46)},$$

$$CVI = .847$$

And hence, the CVI for the tool tested was 0.85. The tools were valid at 0.85, above the 0.7 and above as recommended (Amin, 2005). On basis of these valid tools' items, the researcher designed final tools for the study under investigation.

### 3.9.2 Reliability

Reliability of the tool is its ability to provide consistent answers even when used on various occasions and circumstances (Creswell, 2018). In order to establish the reliability on quantitative instruments, the tools were pre-tested on 10 people who did not constitute part of the main study. The results of the pre-testing exercise were entered into SPSS Ver. 23, and tested for their reliability basing on Cronbach reliability test scores (alpha values). The reliability test results are summarized in Table 1.

**Table 1: Reliability test**

Variable	No. of items	Cronbach Alpha
Tax registration	7	0.70
Tax assessment	8	0.71
Tax mobilization	8	0.70
Tax incentives	7	0.81
Business performance	9	0.72

The tools were considered reliable since their alpha values were 0.7 and above as recommended (Mugenda & Mugenda, 2013). The consistency and trustworthiness of the qualitative instruments was upheld by the researcher through checking the tools to ensure that they are free from errors that may have been made in transcription (Gibbs, 2007).

### 3.10 Data Collection Procedure

The researcher obtained an introductory letter from Kabale University enabled her to collect data from the field (Appendix V). Against establishing the validity and reliability of instruments to be used, the

researcher gathered raw information from the field and data collection, processing, and analysis were undertaken by the researcher herself.

### **3.11 Data Analysis**

Data analysis refers to the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the hypotheses” (Sekaran, 2013). Initially, data was entered into MS Excel computer program for cleaning. The data was imported to SPSS version 23 statistical software for analysis.

Quantitative analysis used was descriptive and inferential in nature. Descriptive statistical measures helped the researcher to describe the effect of tax administration and performance of business enterprises in Kabale Municipality. The hypotheses were analysed using inferential statistics to establish significant relationships between independent and dependent variables based on Pearson’s correlation coefficient and multiple regression analysis. The hypotheses were accepted when their p-value is at least 0.05 and considered of significant relationship. For qualitative analysis; data from interviews was sorted for completeness. Qualitative data was analysed in the form of texts and themes, yet impressions were examined and presented using descriptive methods for thorough analysis to be generated from the views of the respondents.

### **3.12 Ethical Considerations**

The study upheld all ethical considerations that are recommended in research, such as seeking participants’ informed consent, privacy, confidentiality, anonymity and avoiding plagiarism.

**Privacy:** The participants selected were treated with a high level of privacy. No participant was allowed to tick the questionnaire in groups, and for the sake of interviews, each interviewee were contacted separately. Any recording done was used for the study, later deleted from researcher’s database. Privacy of all official documents accessed and reviewed was also upheld.

**Confidentiality:** This relates to the extent to which the respondents’ information is disclosed. The researcher maintained a high level of confidentiality by coding questionnaires rather than use respondents’ names and using the findings only for the purposes of the study (Stevenson & Mahmut, 2013).

**Anonymity:** The researcher upheld all private data, the details and opinions from the respondents anonymously. Information was kept under key and lock and was used exclusively for academic purposes. Only information that relate to the study objectives, were included in the study report.

**Informed consent:** This refers to a situation where all the potential participants receive and understand all the information they need. Before engaging any participant in the study, the researcher first thought their consent. The purpose and objectives of the study were explained to the potential participants. They were asked to fill a consent form (*see, Appendix II*) to affirm their acceptance to be part of the study.

### **3.13 Limitations**

Some of the respondents concealed important data for personal and official reasons. This was mainly due to the aspect of business performance, largely considered as classified information. This was however minimized by promising privacy and confidentiality.

Some respondents were not ready to answer the questions or even spare the time for the study and this delayed the study. However, the researcher explained the purpose of the study to the respondents and developed simple tools for them to understand and encouraged the participants to take part in the study.

## CHAPTER FOUR

### PRESENTATION OF FINDINGS

#### 4.0 Introduction

In this section descriptive plus inferential study findings are shown. Data is revealed in accordance with hypotheses and specific objectives. The information pertaining to respondents' background is presented in segments. Inferential statistics and descriptive results are presented in the second segment along the objectives of the study.

#### 4.1 Response Rate

The computations below portray the proportional response of participants which were derived during the time of collecting field information. In due process, one hundred fifty (150) forms for assembling data were given out by the investigator to participants. In that regard, one hundred forty-eight (148) respondents had capacity to bring back the tools given to them when the investigator was in the quest for information. Study outcomes are portrayed below in table 4.1.

**Table 4.1: Response Rate**

	Questionnaires distributed	Questionnaires received	Response rate
Respondents	150	148	98.66

*Source: Field study (2021)*

Table 4.1 portrays 98.66% participants who brought back questionnaires issued out during the study. In that regard, scholars support a rate of 50% response as it portrays adequacy, 60% is rated good while more than 70% is regarded very good (Mugenda & Mugenda, 2008). This therefore acknowledges that the rate of response being 98.66% is an indicator of a perfect response percentage.

#### 4.2 Background information of the respondents

Evidence regarding background information analyzed for respondents in this study comprised gender, level of education, age and category of business they run in Kabale municipality.

#### 4.2.1 Gender of the Respondents

Revelations regarding respondents' gender yielded the following outcomes which are portrayed in table 4.2

**Table 4.2: Distribution of respondents by gender**

Gender of respondent	Frequency	Percent
Valid Male	81	54.7
Female	67	45.3
Total	148	100.0

Results portrayed 81 (54.7%) of participants as male, female counterpart in comparison were 67 (45.3%) of the respondents. This revealed that the majority of the respondents in Kabale Municipality are male.

#### 4.2.2 Level of Education

Respondents' education credentials are indicated below in Table 4.3.

**Table 4.3: Level of Education**

Level of education	Frequency	Percent
Valid Certificate	57	38.5
Diploma	43	29.1
Degree	42	28.4
Masters	4	2.7
Others	2	1.4
Total	148	100.0

Findings on education level highlighted least percentage of respondents being 2 (1.4%) while the majority of the respondents were 57 (38.5%) who had succeeded in attaining certificates in given fields. Others who attained diploma level were 43 (29.1%). Also, 42 (28.4%) of respondents had accomplished a Bachelor's degree certificate. Respondents with a Master's degree were 4 (2.7%). These findings were a revelation that the respondents in Kabale Municipality had capability of making informed decisions.

### 4.2.3 Respondents Age Distribution

Age coverage for participants is portrayed in Table 4.4.

**Table 4.4: Age Distribution**

Age of respondents	Frequency	Percent
Valid 18 - 34 Years	73	49.3
35 - 59 Years	67	45.3
Above 60 years	8	5.4
Total	148	100.0

Table 4.4 portrays the dominant age bracket of respondents being 18-34 holding a score total of 73 (49.3%). The group which came next was 35 – 59 with 67 (45.3%). The age group with the lowest age bracket was that of respondents above 60 with 8 (5.4%).

### 4.2.4 Business Categories of Respondents

Revelations regarding respondents’ business categories yielded the following outcomes which are portrayed in Table 4.5

**Table 4.5: Distribution of respondents by business category**

Business category	Frequency	Percent
Valid Technical Revenue	10	6.8
Official		
Hotel and Restaurant	25	16.9
Manufacturing	10	6.8
Entertainment	41	27.7
Joints and Bars		
Retail and Wholesale	41	27.7
Metal Fabrication	12	8.1
Food Processing	9	6.1
Total	148	100.0

Results portrayed that the majority of respondents 41 (27.7%) were managers of entertainment joints and bars, and retail and wholesale managers. It also revealed that 25 (16.9%) were working under hotels and restaurants, 12 (8.1%) were working under metal fabrication, 10(6.8%) fell under the technical revenue officials, and the manufacturing entities’ officials. A minority of respondents fell under the food processing entities.

### 4.3 Tax Registration Rating

The study sought to determine the effect of tax registration on performance of business enterprises in Kabale Municipality.

#### 4.3.1 Level of Tax Registration

The respondents were asked to indicate their level of agreement with the several statements pertaining to the effect of Tax Registration on performance of business entities in Kabale Municipality. The findings are shown in the table below.

**Table 4.6: Level of Tax Registration**

Description	N	Mean	Std. Deviation
Tax officials register business enterprises in this municipality	148	4.23	.710
In Kabale Municipality, there is transparency in business enterprise tax registration	148	3.61	.930
Tax registration is done following URA tax laws and policies	148	4.10	.886
There is easy registration of business undertakings by municipal tax officials	148	3.52	1.007
Tax registration of business enterprises is done to facilitate proper operation in the municipality	148	4.22	.790
Registration of business enterprises requires the owner to have a TIN	148	4.21	.875
There is uniformity in tax registration of business enterprises in this municipality	148	3.12	1.256
How has tax registration affected performance of business enterprises in this municipality?	148	3.14	1.260

The study found that the majority of the respondents with a mean score of 4.23 and a standard deviation of 0.710 believed that Tax officials register business enterprises in Kabale Municipality while respondents with a mean of 4.22 and a standard deviation of 0.790 opined that Tax registration of business enterprises is done to facilitate proper operation in the municipality. Other respondents with a mean of 4.21 and a standard deviation of 0.875 argued that the registration of business enterprises requires the owner to have a TIN. Also, respondents with a mean score of 4.10 and a standard deviation of 0.886 asserted that Tax registration is done following URA's tax laws and policies. The respondents with a mean score of 3.61

and a standard deviation of 0.930 presupposed that Kabale Municipality holds transparency in business enterprise tax registration, while respondents with a mean of 3.52 and a standard deviation of 1.007 noted that there is easy registration of business undertakings by municipal tax officials. Respondents with a mean score of 3.14 and a standard deviation of 1.260 believed that tax registration affected performance of business enterprises within Kabale municipality. Minority of respondents with a mean score of 3.12 and a standard deviation of 1.256 illuminated that there was uniformity in tax registration of business enterprises in Kabale municipality.

In summary, Table 4.6 illustrates that the majority of respondents in Kabale Municipality acknowledged that tax officials register business enterprises in Kabale Municipality. The above finding was supported by qualitative findings from one of the Technical Revenue Officials who was coded “A3” who asserted that:

*“Tax registration of businesses in Kabale municipality is un avoidable. We make sure we reach all business establishments to have all businesses have an account on this matter of national importance” (A3).*

#### **4.4 Tax Assessment Rating**

The study sought to determine the effect of tax assessment on performance of business enterprises in Kabale Municipality.

##### **4.4.1 Level of Tax Assessment**

The respondents were asked to indicate their level of agreement with the several statements pertaining to the effect of tax assessment on performance of business enterprises in Kabale Municipality. The findings are shown in the table below.

Table 4.7: Level of Tax Assessment

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
There is effective tax assessment of business enterprises in this municipality	148	3.68	1.070
Tax officials of this municipality assess business enterprises basing on amended tax policies	148	3.91	.971
Tax assessment on businesses in this municipality depend on the tax preference accorded to business enterprises	148	3.43	1.011
Business enterprises in Kabale Municipality are assessed highly	148	3.39	1.210
Tax assessment of business enterprises is usually made at the end of first quarter of the financial year	148	3.74	1.173
In this municipality, tax assessment is always based on performance of a business enterprise	148	3.70	1.134
Tax assessment rates are determined based on URA tax Acts	148	3.91	1.130

The study found that the majority of the respondents with a mean score of 3.91 and a standard deviation of 0.971 believed that the tax officials of Kabale Municipality assess business enterprises basing on amended tax policies. Similarly, respondents with a mean of 3.91 and a standard deviation of 1.130 opined that tax assessment rates are determined based on URA tax Acts. Other respondents with a mean of 3.74 and a standard deviation of 1.173 argued that tax assessment of business enterprises is usually made at the end of first quarter of the financial year. Also, respondents with a mean score of 3.70 and a standard deviation of 1.134 asserted that this, tax assessment in Kabale Municipality is always based on performance of a business enterprise. The respondents with a mean score of 3.68 and a standard deviation of 1.070 presupposed that there is effective tax assessment of business enterprises in KMC, while respondents with a mean of 3.43 and a standard deviation of 1.011 noted that tax assessment on businesses in KMC depend on the tax preference accorded to business enterprises. Respondents (mean score of 3.39) believed that Business enterprises in Kabale Municipality are assessed.

In summary, Table 4.7 illustrates that the majority of respondents at Kabale Municipality acknowledged that tax officials of Kabale Municipality assess business enterprises basing on amended tax policies. The above finding was supported by qualitative findings from one of the Technical Revenue Officials who was coded “A1” who asserted that:

*As a revenue official, I make sure that the work I execute in the field of tax assessments is entirely guided by government tax policies which offer support in undertaking a given course of action (A1).*

#### **4.5 Tax Mobilization Rating**

The study sought to examine the effect of tax mobilization on performance of business enterprises in Kabale Municipality.

##### **4.5.1 Level of Tax Mobilization**

The respondents were asked to indicate their level of agreement with several statements pertaining to effect of tax assessment on performance of business enterprises in Kabale Municipality.

**Table 4.8: Level of Tax Mobilization**

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
There is timely tax mobilisation from business enterprises in this area	148	3.63	.964
Tax officials in this municipality conduct tax mobilization activities in this municipality	148	3.99	.782
Tax mobilisation approaches applied by tax authorities on business enterprises	148	3.93	.886
Municipal council revenue officials use government policies to collect taxes	148	4.06	.905
The mobilisers of taxes in this municipality balance their educational and assistance role with the enforcement role for successful tax collection	148	3.41	.954

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Tax mobilization is always based on the assessed tax in this municipality	148	3.82	.997
High tax rates on businesses make tax mobilization difficult in this municipality	148	4.07	.977

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The study found that the majority of the respondents with a mean score of 4.07 and a standard deviation of 0.977 believed that High tax rates on businesses make tax mobilization difficult in Kabale Municipality. Next in line, respondents with a mean of 4.06 and a standard deviation of 0.905 acknowledged that Municipal council revenue officials use government policies as a basis for tax collection. Also, respondents with a mean of 3.99 and a standard deviation of 0.782 opined that tax officials in Kabale Municipality are responsible for conducting tax mobilization activities. Other respondents with a mean of 3.93 and a standard deviation of 0.886 argued that Tax mobilization approaches are applied by tax authorities on business enterprises. Also, respondents with a mean score of 3.82 and a standard deviation of 0.997 asserted that tax mobilization is always based on the assessed tax within the municipality. The respondents with a mean score of 3.63 and a standard deviation of 0.964 presupposed that there is timely tax mobilization from business enterprises in this area. Respondents with a mean score of 3.41 and a standard deviation of 0.954 believed that the mobilisers of taxes in Kabale Municipality balance their educational and assistance role with the enforcement role for successful tax collection.

In summary, Table 4.8 illustrates that the majority of respondents at Kabale Municipality acknowledged that high tax rates on businesses make mobilization of tax difficult in Kabale municipality. The above finding was supported by qualitative findings from one of the managers of retail and wholesale business that was coded “B2” who asserted that:

*“Tax mobilization in situations where huge amounts of money are levied makes mobilization activities extremely difficult. This is because sometimes our businesses are not in position to offer such huge amounts of money as the government may require. This makes some people to try to avoid these taxes in one way or the other.” (B2).*

## 4.6 Tax Incentive Rating

The study sought to examine the effect of tax incentives on performance of business enterprises in Kabale Municipality.

### 4.6.1 Level of Tax Incentives

The respondents were asked to indicate their level of agreement with the several statements pertaining to the effect of tax incentives on performance of business enterprises in Kabale Municipality. The findings are shown in the table below.

**Table 4.9: Level of Tax incentives**

	N	Mean	Std. Deviation
Business enterprises in this municipality always get tax holidays and exemptions	148	2.71	1.401
There has been creation of some special incentives based on business type, number of years of operating, nature of transactions, business size and origin of businesses in this municipality	148	2.79	1.241
Granting of incentive packages in the tax system to businesses in this municipality has propelled the growth of businesses	148	3.04	1.288
Tax authorities in this municipality have provided special treatment to tax payers in this COVID-19 period	148	3.20	1.309
Streamlining tax incentives in this municipality is a strong stimulus to improving business performance	148	3.29	1.185
Revenue authorities in this municipal council has provided tax reduction and lower tax amount payable to business enterprises	148	2.96	1.261
Tax incentives to business enterprises in this municipality has attracted and retained new businesses	148	3.23	1.278

The study found that the majority of the respondents with a mean score of 3.29 and a standard deviation of 1.185 believed that streamlining tax incentives in Kabale Municipality is a strong stimulus to improving business performance while respondents with a mean of 3.23 and a standard deviation of 1.278 opined that tax incentives for business enterprises in Kabale Municipality has attracted and retained new businesses. Other respondents with a mean of 3.20 and a standard deviation of 1.309 argued that tax authorities in Kabale municipality have provided special treatment to tax payers in this COVID-19 period. Also, respondents with a mean score of 3.04 and a standard deviation of 1.288 asserted that granting of incentive packages in the tax system to businesses in this municipality has propelled the growth of

businesses. The respondents with a mean score of 2.96 and a standard deviation of 1.261 presupposed that revenue authorities in this Kabale municipal council have provided tax reduction and lower tax amount payable to business enterprises., while respondents with a mean of 2.79 and a standard deviation of 1.241 noted that there has been creation of some special incentives based on business type, number of years of operating, nature of transactions, business size and origin of businesses in within the municipality. Minority of respondents with a mean score of 2.71 and a standard deviation of 1.401 did not agree that business enterprises in the municipality always get tax holidays and exemptions.

In summary, Table 4.9 illustrates that the majority of respondents in Kabale Municipality acknowledged that streamlining tax incentives in Kabale Municipality is a strong stimulus to improving business performance. The above finding was supported by qualitative findings from a manager in the manufacturing business entity who was coded “D2” who asserted that:

*“Tax incentives in form of tax holidays give us a break from tax payments. This is crucial in lifting our profits above the usual revenues we obtain from the sales. These incentives give us a great start in making re-investments of the would be government revenue into our own enterprises which is important in making the organisations feast on abnormal profits” (D2).*

#### **4.7 Business Performance**

The respondents were asked to rate business performance of Kabale Municipality in the last three to five years.

##### **4.7.1 Business Performance Assessment**

The respondents were asked to indicate their level of agreement with several statements pertaining to business performance at Kabale Municipality. The findings are shown in the table below

**Table 4.10: Level of Business Performance**

Statements	N	Mean	Std. Deviation
Our business performs to our expected standards	148	3.19	1.192
This business enterprise has a favorable return on assets	148	3.22	1.112
There is a high operating profit margin in this business	148	3.14	1.199
Our return on equity has been good for past 5 years	148	3.11	1.134

This business enterprise has a favorable growth rate	148	3.32	.977
There is client satisfaction in our business	148	3.74	1.026
The sales volume in this business enterprise is high	148	3.20	1.166
There is a high level of investment in this business enterprise	148	3.70	1.085
This business has a favorable asset turn over	148	3.30	1.141

The study found that the majority of the respondents with a mean score of 3.74 and a standard deviation of 1.026 felt that there was client satisfaction in their business while respondents with a mean of 3.70 and a standard deviation of 1.085 opined that there was a high level of investment in their business enterprise. Other respondents with a mean of 3.32 and a standard deviation of 0.977 argued their business enterprises have a favorable growth rate. Also, respondents with a mean score of 3.30 and a standard deviation of 1.141 asserted that their business had a favorable asset turn over.

Additionally, respondents with a mean score of 3.22 and a standard deviation of 1.112 proclaimed that these business enterprises had a favorable return on assets. Also, respondents with a mean of 3.20 and a standard deviation of 1.166 asserted that the sales volume in the aforementioned business enterprises was high. Respondents with a mean score of 3.19 and a standard deviation of 1.192 asserted that their business performs to their expected standards. Respondents with a mean score of 3.14 and a standard deviation of 1.199 emphasized that there is a high operating profit margin in their businesses. Minority of respondents with mean scores of 3.11 and standard deviation of 1.134 claimed that their return on equity had been good for the past 5 years.

In summary, Table 4.10 illustrates that the majority of respondents in Kabale Municipality acknowledged that there was client satisfaction in their businesses. The above finding was supported by qualitative findings from a manager in a food processing entity who was coded “C1” who asserted that:

*we believe that our businesses are doing well because we have been in position to touch the hearts of our customers with our products whose prices, we feel are manageable by great numbers of people living within vicinity of Kabale Municipality (C1).*

It's thus important that the business enterprises can apply knowledge in their businesses as a significant resource of investment to touch the hearts of many customers through innovation and creativity of their products in order to gain competitive advantage hence an increase in the sale of products.

**4.8 Correlation Analysis:** To examine the strength of the relationship between Tax Administration and business performance in Kabale Municipality, correlation analysis was conducted so as to determine the relationship between dependent and independent variables used in study. Kothari (2011) highlighted that Correlation between two variables is measured by applying the correlation coefficient which ranges from -1 to +1. Correlation coefficient was used to determine the relationship between tax administration and business performance.

**Table 4.11: Correlation portraying the relationship between Tax Registration, Tax Assessment, Tax Mobilization, Tax Incentives and Business Performance of Enterprises in Kabale Municipality**

			Business performance
Correlation Analysis	Tax registration	Correlation Coefficient	.299(**)
		Sig. (2-tailed)	.000
		N	148
	Tax assessments	Correlation Coefficient	.474(**)
		Sig. (2-tailed)	.000
		N	148
	Tax mobilization	Correlation Coefficient	.259(**)
		Sig. (2-tailed)	.002
			148
	Tax incentives	Correlation Coefficient	.420(**)
		Sig. (2-tailed)	.000

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

The results portrayed in Table 4.11 above reveal that there is a positive weak significant relationship between tax registration and business performance in Kabale Municipality. This relationship is indicated by the correlation coefficient of 0.299 and  $P < 0.01$ . This implied that any effort taken by Kabale Municipality to improve tax administration would yield a strong likelihood of registering an increase in business performance. The results also revealed that there was a positive moderate significant relationship between tax assessment and Business performance in Kabale Municipality ( $r = 0.474$  and  $P\text{-Value} < 0.01$ ).

This implies that if Kabale Municipality continuously embraces tax assessments enterprises will on average have high business performance.

Furthermore, the findings in Table 4.11 also revealed a weak positive relationship between tax mobilization and business performance in Kabale Municipality. This is evidenced by the correlation coefficient of 0.259 and p-Value<0.01. This implied that if Kabale Municipality continues to embraces tax mobilization, it will on average obtain high business performance. Also, the findings revealed a moderate positive relationship between tax incentives and business performance in Kabale Municipality. This is evidenced by the correlation coefficient of 0.420 and p-Value<0.01. This implies that if Kabale Municipality continues to embrace tax incentives, it will on average obtain high business performance.

In addition, although all findings reflected a positive coefficient, it is imperative to note that tax assessments and tax incentive have a greater contribution to business performance in Kabale Municipality. This is verifiable from their supportive moderate relationship with business performance.

#### 4.9 Regression results

Regression analysis was carried out to establish the extent to which tax administration affects performance of businesses in Kabale Municipality, South Western Uganda. A multiple regression analysis was carried out to establish the effect of the constructs of the independent variable on performance of business enterprises.

**Table 4.12 Regression model summary**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.529(a)	.280	.260	.71020

Predictors: (Constant), Tax incentives, Tax registration, Tax mobilization, tax assessments

Table 4.12 portrays the coefficient of determination (0.529) which implies that one unit of change in the independent variable (Tax Administration) causes a change of 52.9% of the Dependent variable (Business performance). This indicated that the remaining percentage (47.1%) can be explained by other strategies of Tax administration. Table 4.12 above also portrays the R square of 0.280 which implies that the four independent variables studied explain only 28.0% of the variations in business performance in Kabale Municipality. This means that other factors not covered in this research project explain 72.0% of the variations in business performance in Kabale Municipality.

**Table 4.13 ANOVA model summary**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	28.014	4	7.003	13.885	.000(a)
	Residual	72.126	143	.504		
	Total	100.140	147			

a) Predictors: (Constant), Tax incentives, Tax registration, Tax mobilization, tax assessments

b) Dependent Variable: business performance

In testing the significance of the model, Table 4.13 illustrates that the value obtained was 0.000 which is less than 0.05 in a two tailed test. This indicates that the model was statistically significant in predicting the influence of the predictor variables on business performance. Findings also indicate that the calculated F (13.885) is more than the table value of 0.000. Therefore, the study reveals that the model is fit to describe the effect of tax administration on business performance of enterprises in Kabale Municipality.

**Table 4.14: Regression coefficients portraying the effect of Tax Registration, Tax Assessment, Tax Mobilization, and Tax Incentives on Performance of Business Enterprises**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.083	.558		.149	.881
	Tax registration	.189	.134	.112	1.411	.160
	Tax assessments	.469	.144	.299	3.260	.001
	Tax mobilization	.038	.133	.024	.282	.778
	Tax incentives	.219	.072	.244	3.055	.003

a) Dependent Variable: business performance

The multivariate regression model was adopted to establish whether there existed an effect of Tax Administration on business performance in Kabale Municipality. Therefore, the regression model equation was as follows.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Which became:  $Y_i = 0.083 + 0.189X_1 + 0.469X_2 + 0.038X_3 + 0.219X_4 + \epsilon$

The model implies that when all the variables of the study are held constant, business performance of enterprises in Kabale Municipality will be at the intercept which is 0.083. A unit enhancement in tax registration while all other factors are held constant results in 0.189 increases in business performance, a unit enhancement in Tax assessment with other factors held constant leads to 0.469 increases in business

performance. Similarly, a unit enhancement in tax mobilization while other factors are held constant result into 0.038 increase in business performance of enterprises in Kabale Municipality. Also, a unit enhancement in tax incentives while other factors are held constant result into 0.219 increase in business performance of enterprises in Kabale Municipality.

From Table 4.14, the above regression coefficients help in answering the regression equation on the underlying effect between the study variables, the coefficient of Tax registration was statistically insignificant ( $P=0.160$ ) compared to P-value of 0.05, the coefficient of Tax assessment was statistically significant ( $P= 0.001$ ) compared to P-value of 0.05. The coefficient of Tax Mobilization was statistically insignificant ( $P=0.778$ ) compared to P-value of 0.05. Also, the coefficient of Tax incentives was statistically significant ( $P=0.003$ ) as compared to the stated P-value of 0.05.

Therefore, from the aforementioned revelations, hypothesis 2, and hypothesis 4 were supported because their P-Value was less than 0.05. On the other hand, hypothesis 1, and Hypothesis 3 were not supported because their P-Value was greater than 0.05, and thus statistical insignificance.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS

#### 5.1 Introduction

This section presents a discussion of the study findings. The general objective sought to establish the relationship between tax administration and performance of business enterprises in Kabale Municipality. The specific objectives of the study were: to assess the effect of tax registration on performance of business enterprises in Kabale Municipality; to establish the effect of tax assessment on performance of business enterprises in Kabale Municipality; to determine the effect of tax mobilization on performance of business enterprises in Kabale Municipality; to assess the effect of tax incentives on performance of business enterprises in Kabale Municipality. The hypotheses of the study were: (H<sub>1</sub>) Tax registration significantly affects the performance of business enterprises in Kabale Municipality, (H<sub>2</sub>) Tax assessment significantly affects the performance of business enterprises in Kabale Municipality, (H<sub>3</sub>) Tax mobilisation significantly affects the performance of business enterprises in Kabale Municipality, (H<sub>4</sub>) Tax incentives affect the performance of business enterprises in Kabale Municipality. During analysis, a multiple regression was made to establish the degree of predictability of the independent variable on the outcome variable.

#### 5.2 Discussion of findings

##### 5.2.1 Effect of Tax Registration on Performance of Business Enterprises in Kabale Municipality

As reflected in Table 4.14, revelations on the first objective portrayed that tax registration has an insignificant effect on business performance in Kabale Municipality. This implies that the aforesaid tax registration in the study do not significantly explain variations in business performance in Kabale Municipality. This means that when tax registration is systematically done by Kabale Municipality, it is highly likely that business performance among enterprises would not improve in terms of financial performance measures such as, Return on Investment, return on assets, Operating profit margin & Asset turnover ratio, Return on equity, and non-financial performance measures, such as, Growth, Marketing effectiveness, and Employee Satisfaction. Therefore, these findings were in agreement with previous studies of various scholars who established that tax registration may not significantly affect business performance of enterprises. For instance, research conducted by the World Economic Forum (2020) indicated that border tax registration and assessment in Uganda is not transparent, has a lot of irregular

payments and the clearance process is inefficient. Dube (2014) adds that the aforesaid problem is worsened by tax authorities in African countries working under tax registration due to their involvement in corruption tendencies.

Also, research conducted by Kistruck, Webb, Sutter and Bailey (2015) revealed that the costs of non-registration outweigh the benefits of registration, for example, access to credit and human capital, opportunities to procure government contracts, outsource from large firms, access training and business support programmes. However, in contrast, Nakaweesi (2018) revealed that in a way to attain business performance, it is imperative that firms ensure that customs regulations are implemented in a proper and efficient manner, as well as with latest technology such as single customs territory which enables traders to comply with customs procedures, and pay customs taxes at one entry point within a maximum of two days. According to the findings of tax registration, tax officials register business enterprises in Kabale Municipality and this is done to facilitate proper operation of businesses in the municipality and this helps them to access credit from the financial institutions and expand their businesses.

As reflected in Table 4.11, the correlation coefficient (0.299) showed a positive weak significant relationship between tax registration and business performance in Kabale Municipality, and thus  $H_1$  which states that tax registration significantly affects the performance of business enterprises in Kabale Municipality is accepted. However using regression analysis as shown in Table 4.14,  $H_1$  did not pass the test because it was statistically insignificant ( $P=0.160$ ) compared to  $P$ -value of 0.05. Since tax registration has not passed all the tests, then it does not greatly support business enterprise performance in Kabale Municipality. The findings are consistent with the notion that obtaining a trading license does not guarantee increase in firm revenue as observed in Lima, United States.

### **5.2.2 The Effects of Tax Assessment on Performance of Business Enterprises in Kabale Municipality**

As reflected in Table 4.14, revelations on the second objective portrayed that tax assessment has a significant effect on business performance in Kabale Municipality. This implies that the aforesaid tax assessment in the study significantly explain variations in business performance in Kabale Municipality. This means that when tax assessment is systematically done by Kabale Municipality, it is highly likely that business performance among enterprises would improve in terms of Financial performance measures such as, Return on Investment, Return on assets, Operating profit margin & Asset turnover ratio, Return on equity, and non-financial performance measures, such as, Growth, Marketing effectiveness, and Employee Satisfaction. Therefore, these findings were in agreement with previous studies of various

scholars who established that tax assessment significantly affects business performance of enterprises. For instance, research conducted by Abanis et al. (2013) who acknowledged that assessment of small and medium enterprises is seen as the driving force for the promotion of the country's economy because of their contribution on the return on investment, return on assets and business growth among others which are observed as major components of business performance.

The above observation is contrary to findings by Mungaya et al., (2012) whose study on the impact of the tax system on the growth of Small and Medium Enterprises found out that high tax rates increase the cost of production within business enterprises which greatly affects performance of these firms and therefore should not be ignored. Also, in complement, Gordon (2019) highlighted that high tax assessments coupled with complex tax systems have negatively affected performance of business enterprises.

Also, research conducted by Kistruck et al.(2015) presupposed that it is imperative for entities to understand that it is rare not to find complaints among small businesses about the complicated tax structure involving vague tax laws and high tax assessments that have hampered the growth of these businesses. In disagreement, research conducted in Uganda by Okong (2018) on the impact of tax assessment on financial performance in Ugeya revealed that tax assessments had a significant effect on financial performance of entities in Ugeya. The findings revealed that tax assessments are always conducted by URA basing on amended policies in an effective manner and that businesses are assessed according to the tax payers level of income and depend on the tax preference accorded to business enterprises in Kabale Municipality.

As reflected in Table 4.11, the correlation coefficient (0.474) revealed a positive moderate significant relationship between tax assessment and business performance in Kabale Municipality and thus  $H_2$  which states that tax assessment significantly affects the performance of business enterprises in Kabale Municipality is accepted. In addition, using regression analysis as shown in Table 4.14, the findings, indicated that high tax assessments have a significant influence on the performance of business enterprises in Kabale Municipality to a greater extent with ( $P=0.001$ ) compared to P-value of 0.05. The findings are consistent with the notion that tax assessment is paramount in performance of business enterprises (Adebis et al, 2013). Therefore, since  $H_2$  has passed all the tests, it is greatly acceptable as the major contributor to business performance in Kabale Municipality.

### **5.2.3 The Effects of Tax Mobilization on Performance of Business Enterprises in Kabale Municipality**

As reflected in Table 4.14, revelations on the third objective portrayed that tax mobilization has an insignificant effect on business performance in Kabale Municipality. This implies that the aforesaid tax mobilizations in the study do not significantly explain variations in business performance in Kabale Municipality. This means that when tax mobilization is systematically done by Kabale Municipality, it is highly likely that business performance among enterprises would not improve in terms of financial performance measures such as, Return on Investment, return on assets, Operating profit margin, Asset turnover ratio, Return on equity, and non-financial performance measures, such as, Growth, Marketing effectiveness, and Employee Satisfaction. Therefore, these findings were in agreement with previous studies of various scholars who established that tax mobilizations may not significantly affect business performance of enterprises. For instance, research conducted by Afuberoh, Dennis and Okoye (2014) who highlighted that taxation being a compulsory levy by the government and its agencies on income, salaries, profits, dividend, discounts, interests and royalties leads to low financial performance of business enterprises because the tax is levied against a company's profits, capital gains, and transfers.

On the other hand, research conducted in Uganda by Nakaweesi (2018) revealed that tax mobilization significantly affects performance of business organizations. According to the scholar, tax mobilization increases the market vendor profit margin; it also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers.

According to research conducted in Greece by Kalogiannidis (2021), although revenue mobilisation has been considered as an excellent choice for the development of the country with the primary objective of the tax system being to raise revenue that will aid in offering services to the citizens, developing the nation, encouraging innovation and trade. Revenue mobilisation and its subsequent repayment inform of taxes paid by the business enterprises leads to low business performance since it encroaches on the business financial achievements of the firms. In Kabale Municipality, revenue officials use government policies to collect taxes. Tax mobilisation is always based on the assessed tax however, high tax rates make tax mobilisation difficult in Kabale Municipality.

As reflected in Table 4.11, the correlation coefficient of 0.259 revealed that there is a positive weak relationship between tax mobilisation and business performance in Kabale Municipality and thus,  $H_3$  which states that tax mobilisation significantly affects the performance of business enterprises in Kabale

Municipality is supported .However using regression analysis as shown in Table 4.14, H<sub>3</sub> did not pass the test because it was statistically insignificant (P=0.778) compared to P-value of 0.05. Since tax mobilisation has not passed all the tests, then it does not greatly support business enterprise performance in Kabale Municipality according to the study findings. The findings are in agreement with the view that taxes are paid by business enterprises and hence have an effect on their performance (Kalogiannidis, 2021).

#### **5.2.4 The Effects of Tax Incentives on Performance of Business Enterprises in Kabale Municipality**

As depicted in Table 4.14, revelations on the fourth objective portrayed that tax incentives have a significant effect on business performance in Kabale Municipality. This implies that the aforesaid tax Incentives in the study significantly explain variations in business performance in Kabale Municipality. This means that when tax incentives are systematically obtained by Kabale Municipality, it is highly likely that business performance among enterprises would improve in terms of Financial performance measures such as, Return on Investment, Return on assets, Operating profit margin & Asset turnover ratio, Return on equity, and non-financial performance measures, such as, Growth, Marketing effectiveness, and Employee Satisfaction. Therefore, these findings were in agreement with previous studies of various scholars who established that tax incentives significantly affect business performance of enterprises. For instance, research conducted in Sub-Saharan States including Ghana by Siyanbola et al. (2017) supported that tax incentives are significant strategic drive for business and industrial growth which ought to be continuously embraced so as to attain business performance.

Additionally, research conducted in Uganda by Twesige and Gasheija (2019) acknowledged that since profitability is a measure of the amount by which a company's revenues exceed its relevant expenses, the results revealed that an increase in sales raised profitability of the business enterprise which implied that tax incentives like reductions in tax rates and tax holidays lead to profitability of business in developing countries like Uganda.

Also, Feyitimi, Temitope, Akeem and Oladele (2016) noted that tax holidays being one of the most frequently adopted government tax incentives which exempts firms from their tax liability and also relieves some businesses certain tax deductions over the tax holiday, these tax incentives are observed to stimulate the growth and expansion of business enterprises due to the perception that these incentives lower the tax compliance burden inflicted on the small and medium enterprises in a given state. In support to the aforesaid research findings, an empirical comparative study conducted in Uganda by Mayende, (2013) revealed that firms with incentives performed better than firms without incentives in terms of gross

sales and value added. Better still, streamlining tax incentives were a strong stimulus to improving business performance of various entities. This therefore implies that tax incentives have a significant effect on business performance of enterprises.

As reflected in Table 4.11, the Correlation coefficient (0.420) shows a moderate positive relationship between tax incentives and business performance in Kabale Municipality and thus (H<sub>4</sub>) which states that tax incentives significantly affect the performance of enterprises in Kabale Municipality is accepted. In addition, using regression analysis as shown in Table 4.14, the findings, indicated that increased tax incentives have a significant influence on the performance of business enterprises in Kabale Municipality to a moderate extent with P=0.003 compared to P-value of 0.05. Therefore, since H<sub>4</sub> has passed all the tests, it's acceptable as a reliable contributor to business performance in Kabale Municipality as indicated by the study findings. This is consistent with the opinion that tax incentives are a significant strategic drive for business and industrial growth (Siyanbola et al., 2017).

Therefore, it is important to note that tax incentives in form of tax holidays have had a positive contribution towards performance of business enterprises in Kabale Municipality and these should be strengthened by the government in order to attract more investors. This has contributed to the existing literature of tax administration and business performance, thus tried to cover the gap that has not been explored in Kabale Municipality. As reflected in Table 4.12 the overall effect of tax administration on business performance was 28% as provided by R square of 0.280. This implies that the four independent variables studied explain only 28.0% of the variations in business performance in Kabale Municipality. Thus other factors which are not covered in this research project explain 72.0% of the variations in business performance in Kabale Municipality.

All the four variables have an impact on business performance; however, it has been observed that two variables of tax registration and tax mobilisation do not significantly influence business performance in Kabale Municipality whereas the other two variables of tax assessments and tax incentives have significant contribution to business performance. Therefore, from the aforementioned revelations, hypothesis 2, and hypothesis 4 were supported because their P-Value was less than 0.05. On the other hand, hypothesis 1, and Hypothesis 3 were not supported because their P-Value was greater than 0.05, and thus statistical insignificance.

## CHAPTER SIX

### CONCLUSIONS AND RECOMMENDATIONS

#### **6.1 Introduction**

This section presents the study recommendations, and study conclusions based on the specific objectives. This section additionally illuminates on other areas of further study.

#### **6.2 Conclusions**

##### **6.2.1 The Effect of Tax Registration on Performance of Business Enterprises in Kabale Municipality**

From the study, it was learnt that tax registration played an insignificant role in business performance in Kabale Municipality. Therefore, the study concluded that tax registration requires interventions necessary in stepping up business performance. For instance, tax registration should be aimed towards improvement in financial performance measures such as, return on investment, return on assets, operating profit margin & asset turnover ratio, return on equity, and non-financial performance measures, such as, growth, marketing effectiveness, and employee satisfaction.

##### **6.2.2 The Effect of Tax Assessment on Performance of Business Enterprises in Kabale Municipality**

According to study findings, it was established that tax assessment played a significant role in business performance of enterprises in Kabale Municipality. Therefore, the study concluded that tax assessments are very important and should be embraced to enhance business performance in terms of financial performance measures such as, return on investment, return on assets, operating profit margin & asset turnover ratio, return on equity, and non-financial performance measures, such as, growth, marketing effectiveness, and employee satisfaction. Therefore, Management's involvement in enhancement of tax assessments is critical in contributing towards business performance in Kabale Municipality.

##### **6.2.3 The Effect of Tax mobilization on Performance of Business Enterprises in Kabale Municipality**

From the study, it was learnt that tax mobilization played an insignificant role in business performance in Kabale Municipality. Therefore, the study concluded that tax registration requires interventions necessary in stepping up business performance. For instance, tax mobilization should be aimed towards improvement in financial performance measures such as, return on investment, return on assets, operating

profit margin & asset turnover ratio, return on equity, and non-financial performance measures, such as, growth, marketing effectiveness, and employee satisfaction.

#### **6.2.4 Effect of Tax Incentives on Performance of Business Enterprises in Kabale Municipality**

According to study findings, it was established that tax incentives played a significant role in business performance of enterprises in Kabale Municipality. Therefore, the study concluded that tax incentives are very important and should be embraced to enhance business performance in terms of financial performance measures such as, return on investment, return on assets, operating profit margin & asset turnover ratio, return on equity, and non-financial performance measures, such as, growth, marketing effectiveness, and employee satisfaction. Therefore, Management's involvement in enhancement of tax incentives is critical in contributing towards business performance in Kabale Municipality.

Generally, there is a significant low relationship between tax administration and performance of business enterprises in Kabale Municipality. Only 28%, of business performance in Kabale Municipality could be predicted by tax administration as per study findings.

### **6.3 Recommendations**

Tax assessment was found to have a significant effect on business performance. The study therefore recommends that Kabale Municipality needs to embrace tax assessments so as to enhance business performance of enterprises in the area. This can be done by ensuring tax officials of Kabale Municipality assess business enterprises basing on amended tax policies, tax assessment rates ought to be determined based on URA tax Acts, tax assessment of business enterprises should usually be made at the end of first quarter of the financial year. It is also important that tax assessment in Kabale Municipality be based on performance of a business enterprise; tax assessment on businesses in Kabale Municipality should also depend on the tax preference accorded to business enterprises.

Tax incentives were found to have a significant effect on business performance of enterprises. The study therefore recommends that Kabale Municipality needs to embrace tax incentives so as to enhance business performance of enterprises in the area. This can be done by streamlining tax incentives in Kabale Municipality as a strong stimulus to improving business performance, it could also be done by ensuring that tax incentives for business enterprises in Kabale Municipality attracts and retains new businesses. There should also be special treatment to taxpayers in this COVID-19 period. It is also necessary that revenue authorities in Kabale municipal council make provision of tax reduction and lower tax amount payable by business enterprises.

Tax registration and tax mobilization were found to have an insignificant effect on business performance. The study therefore recommends that managers should design interventions necessary in stepping up business performance. For instance, tax mobilization and tax registration should be aimed towards improvement in financial performance measures such as, return on investment, return on assets, operating profit margin & asset turnover ratio, return on equity, and non-financial performance measures, such as, growth, marketing effectiveness, and employee satisfaction.

Tax administration contributed less on the performance of businesses. Some elements of tax administration (registration and mobilisation) did not significantly affect businesses at all. Therefore, business owners should focus on meeting their tax obligations for better social services in the municipality.

#### **6.4 Suggestions for further research**

This study specifically considered four forms of tax administration and left out other forms. Therefore, future researchers should address such areas so as to generate new knowledge relevant in making enhancement in business performance.

Performance of businesses in Kabale municipality was predominantly (72%) due to other factors not explored in the study. Therefore, other studies should address these factors to support business performance in the Municipality.

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## APPENDICES

### Appendix I: Sampling Table

Table for determining sample size from a given population by Krejcie & Morgan (1970)

<b>Table for determining sample size from a given population</b>					
<b>N</b>	<b>S</b>	<b>N</b>	<b>S</b>	<b>N</b>	<b>S</b>
<b>10</b>	<b>10</b>	<b>220</b>	<b>140</b>	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

**Note: N is population size**

**S is sample size**

**Appendix II: Letter of Consent to the Participants**

Kabale University  
P.o. Box 317  
Kabale- Uganda  
Email: info@kab.ac.ug  
www.kab.ac.ug

**September 07, 2021**

Dear respondent,

**Seeking your consent to participate in the Study**

Greetings!

I am writing to seek your consent to be part of this study. I am a student pursuing a Master of Business Administration at Kabale University. As part of the requirement for this award, I am undertaking a study on the topic, “Tax Administration and Performance of Business Enterprises in Kabale Municipality”. You have been selected to participate by providing your opinions through answering the questions in the questionnaire below attached.

Please feel at ease to give your true opinion as this is just an academic study and your responses will be treated for that purpose. Your views will be treated with great confidentiality and in case of need for the outcome of this research you can contact me on Telephone. If you are willing to be part of this study, please sign the tear off portion below, and return it to the researcher/ or the bearer.

Thank you for your cooperation in this matter in advance.

Sincerely,  
**Nahabwe Hilda**  
**Student/Researcher**

---

.....*Tear off portion*.....

I agree..... Signature .....

and will be available on.....Day/Time.....

### Appendix III: Questionnaire for Respondents in Kabale Municipality

Dear Sir/Madam

I am **Nahabwe Hilda** Reg No. **2019/A/MBA/005/W**, a student of Kabale University pursuing a Master of Business Administration. As part of the requirements for this award, I am undertaking a study on the relationship between Tax Administration and Performance of Business Enterprises in Kabale Municipality. In relation to their study, I am contacting you for relevant information about the topic. Your responses/information will be treated with great confidentiality and used for this study purposes.

#### Section A: Bio-data about the Respondents

**1. Gender** Male  Female

**2. Level of Education**

Certificate  Diploma  Degree  Masters   
Other (Specify).....

**3. Age bracket**

18-34 Years  35-59 Years  Above 60 years

**4. Respondent and Business Category**

Technical Revenue Official	<input type="checkbox"/>	Retail and Wholesale	<input type="checkbox"/>
Hotel and Restaurant	<input type="checkbox"/>	Metal Fabrication	<input type="checkbox"/>
Manufacturing	<input type="checkbox"/>	Food Processing	<input type="checkbox"/>
Entertainment Joints and Bars	<input type="checkbox"/>		

For questions in Section B, C, D and E, please respond to the statements given below basing on the ranking scale basing Likert.

**1: Strongly Disagree (SD),                      2: Disagree (D),                      3: Neutral (N),**  
**4: Agree (A)    5: Strongly Agree (SA).**

## SECTION B: Tax Registration

Code	Statement	1	2	3	4	5
B1	Tax officials register business enterprises in this municipality					
B2	In Kabale Municipality, there is transparency in business enterprise tax registration					
B3	Tax registration is done following URA tax laws and policies					
B4	There is easy registration of business undertakings by municipal tax officials					
B5	Tax registration of business enterprises is done to facilitate proper operation in the municipality					
B6	Registration of business enterprises requires the owner to have a TIN					
B7	There is uniformity in tax registration of business enterprises in this municipality					

B9. How has tax registration affected performance of business enterprises in this municipality?

.....

.....

## SECTION C: Tax Assessment

Code	Statement	1	2	3	4	5
C1	There is effective tax assessment of business enterprises in these municipality					
C2	Tax officials of this municipality assess business enterprises basing on emended tax policies					
C3	Tax assessment on businesses in this municipality depend on the tax preference accorded to business enterprises					
C4	Business enterprises in Kabale Municipality are assessed highly					
C5	Tax assessment of business enterprises is usually made at the end of first quarter of the financial year					
C6	In this municipality, tax assessment is always based on performance of a business enterprise					
C7	Tax assessment rates are determined based on URA tax Acts					

C9. In your opinion, in which ways tax assessment have affected performance of business enterprises?

.....

.....

**SECTION D: Tax Mobilisation**

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Code	Statements	1	2	3	4	5
D1	There is timely tax mobilisation from business enterprises in this area					
D2	Tax officials in this municipality conduct tax mobilisation activities in this municipality					
D3	Tax mobilisation approaches applied by tax authorities on business enterprises					
D4	Municipal council revenue officials use government policies to collect taxes					
D5	The mobilisers of taxes in this municipality balance their educational and assistance role with the enforcement role for successful tax collection					
D6	Tax mobilisation is always based on the assessed tax in this municipality					
D7	High tax rates on businesses make tax mobilisation difficult in this municipality					

D8. In your opinion, describe how has tax mobilisation affected performance of business enterprises in Kabale Municipality?

.....

.....

**SECTION E: Tax Incentives**

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N/S	Item	1	2	3	4	5
E1	Business enterprises in this municipality always get tax holidays and exemptions					
E2	There has been creation of some special incentives based on business type, number of years of operating, nature of transactions, business size and origin of businesses in this municipality					
E3	Granting of incentive packages in the tax system to businesses in this municipality has propelled the growth of businesses					
E4	Tax authorities in this municipality have provided special treatment to tax payers in this COVID-19 period					
E5	Streamlining tax incentives in this municipality is a strong stimulus to improving business performance					
E6	Revenue authorities in this municipal council has provided tax reduction and lower tax amount payable to business enterprises					
E7	Tax incentives to business enterprises in this municipality has attracted and retained new businesses					

E8. In your opinion, describe how has tax incentives affected performance of business enterprises in this municipality?

.....  
.....  
**Section F: Performance of Business Enterprises**

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	<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
F1	Our business performs to our expected standards					
F2	This business enterprise has a favourable return on assets					
F3	There is a high operating profit margin in this business					
F4	Our return on equity has been good for past 5 years					
F5	This business enterprise has a favourable growth rate					
F6	There is client satisfaction in our business					
F7	The sales volume in this business enterprise is high					
F8	There is a high level of investment in this business enterprise					
F9	This business has a favourable asset turn over					

**End**

**Thank you for your time**

## Appendix IV: Interview Guide for the Key Informants

Venue of interview.....

Category of the Respondent (Business Enterprise) .....

### Part 1: Introductions

#### **Topic: Tax Administration and Performance of Business Enterprises in Kabale Municipality.**

The purpose of the interview is to gather views on Tax Administration and Performance of Business Enterprises in Kabale Municipality. In the following interview, please respond truthfully as you can.

Thank you

*The respondent introduces him/herself, (give details of bio data, and experience)*

### Part 2: Specific Objectives

#### **Theme 1: Tax registration and Performance of Business Enterprises**

1. In this area, there is transparency in business enterprise tax registration. Do you agree?
2. In your opinion, do you think tax registration is done following URA tax laws and policies?
3. In what ways have tax registration affected performance of business enterprises?

#### **Theme 2: Tax Assessment and Performance of Business Enterprises**

4. Do municipal revenue officials assess business enterprises annually?
5. Do you think tax assessment is always based on performance of a business enterprise?
6. How has tax assessment affected performance of business enterprises in KMC?

#### **Theme 3: Tax Mobilisation and Performance of Business Enterprises**

7. Do you think there is timely tax mobilisation from business enterprises in this area?
8. Do you think revenue officials use government policies to mobilise taxes?
9. In which way, has Tax mobilisation affected performance of business enterprises?

#### **Theme 4: Tax Incentives and Performance of Business Enterprises**

10. Business enterprises in this municipality always get tax holidays and exemptions. Is this true?
11. Do you think granting of incentive packages in the tax system to businesses in this municipality has propelled the growth of businesses?
12. How has tax incentives affected performance of business enterprises?

## **Appendix V: University Introduction Letter**