ISTANBUL COMMERCE UNIVERSITY

GRADUATE SCHOOL OF FINANCE

MASTERS IN INTERNATIONAL FINANCE

EFFECT OF TAX PERCEPTION ON THE MACROECONOMIC FACTORS OF SMALL AND MEDIUM ENTERPRISES:

A CASE OF UGANDA

Master Thesis

Ismail Ahmed DIRIE

200014222

Istanbul, 2022

ISTANBUL COMMERCE UNIVERSITY

GRADUATE SCHOOL OF FINANCE

MASTERS IN INTERNATIONAL FINANCE

EFFECT OF TAX PERCEPTION ON THE MACROECONOMIC FACTORS OF SMALL AND MEDIUM ENTERPRISES:

A CASE OF UGANDA

Master Thesis

Ismail Ahmed DIRIE

200014222

Advisor: Prof. Sıtkı Sönmezer

Istanbul, 2022

ABSTRACT

This study was undertaken to examine the linkage between the two variables which are taxation and gross turnover of businesses that fall under the category of small and medium-sized. It also examined the negative effect that runs from taxation to gross turnover of SMEs to economic growth.

The paper used a survey as an instrument to gather primary data of qualitative and quantitative nature. Financial records of SMEs served as secondary data for the study. The study used granger causality analysis, ARDL bound test, and other inferential analyses to determine the relationship between taxation and gross turnover. The findings revealed that taxation negatively affects small and medium enterprises since taxation consumes the profits that could be set aside for reinvestment. The findings of the primary data showed that taxation does affect significantly the survival of small and medium enterprises by a response rate of 50% while 31.25% response rate indicated that taxation has a moderate effect on the survival of SMEs.

The outcome for the ARDL bound test shows F-statistics of 8.53. It is at all levels of significance, as well as falls above the critical bound value. It means that the variables are co-integrated at 1%, 5%, and 10% levels. This recommends that variables such as trade openness, taxation on gross turnover, capital, and gross domestic product have a long-run relationship. The outcome of the Granger causality test indicated that variables like taxation and gross turnover have a negative relationship by 0.0372. it is statistically significant at 95%.

Recommendations including; reformation of tax systems especially the ones relating to tax rates. Sensitization of taxpayers by the tax authorities like the Uganda Revenue Authority (URA). Also helps to reduce the burden of taxation and the decreasing number of entrepreneurs joining the sector. URA officers responsible for sensitization of taxpayers should carry out the exercise of tax education regularly. URA should equip its staff with the necessary skills when it comes to tax assessment and collection, as well as how to handle taxpayers

Keywords: Taxation, Gross turnover, Granger causality test.

ÖZET

Bu çalışma, küçük ve orta ölçekli işletmelerin vergilendirme ile brüt cirosu arasındaki ilişkiyi bilmek için yapılmıştır. ayrıca vergilendirmeden KOBİ'lerin brüt cirosuna ve ekonomik büyümeye kadar uzanan olumsuz etkiyi de inceledi.

Araştırma hem nicel hem de nitel verilerin toplandığı bir ankettir. Birincil veriler anketler yoluyla ve ikincil veriler KOBİ'lerin mali kayıtlarından toplanmıştır. Çalışma, vergilendirme ve brüt ciro arasındaki ilişkiyi belirlemek için granger nedensellik analizi, ARDL sınır testi ve diğer çıkarımsal analizleri kullandı. Bulgular, vergilendirmenin küçük ve orta ölçekli işletmeleri olumsuz etkilediğini, çünkü işletmeye yeniden yatırılacak olan tüm karların vergilendirme tarafından aşındığını ortaya koydu. Birincil verilerin bulguları, ankete katılanların %50'sinin vergilendirmenin işletmelerinin ayakta kalmasını büyük ölçüde etkilediğini, %31,25'inin ise vergilendirmenin işletmelerinin ayakta kalmasını orta derecede etkilediğini söylediğini göstermektedir. ARDL sınır testinin sonucu, 8.53'lük F istatistiklerini gösterir ve tüm anlamlılık düzeylerinde kritik sınır değerinden büyüktür. Bu, değişkenlerin %1, %5 ve %10 seviyelerinde eşbütünleşik olma eğiliminde olduğu anlamına gelir. Bu, sonuçların Uganda'da ticari açıklık, brüt ciro üzerinden vergi, sermaye ve gayri safi yurtiçi hasıla arasında uzun vadeli bir bağlantı olduğunu gösteren üç eş bütünleşmeyi tasvir etmesini önerir. Granger nedensellik testinin sonucu, vergilendirmeden brüt ciroya %95 anlamlılık düzeyinde 0.0372 oranında statik olarak anlamlı bir negatif ilişki olduğunu göstermektedir.

Vergi sistemlerinde, özellikle vergi oranlarıyla ilgili reformları içeren öneriler. URA (Uganda Gelir İdaresi) gibi vergi makamları tarafından vergi mükelleflerinin hassaslaştırılması da vergi yükünün azaltılmasına ve sektöre katılan girişimcilerin sayısının azaltılmasına yardımcı olur. URA yetkilileri tarafından mükelleflerin duyarlı hale getirilmesi, vergi eğitiminin düzenli olarak yapılması gerektiğini belirtmektedir. URA ayrıca personelini vergi tahakkuk ve tahsilat yöntemlerinin yanı sıra vergi mükellefleriyle nasıl başa çıkılacağı konusunda da eğitmelidir.

Anahtar Kelimeler: Vergi , Ciro , Granger nedensellik testi

ACKNOWLEDGMENT

I thank my parents and those who provided me with the financial and emotional support I need to carry out this study and compile the work into a one book, a master dissertation.

I also thank my supervisor, Prof. Sıtkı sönmezer, for the guidance and corrections throughout my journey of undertaking the study and producing an excellent work. I give my credit to the institute for making it possible for me to carry out the study and complete it in time.

TABLE OF CONTENTS

ABSTRACT ..... **ii**
ÖZET ..... **iii**
ACKNOWLEDGMENT ..... **iv**
LIST OF TABLES ..... **viii**
LIST OF FIGURES ..... **ix**
LIST OF ABBREVIATIONS ..... **x**
PREFACE ..... **xi**

INTRODUCTION **1**

1.LITERATURE REVIEW **7**
1.1 Taxation 7
1.2 Methods of Taxing the SMEs 7
1.3 Approaches of Informal Sector Taxation 9
1.3.1 The Presumptive Approach 9
1.3.2 The Indirect Approach 10
1.4 Different types of Taxes 10
1.4.1 Indirect Taxes and Direct Taxes 10
1.4.2 Progressive Taxes, Proportional and Regressive Taxes 11
1.5 Importance of Taxes 11
1.6 The Concept of Small and Medium Enterprises 13
1.7 Profile of Small and Medium Enterprises 15
1.7.1 Structure Of Small And Medium Enterprises 15
1.7.2 SMEs in Manufacturing 16
1.7.3 Small and Medium Firms in Services 16
1.7.4 Small and Medium Firms in Agriculture 17
1.7.5 Employment by Educational Qualification 17
1.7.6 Women in Small and Medium Enterprises 18
1.7.7 Source of Finance of Small and Medium Enterprises 19
1.8 Distribution of Businesses by Size 23
1.9 Small Business Under Shared Economy 24

1.10 The Concept of Profitability 27
1.11 The Relationship Between Taxation and Economic growth of Small and Medium Enterprises 27
1.12 The Relationship Between Taxation and Gross Turnovers of Small Business Enterprises 29
Source: (Nsubuga, 2008) 31
1.13 Emperical evidences 31
1.14 Hypothesis Development 35
2.DATA DESCRIPTION AND METHODOLOGY 36
2.1 Data Source 37
2.2 Data Sample 39
2.3 Independent Variable 40
2.3.1 Taxation 41
2.3.2 Trade 41
2.3.3 Capital 42
2.4 Dependent variables 42
3.5 Reliability and validity 42
3.6 Models Used in the Study 43
3.FINDINGS 46
3.1 Descriptive Statistics 46
3.1.1 The effect of age on tax perception 46
3.1.2 The effect of Education level on tax perception 47
3.1.3 Tax assessment and collection. 48
The study collected data to know more about the period SMEs survive in operation. 48
3.1.4 Registration of taxation 49
The study analyzed the data acquired from participants to determine the business that are registered with taxation and those which are not. 49
3.1.5 Effects of taxation on survival of SMEs 49
The study attempted to determine the effect of taxation on the survival of SMES and the table below provided the relevant information. 49
3.1.6 Frequency of payıng tax 50
3.1.7 Types of taxes paid by SMEs 50
3.1.8 Effect of taxation on SMEs 51
The study was interested in determining how taxation affects SMEs. 51
3.2 Inferential Results 52

3.2 .1 Unit root tests 52
3.2 .2 Bounds test to Co-integration 53
3.2 .3 Estimating Short-run and Long-run Elasticities 53
3.2 .4 Short-run diagnostics 55
3.2 .5 Stability Tests 56
3.2 .6 Granger causality test 57
3.2.7 Correlations 57
3.2.7.1 Age and tax perception 57
3.2.7.2 Education and tax perception 58
3.3 Empirical Findings and Analysis of Hypothesis 60
3.3.1 Effect of taxation on gross turnover 60
3.3.2 Effect of age on tax perception 61
3.3.3 Effect of educational level on tax perception 62
CONCLUSION 64
Appendix: Questıonnaıre 66
REFERENCE 69

LIST OF TABLES

TABLE 1. DIFFERENT VERSIONS OF SMES' DEFINITIONS 14
TABLE 2. VALUE-ADDED OUTPUT AND BY SECTOR, 2016 16
TABLE 3. LEVEL OF EDUCATION – SMES 2016 17
TABLE 4. DEMOGRAPHICS OF WOMEN ENTREPRENEURS IN UGANDA 18
TABLE 5. THE NEED OF SMES FINANCING AND SOURCES OF FINANCE AT DIFFERENT STAGES OF BUSINESS CYCLE 19
TABLE 6. CONSTRAINS IN GETTING FUNDS 21
TABLE 7. INFORMATION ABOUT THE EFFECTIVENESS OF SHARED ECONOMY IN EUROPE AND AMERICA 24
TABLE 8: SME CONTRIBUTION TO ECONOMIC DEVELOPMENT FOR THE CASE DEVELOPED COUNTRIES 28
TABLE 9: CONTRIBUTION OF SMALL AND MEDIUM BUSINESSES TO ECONOMIC DEVELOPMENT (DEVELOPED COUNTRIES) 28
TABLE 10. TAXES, FEES, CHARGES, AND LEVIES TYPICALLY PAID BY A SMALL BUSINESS 30
TABLE 11. BUSINESS CATEGORIES 37
TABLE 12. TAX LIABILITY AND GROSS TURNOVER OF SMES (UGANDA REVENUE AUTHORITY) 38
TABLE 13. SAMPLE SIZE DETERMINATION 39
TABLE 14. SAMPLE SIZE 40
TABLE 15. CRONBACH ALPHA 43
TABLE 16. AGE GROUP OF RESPONDENTS 46
TABLE17. QUALIFICATION OF RESPONDENTS 47
TABLE 18. THE EXISTENCE OF BUSINESS 48
TABLE 19. TAX REGISTRATION 49
TABLE 20. TAXATION EFFECT ON SME SURVIVAL 49
TABLE 21. THE TIME IT TAKES TO PAY TAXES 50
TABLE 22. TYPES OF TAXES 50
TABLE 23. EFFECT OF TAXATION 51
TABLE 24. UNIT ROOT TEST RESULTS 52
TABLE 25. BOUND TEST 53
TABLE 26. LONG RUN RESULTS 54
TABLE 27. SHORT-RUN RESULTS 55
TABLE 28. SHORT-RUN DIAGNOSTICS 55
TABLE 29. GRANGER CAUSALITY TEST 57
TABLE 30. SPEARMAN'S CORRELATION ANALYSIS FOR AGE AND TAX PERCEPTION. 58
TABLE 31. SPEARMAN'S CORRELATION FOR EDUCATIONAL LEVEL AND TAX PERCEPTION. 58
TABLE 32. RELATION OF PRIMARY AND SECONDARY EDUCATION FOR EFFECT OF TAX PERCEPTION 59
TABLE 33. TERTIARY AND UNIVERSITY 60

LIST OF FIGURES

FIGURE 1. DISTRIBUTION OF BUSINESS BY SIZE 23
FIGURE 2. THE DRIVING GROWTH OF SHARED ECONOMY GOODS 25
FIGURE 3. SHARED ECONOMY ACROSS THE WORLD 25
FIGURE 4. THE DIFFERENCE BETWEEN ENTREPRENEURSHIP IN THE TRADITIONAL AND COLLABORATIVE ECONOMY 26
FIGURE 5. PLOT OF THE CUMULATIVE SUM OF RECURSIVE RESIDUALS 56
FIGURE 6. PLOT OF CUMULATIVE SUM OF SQUARES OF RECURSIVE RESIDUALS 57
FIGURE 7. INCOME CHANGES AS A RESULT OF AGE. 62
FIGURE 8. INCOME CHANGES A RESULT OF EDUCATIONAL LEVEL 63

LIST OF ABBREVIATIONS

SMEs: Small and Medium Enterprises

URA: Uganda Revenue Authority

PREFACE

In Uganda, despite the vital role played by SMEs in facilitating economic growth, these businesses continued facing risks that limit other entrepreneurs who wish to join their businesses. Though these businesses have succeeded in reducing overall unemployment, the rate of small firms exiting the market has been increasing over the years (Nsubuga, 2008). The case can be justified to higher tax rates or other factors which restrain the growth of these firms.

According to William (2015) , Income tax is defined as a monetary obligation upon a person who has a taxable income. A person can be an employee, a business, partnership, trustee, sub-division of government, and government. A taxable income is generated from three sources which are business, employment, and property.

According to Dalton (2000) a profit is a financial gain. It is the amount of money earned less the amount of money spent on producing and delivering goods and services to end customers. Profits can be grouped into normal, excess, operating, and optimum.

In Uganda, businesses that are categorized as small and medium-sized make up 90 percent of total establishments in three key economic sectors. Large businesses account for 10 percent. The presence of SMEs in manufacturing, services, and agriculture tend to be 49 percent, 33 percent, and 8 percent respectively (Balunyawa, 2006).

According to Ojok (2000), in Uganda, SMEs are prioritized due to their contribution to the Ugandan economy. With the help of SMEs, countries in Africa can recover from financial and economic crises if the barriers that SMEs face are eliminated. The SMEs tax system was put in place for this purpose. Although SMEs continue carrying out their activities and boost the economy of many African countries, there still prevail some barriers like higher tax rates, especially in Uganda. Taxation and tax regimes of small and medium firms turned out to be an important issue to pay attention to.

INTRODUCTION

The micro and small policy unit (MSEPU) in the minister of planning and economics of Uganda defines small and medium scale enterprises as businesses that earn annual turnover which is below 10 million(US$ 6,060) for micro-business, between Ush 10-50 million for small business. Although there's no specific agreed definition among policymakers and scholars, the most common definitions are based on the number of people hired, annual turnover, and the size of the business (Nsubuga, 2008).

In Uganda, despite the vital role played by SMEs in facilitating economic growth, these businesses continued facing risks that limit other entrepreneurs who wish to join their businesses. Though these businesses have succeeded in reducing overall unemployment, the rate of small firms exiting the market has been increasing over the years (Nsubuga, 2008). The case can be justified to higher tax rates or other factors which restrain the growth of these firms.

When it comes to the total employment in the three main sectors, small and medium enterprises made a contribution of approximately 2.5 million workers to the total employment of 4.0 million. Small and medium enterprises play an important role in facilitating economic growth. An output of Ush 500 million and a value-added of Ush 200 million are channeled to the growth of the economy by the SMEs. SMEs make up 68.4 percent and 49 percent of total output and value-added respectively. In agriculture and manufacturing, small and medium enterprises contributed the largest share 88.8 percent and 40 percent. (Balunyawa, 2006).

Pieces of evidence on the relationships between taxation and gross turnover and economic growth put forward that taxation affects the growth of the economy negatively. Atems (2015), Allahyari, and Badri (2013) agree with this. They established that higher tax rates affect economic growth. This study was conducted in 48 states of the USA and 28 countries in the EU.

Background of the study

Taxation process commenced in Uganda during 1900 due to the influence of the British since Uganda was under the British administration. The system of taxation was in line with the British taxation system whereby a hut tax was levied on standard charges for every hut. Also, a poll tax was imposed characterized by a hierarchy of country and parish chiefs and it was administered in a non-government system.

In Uganda, the collection and assessment of taxation were governed by the local authority ordinance of 1919. In 1925, the amendment of the taxation system took place because of the problems involved, and the amendment intended to motivate people to work harder. According to the Uganda Revenue Authority tax guide (1996-1997), income tax was introduced by the British on the outbreak of the Second World War. In 1973, East African income tax management came to an end in Uganda due to economic and political situations between East African countries. In 1974, Uganda replaced the East African income tax management with an income tax decree.

According to Ojok (2000), the minister of finance abandoned tax administration and collection to Ugandan revenue authority after it is formation in 1991. However, the loopholes in the system of income tax decree prompted the authority to enact the income tax act and get rid of the income tax decree.

According to William (2015) Income tax is defined as a monetary obligation upon a person who has a taxable income. A person can be an employee, a business, partnership, trustee, sub-division of government, and government. A taxable income is generated from three sources which are business, employment, and property.

According to Dalton (2000) a profit is a financial gain. It is the amount of money earned less the amount of money spent on producing and delivering goods and services to end customers. Profits can be grouped into normal, excess, operating, and optimum.

In Uganda, businesses that are categorized as small and medium-sized make up 90 percent of total establishments in three key economic sectors. Large businesses account for 10 percent. The presence of SMEs in manufacturing, services, and agriculture tend to be 49 percent, 33 percent, and 8 percent respectively (Balunyawa, 2006).

According to Ojok (2000), in Uganda, SMEs are prioritized due to their contribution to the Ugandan economy. With the help of SMEs, countries in Africa can recover from financial and economic crises if the barriers that SMEs face are eliminated. The SMEs tax system was put in place for this purpose. Although SMEs continue carrying out their activities and boost the economy of many African countries, there still prevail some barriers like higher tax rates, especially in Uganda. Taxation and tax regimes of small and medium firms turned out to be an important issue to pay attention to.

It has attracted the attention of governments throughout the world. Countries like Uganda provided a means for these businesses to participate in the market and contribute to the growth of the economy (Nsubuga, 2008).

Previously, tax administrations say that the cost of registration and handling of small and medium enterprises was high compared to their contribution to the state as taxes. This prompted a significant move internationally to enable SMEs to participate in the normal taxpaying regime and to offer simplified regimes to them (Selemi, 2010).

Balancing costs and benefits of taxation seem to be an important topic. By providing a simplified regime, it becomes easy to have a balance between the costs and benefits of taxation. In the late 70s, SMEs were perceived by the state as tax avoiders and evaders. But in the early 1980s, thanks to the private sector-led development paradigm, the SMEs in developed and developing countries made a significant contribution to the Gross domestic product (GDP) (Selemi, 2010).

According to Balunyawa (2006) taxation refers to a compulsory and non-refundable contribution made by the residents and non-residents originating from the country. Taxpayers do not receive immediate benefit in exchange for the contribution they have rendered.

According to Murphy & Bıll (2007), in his view, noted that a tax is a charge levied on a person by a country or state. Tax is an amount of money that has to be paid by citizens, firms, organizations of a country as an income to enable the government to cover it is expenses and it is not a penalty for any offense or immediate exchange of goods. Nsubuga (2008) asserts that a tax is a compulsory financial contribution that residents and non-residents make to the government. The contribution is made to the state irrespective of the amount of service the taxpayer gets in return. This is in line with Pıus

(2004), government to raise revenue, levies specified tax rates on the income or property of persons or organizations.

According to Salemi (2010), the following are types of taxes: tax on incomes of persons, tax on sales of businesses, tax on cooperation, fees, prices, tax on imported goods(customs duty), fines, excise tax, Value added tax (VAT) and special assessments.

The authority imposes taxation for the achievement of a set of objectives. These include raising revenue, reducing unemployment, maintaining economic stability, protecting the local business from foreign business, social welfare. Moreover, the government with help of taxation tries to achieve a fair distribution of resources in the country. It does that through optimal allocation of resources and increasing the rate of economic formula. The government should consider the principles of taxation in the process of imposing a tax. These principles are Equality, convenience, certainty, flexibility, economical productivity, simplicity, elasticity, and durability (Kiiza, 2000).

Another challenge to taxation arises from tax evasion and avoidance. For small and medium enterprises to grow, the tax rate should be accommodating and not a burden to the operation of a business (Holtz, 2004). Some factors that could be advance when it comes to SME's concessions include: firstly, the existence of externalities. These externalities are there because of small businesses and they are important to the economy. Small businesses do not realize the benefits of these externalities.

These externalities are indeed an advantage to big businesses because of their market power. Secondly, tax breaks should be formulated in the favor of small businesses. And thirdly, tax systems should be fair to small and medium enterprises and help them grow.

Businesses that make profits have a preset objectives in mind. The higher the profits they earn, the higher their productivity. Thus these businesses contribute to the growth of the economy. Gross domestic product is the total goods and services produced in a country at a particular time (Nsubuga, 2008). It is a good measure of economic growth. A business that has a demand for their products and increase their supply to meet the demand, it is said to increases the gross domestic product (GDP). This also means they have contributed to the growth of the economy. The background discussed above prompted the researcher to raise questions that are useful in finding out the reasons why

some of the entrepreneurs are going out of business and the potential ones are not willing to participate in the market.

Research question 1: How does taxation affect gross turnover?

Research question 2: What is the relationship between taxation and the gross turnover of SMEs?

Research question 3: What is the impact of SME's gross turnover on the economic growth of Uganda?

Purpose of the Research

The purpose of the study is to examine the effect that taxation has on the gross turnover of small and medium enterprises, as well as economic growth by using data from small and medium enterprises in Uganda, especially Kampala. The study also aims at determining the relationship between taxation, gross turnover of small and medium enterprises and economic growth. This study aims at contributing to government policymakers, researchers and investors who are interested in the sector. The study will look at how small and medium enterprises can survive without the effect of taxation and how the government can collect taxes without putting obstacles to growth and survival of small and medium enterprises.

Scope of the Research

This study will only look at small and medium enterprises in Uganda, especially Kampala which enterprises that are involved in the three key sectors, namely; manufacturing, services and agriculture. The period selected for the empirical study will be 17 years. This period will be appropriate to determine the casual relationship between the variables.

Significance of the Study to Academic Research and the Industry

Taxation is an important economic tool that a government can use to facilitate economic order and stability. For instance, a government can introduce a new tax regime to deal with low productivity and higher inflation. But higher tax rates are not healthy to the growth of an economy since higher taxes reduce the demand of a particular good. Firms which struggle with reduced demand face decisions to either reduce the supply or raise the price of their good to meet the operating and labor expenses.

A higher price of a good cause deadweight loss of taxation which is neither good for the government nor for the business because the deadweight loss of taxation implies loss of tax revenue for the government and no business transaction for the business (Balunyawa, 2006). This study aims at contributing how the government can raise taxes without putting obstacles to the growth of the economy.

In Africa, small and medium enterprises account for 90 percent of the total contribution of all businesses, large, medium and small, to the economy. Small and medium businesses dominate the Ugandan economy and is said to be the backbone of the economy since these businesses make up the biggest percent of employment. The study contributes to the literature on the growth and survival of small and medium enterprises in Uganda.

Structure of the Study

This chapter discusses the background and purpose of the study with the intention to create a base for the study. The study provides a theoretical frame by discussing taxation related concepts and relevant theories in chapter 1. In chapter 2, the methodology such as the type of date used, sample size, instruments and methods of data collection and analysis were discussed. Chapter 3 discusses the finding of the study. It presented the outcome of the models used to test the hypothesis. And finally, the study makes conclusion, recommendation and provides areas for further study.

CHAPTER ONE

LITERATURE REVIEW

This part of the study provides a brief history of taxation and the terms that are related to taxation. It also discusses concepts that are related to small business and relationship between taxation and gross turnover of small and medium enterprises.

1.1 Taxation

According to Balunyawa (2006) taxation refers to a compulsory and non-refundable contribution made by the residents and non-residents originating from the country. Taxpayers do not receive immediate benefit in exchange for the contribution they have rendered.

According to Murphy & Bill (2007), in his view, noted that a tax is a charge levied on a person by a country or state. Tax is an amount of money that has to be paid by citizens, firms, organizations of a country as an income to enable the government to cover it is expenses and it is not a penalty for any offense or immediate exchange of goods. Nsubuga (2008) asserts that a tax is a compulsory financial contribution that residents and non-residents make to the government. The contribution is made to the state irrespective of the amount of service the taxpayer gets in return. This is in line with Pius (2004), government to raise revenue, levies specified tax rates on the income or property of persons or organizations.

1.2 Methods of Taxing the SMEs

According to Dalton (2000) tax is a contribution that is compulsory and it's levied by the government. It is imposed on the taxpayers irrespective of the amount of service the person gets in return. Professor Seligman (2004), says that taxation is a compulsory

contribution to the state to meet the expenses the state incurs in the common interest of all.

The government undertakes functions like administrative, development, and social function effectively and adequately. Developing and developed economies are different when it comes to formulating a tax regime. For developed economies, it is easy to customize the existing tax regulation because most SMEs are already under the category of the formal sector. More important than that the location of a taxpayer is easy to find. But in developing economies the case is different. Most SMEs are not registered and do not comply with local government regulations and requirements. Moreover, the location of their business is difficult to trace because they operate within the informal sector (Pıus, 2004).

According to Pıus, (2004) below are key characteristics of small taxpayer's sector:

(i) They are small, cash-based businesses and transient.
(ii) The sales rate is high. Because of these a lot of new businesses are created. Some of these businesses grow and some go out of business. They are often family-based, partnership, and sole proprietorship.
(iii) They make up the biggest percentage of the total taxpayers like 70-80%.
(iv) The revenue they generate is typically low. It can be 5-10% of total revenue
(v) It is costly to administer.
(vi) Many of them don't pay taxes because of a lack of compliance with taxation and regulations.
(vii) They don't have sufficient accounting records.

When it comes to identifying the informal sector, tax authorities encounter problems regarding the nature of the businesses in the sector.it is not because illicit activities sometimes take place in the sector but also it is even difficult to spot legitimate activities. Because of these problems tax, authorities are unable to collect personal and income tax from those that have chargeable income. Usually, a small number of businesses are registered with taxation.

Moreover, a small number of these businesses are in the formal sector. Despite such barriers, many countries in recent years have adopted appropriate strategies to improve the relationship between tax authorities and taxpayers (Saligman, 2004).

1.3 Approaches of Informal Sector Taxation

Taxation can be introduced in the shadow economy through the legitimization of the sector. This is done by allowing tax holidays or exempting certain sectors. For example, tax authorities can reduce the cost of administration by exempting sectors that make small profits like agriculture from income taxation. This system is used in India where the agricultural sector is not liable to income tax (Saligman, 2004).

1.3.1 The Presumptive Approach

This approach determines the tax liability of taxpayers by using indirect means. Under this approach, the term "presumptive" is used to show that it is legally perceived that a taxpayer tends to have more than the amount that has to be paid. These are simple and cost-effective techniques. They are useful in recording domestic transactions and sources of income. Without them, it is impossible with conventional norms (Saligman, 2004).

The following are some of the other techniques. Standard assessments are imposing a specified amount of money on the activities of small businesses. The estimated assessment technique uses indicators to assess the income of a taxpayer. Presumptive minimum taxes is a collection of taxes in small amounts regardless of the actual level of activity involved by a taxpayer. More recently, other methods became widely used. These are withholding schemes and presumptive taxes on imports (Saligman, 2004).

According to Pıus (2004) a presumptive tax use two ways to assess a taxpayer's liability. First, it estimates the taxpayer's income and it does on a specific basis. Second, it computes taxable income by taking into account key factors that facilitate the process of generating revenue.

These include sales, number of employees, turnover, size of the enterprise, and assets of the taxpayer. There are different types of presumptive taxation and these are:

(i) A person in the informal sector pays a fixed amount of tax regardless of the actual trading results. It is referred to as a minimum tax concept.

(ii) This is like the minimum tax but it applies to a class of taxpayers considered as small traders. It is referred to as Forfeit Tax in VAT.

(iii) Several fixed income brackets are set based on sales or turnover. This is referred to as Multi bands tax liability scheme.

1.3.2 The Indirect Approach

This approach taxes businesses that are operating in the underground economy. Indirect taxes can replace special regimes that are designed for the taxation of the sector. . It is a suitable approach at the time where the consumption taxes can capture the activities of the people involved in the informal sector. It is also ideal where the proportion of the informal sector is large compared to other sectors in the economy (Pıus, 2004).

1.4 Different types of Taxes

There are different types of taxation. These are indirect taxation, direct taxation, progressive taxation, proportional taxation and regressive taxation.

1.4.1 Indirect Taxes and Direct Taxes

1. Indirect taxes – the government collects taxes from taxpayers by using intermediaries. These intermediaries usually have businesses. The key feature of this type of tax is that it is imposed on goods and services and they can be shifted to the consumers (Pıus, 2004).

2. Direct taxes – the government imposes taxes on persons with taxable income. This type of taxation is different in that the effect and incident of it are only taken care of by the person concerned and it cannot be forwarded to another person. An example of this

type of tax is the personal income tax. A tax is imposed on the income a person generated from employment and rentals (Pıus, 2004).

1.4.2 Progressive Taxes, Proportional and Regressive Taxes

1. Progressive tax – the amount of taxes due to increases as the person earns more income. It breaches the gap between the low-income earners and the wealthier.it facilitates the redistribution of income (Saligman, 2004).

2. Proportional tax – It imposes a uniform rate between tax and income. The amount is due to increases in the same proposition with the income earned (Saligman, 2004).

3. Regressive tax – is a tax where the amount to be collected from the taxpayer decreases as the income of the taxpayer increases. It affects the poor more than the rich (Saligman, 2004).

1.5 Importance of Taxes

In Uganda, the indigenous private sector is dominated by Small and Medium enterprises. According to the Uganda Natıonal bureau of statistics, SMEs make up 70% of the economy country-wide, with total assets of more than 100 million but not more than 360 million. It has become a main source of employment in the labor market in Uganda. Its contribution to employment tends to be 2.3 percent.

The informal sectors increased the employment rate in recent years and it is share of employment to total employment increased from 27.3% in 1992 to 78% in 2006 (Balunyawa, (2006)). The activities that are carried out in the informal sector help many Ugandan citizens to make ends meet. But there are concerns regarding the legitimacy of these activities in an informal environment. The concerns also relate to the environment in which they operate and as well as their implications and impact on the economy. Many businesses avoid business registration and tax obligation. The increasing rate of SMEs raises the need for their activities to be recorded into the tax net, as well as their formalization. This will ensure them to be legally in the tax net and meet their tax liabilities at a minimal cost (Nsubuga, 2008).

Taxation is the main source of government finance. This generated revenue enables the government to meet it is expenditure. It is an economic tool that enables the government to attain economic stability and ensure justice. When the inflation rate skyrockets the government increases the tax rate to reduce them too much money in circulation which facilitates the achievement of economic stability.

The government raises taxes to reduce the consumption of harmful commodities. Similarly, during deflation, the government reduces taxes enabling individuals to increase their consumption. With the help of taxation, the government can check the big fluctuations of prices and therefore maintain economic stability (Balunyawa, 2006). The following are some of the importance of a taxation.

Optimum Allocation of Resources

According to Balunyawa (2006), the government uses taxation to reallocate resources. Resources are reallocated from the private to the public sector. It is also used to increase public utilization and infrastructure development.

Raising Revenue

Taxation provides income to the government. The revenue generated is employed to keep peace and security in the country and increase social welfare. Social welfare is increased by undertaking development projects such as roads, dams, and power stations. (Pıus, 2004)

Protection Policy

Balunyawa (2006) taxation can be used as a protection policy. The government uses taxation to protect local businesses from unfair competition from foreign businesses.

Increased Income Levels

Khalızadh (2005) the government uses the revenue generated to carry out public work programs. The government provides job opportunities to the local people to undertake the projects. This, therefore, reduces unemployment in the country.

Increase Standards of Living

According to Balunyawa (2006), the government uses taxation to break the gap between the poor and the wealthier. It also used taxes to improve income and consumption standards.

Fair Distribution of Income

Taxes act as means of facilitating equality when it comes to the distribution of wealth in a country. Taxes are charged on the wealthier persons. The income generated is then invested to improve the welfare of the needy people and achieve a fair distribution of income in the state. (Dalton, 2008).

Economic Growth

However, Khalızadh (2005), taxation can be used as a tool to support economic growth in a country. The government formulates policies and implements them to influence economic growth and development in the country. These policies can be setting bans on imported goods, supporting infant industries, and increasing the marginal prosperity to consume. The government also uses taxation to control and check inflation and deflation in the country, as well as increase it is revenue to cover the public sector expenditure.

1.6 The Concept of Small and Medium Enterprises

Accordıng to Bhatıa (2005) when defining small and medium enterprises, one has to consider the number of people hired, capital employed, as well as sales turnover in a firm. These businesses are owned and as well as operated independently and they are limited in size, revenue depending on their industry. Under the Australian fair work Act 2009 provides that SME's have fifteen employees. The European Union states that the number of employees for small firms begins from fifty, while the US. Small Business

Administration programs provide that small firms have fewer than five hundred. He adds that the most widely used measure for classifying small and medium businesses is that of methods such as annual revenues, shipments, sales, assets, annual revenue, and the number of employees.

Nsubuga (2008) in Uganda, there is no nationally agreed definition of SMEs just like elsewhere in the world. The micro and small enterprise policy unit (MSEPU) of Uganda provides the following definition of small, medium, and micro firms.

Micro enterprises are businesses that have less than 5 employees. They are often family members. The value of assets is below Ush 2.5 million (US$ 1,515). Land, building, and working capital are excluded from the assets.

They have an annual turnover which is below US$ 6,060 (Ush 10 million). It is the threshold for those who have taxable income and are carrying out business activities (Nsubuga, 2008).

Small firms are businesses that have a maximum of 50 employees. The value of their assets is below Ush 50 million. The land, building, and working capital are excluded from the value of assets. Their annual turnover is between Ush 10-50 million (Nsubuga, 2008).

As shown in table 1 kayanula d & Quartey p 1999; peter Quartey 2001 provide a summary of different versions of definitions of small and medium firms.

Table 1. Different versions of SMEs' definitions

Definition	Source
A small firm is a Firm that has fixed assets of less than US$ 250,000 in value. It excludes land.	World bank since 1976
Firms that sell their output and have less than 50 employees.	USAID in the 1990s

A Large enterprise > has more than 100 employees A Medium enterprise > has between 20 to 99 workers A Small firm enterprise > has between 5 to19 employees A Micro firm enterprise > has 5 employees	The Definition provided by UNIDO for developing countries
Large enterprise > employees are more than 500 *Medium enterprise > has between 100 to 499 employees* *Small enterprise > employees are less than or more than 99 employees*	UNIDO's Definition for industrialized countries.

1.7 Profile of Small and Medium Enterprises

Small and medium enterprises make an enormous contribution to a country. In the coming paragraphs, the study will discuss the percentage of SME in three different sectors.

1.7.1 Structure of Small and Medium Enterprises

SMEs in Uganda make up 90 percent of total businesses in the three sectors. Big businesses make up 10 percent. Small and medium enterprises in the service, manufacturing, and agriculture sectors makeup, 33 percent, 49 percent, and 8 percent respectively (Okpara & Pamela, 2007).

When it comes to the total employment in the three main sectors, small and medium enterprises made a contribution of approximately 2.5 million workers to the total employment of 4.0 million. Small and medium enterprises play an important role in enhancing economic growth. An output of Ush 500 million and value-added of Ush 200 million are contributed by SMEs make up 68.4 percent and 49 percent of total output and value-added respectively. In agriculture and manufacturing, small and medium

enterprises contributed the largest share 88.8 percent and 40 percent (Okpara & Pamela, 2007)

Table 2. Value-Added Output and by Sector, 2016

Output (Ush billion)				Value-added (Ush billion)		
Sector	Total	SMEs	%	Total	SMEs	%
Manufacturing	300	120	40	120	35	29.1
Services	400	300	75	150	98	65.3
Agriculture	90	80	88.8	5	2	40
Total	**730**	**500**	**68.4**	**275**	**135**	**49**

Source : (Okpara & Pamela, 2007).

1.7.2 SMEs in Manufacturing

SMEs make up 90 percent of total businesses in the manufacturing sector. Microbusinesses make up 40 percent while medium-sized establishments account for 10 percent. Small and medium enterprises contribute 40 percent of the total output (Okpara & Pamela, 2007).

1.7.3 Small and Medium Firms in Services

In this sector, SMEs make up 96.6 percent. The profile depicts that 60% of small and medium enterprises are micro, 24.6% are small, and 12% are medium businesses. SMEs produced 75% of the total output in this sector. The SMEs in the restaurants' subsector,

real estate activities, retail, business/management consultancy, and professionals make up 75%, 70%, 75.1%, 60%, and 40% respectively in the total out of their subsectors (Okpara & Pamela, 2007).

1.7.4 Small and Medium Firms in Agriculture

SMEs make up 94 percent of the total businesses in the agriculture sector. The output contributed by SMEs to the agriculture sector was 88.8 percent. Workers employed by SMEs make up 80 percent of total workers in the agricultural sector (Okpara & Pamela, 2007).

1.7.5 Employment by Educational Qualification

The percentage of people who own or are employed by SMEs tends to be equal to that of large establishments. This is due to the limited employment opportunities offered by large establishments. People tend to be using their entrepreneurial skills to run their shops. The percentage of people who have degrees and work for small and large businesses in the service and manufacturing sector tends to be the same.

But in agriculture, the degree holders who work for SMEs were 2.1% compared to large businesses which have 3.1 % (Okpara &Pamela, 2007).

Table 3. Level of education – SMEs 2016

Category				
Sector	Degree	Diploma	Primary education	Total
Manufacturing				
SMEs	3.6	9.2	87.2	100
Large firms	3.7	10.1	86.2	100
Services				
SMEs	4.9	14.3	80.8	100

Large firms	5.2	11.2	83.6	100
Agriculture				
SMEs	1.0	3.1	95.9	100
Large firms	1.6	2.1	96.3	100

Source: (Okpara &Pamela, 2007).

1.7.6 Women in Small and Medium Enterprises

Dauda (2006) indicates that women entrepreneur's fall in the age group between 35-44 years. It adds that women in the northern region of Uganda had the highest percentage of female entrepreneurs of 78 percent, while the east had the lowest 54 percent. The study also found out that only a quarter of female entrepreneurs obtained a university degree.

Table 4. Demographics of women entrepreneurs in Uganda

Demographics	**Central**	**East**	**Kampala**	**North**	**West**	**Average**
Entrepreneur's age						
18-24	15.1%	16.0%	11.7%	28.6%	17.1%	17.6%
25-35	42.5%	38.7%	47.7%	49.5%	41.0%	43.8%
35-44	24.5%	31.1%	27.0%	14.3%	23.8%	24.3%
45-54	12.3%	10.4%	9.9%	6.7%	18.1%	11.4%
55-64	3.8%	3.8%	2.7%	1.0%	0%	2.2%
> 65	1.9%	0%	9%	0%	0%	6%
Total	100	100	100	100	100	100
Educational background						
Are not educated	0%	13.2%	7.2%	16.2%	14.3%	10.2%
Didn't finish primary	31%	40%	29%	37%	35%	34%
Didn't finish o level	46%	38%	40%	29%	37%	38%

Didn't finish A level	9%	4%	9%	3%	2%	5%
Didn't finish vocational/university	1%	0%	5%	2%	0%	1%
finished vocational training college	7.7%	5.7%	8.1%	11.4%	9.5%	8.5%
finished university	5.8%	0%	2.75	1.9%	1.9%	2.4%
Total	100	100	100	100	100	100

Source: (Dauda, 2006)

1.7.7 Source of Finance of Small and Medium Enterprises

Small and medium businesses use their own money as the prime source of finance for running their enterprises. Because of the inadequate and unable to get access to sources of finance, SMEs experienced lower productivity function. The need of SMEs for finance depends on their size, frequency, maturity, and level of growth. (Nissanke 2001; Manuel Albaladejo 2002).

Table 5. The Need Of SMES Financing And Sources Of Finance At Different Stages Of Business Cycle

Stage	Financing needs	A major source of finance
1. Inception stage	They look for funds to purchase premises, plants, and equipment.	They get funds from friends, relatives, Owners, suppliers, banks, leasing companies, business angels, customers, and Government Grants
1. Survival stage	They search for funds to support their day-to-day activities.	They get the funds from Owners, suppliers, leasing companies, banks, and government grants.
1. Growth stage	They look for funds to buy a new plant and also support their day-to-day activities.	They access funds from Banks, retained earnings, new partners, and private equity.

2. Expansion stage	They access funds to introduce new departments and get into a new market.	The access to finance from Retained earnings, secured long-term debt, public markets, joint ventures, mergers, and acquisitions.
3. Maturity stage	They look for funds to maintain their plants, equipment, and market share.	They access funds from Retained earnings, public capital markets, and long term debt

As shown in Table 5, the need for finance of SMEs and the sources of funds vary depending on their stage in the business cycle (Nissanke 2001). A survey carried out by World Bank Regional Program for Enterprise Development in 28 countries in sub-Saharan Africa revealed that internal funds account for 71.17 percent of the source of finance for fixed investment compared to 49.76 percent in Asia. According to Nissanke (2001) in Sub-Saharan Africa (SSA), retained earnings or profits and bank finance are used as main sources to finance a business at all stages of growth. Ugandan's figure is not at all different from that of sub-Saharan Africa. Internal funds account for 82.11% of the source of funds for fixed investment in small and medium-sized firms respectively (Nsubuga, 2008).

Gibson (2008) says that using internal funds to finance a business significantly limits the firm's ability to benefit from new market opportunities, take advantage of new technologies, and the likelihood of the firm to capitalize on the improved internal capacity and external reputation. However, small and medium enterprises rely on their limited internal funds in the start-up and during the early stages despite the difficulties they face Gibson (2008).

Are capital markets a good and profitable choice for small and medium enterprises in Uganda?

Capital markets are markets that help businesses get access to funds. There are two major components of capital markets and these are public and private markets. Public markets help big firms that are with a proven track record. Public markets help businesses when it comes to raising equity and debt financing (Kratzke, 2015)

Private markets help small businesses and large firms with no proven credit history. Private markets differ from public ones in a way that requirements to access public markets tend to be more stringent than private ones. In Uganda, there are three main investment markets in the Ugandan security exchange (USE). The main investment market segment (MIMS) deals with big and successful businesses. The Alternative Investment market segment (AIMS) is there for SMEs. The Fixed Income market segment (FIMS). These four companies provide private equity in Uganda; African Agricultural capital, Grofin (U) Ltd, the Ugandan Development Bank the East and African Development Bank (Kratzke, 2015).

Small and medium businesses face problems when getting finance. Not having collateral security constitute the biggest problem. There are also other problems and these include insufficient documents, not having financial track records, and the idea if the business is worthy or not (Kratzke, 2015)

Table 6. Constrains in getting funds

List of Difficulties	Services	Agriculture	Manufacturing	Total
Lack of collateral	49.3	48.2	60.1	50
Not having enough documents to access to apply for a loan	13.2	18.0	12.2	14.2
Lack of financial track record	10.2	10.3	10.3	11.3
It takes a long time to process a loan	10.3	8.2	4.8	9.3
Business plan deemed not viable by financial institutions	5.4	4.3	6.0	5.8

Others	4.8	5.8	5.2	6.1

Sources: (Kratzke, 2015)

A study carried out by Coleman (2013) provided that the difficulties confronted by SMEs when it comes to their inability to access funds are because

I. Lenders and investors treat small and medium enterprises as high-risk borrowers. This is because of SMEs' insufficient assets, vulnerability to the fluctuation of the market, low capitalization, and mortality rates.
II. Lenders and investors find it hard to assess the creditworthiness of the potential SMEs because of a lack of financial records or business plans.
III. The costs of borrowing or investing a small amount are high.

Okpara & Pamela (2007) disagree with part of the above mention points. They say that some factors are responsible for SMEs going out of business in Nigeria. The factors include corruption, management experience, inadequate book, and infrastructure, lack of financial support training, taxation, and record-keeping cause small business failures in Nigeria.

The small and medium sectors contribute to a country by reducing the employment rate, facilitate income generation and help in the process of achieving sustainable growth. By handling some business challenges, a business can improve it is contribution and value in a country. These business challenges include cost reduction, produce quality goods and services to boost market share and goodwill, and improving employee productivity (Nsubuga, 2008). A fair taxation system enables the provision of necessary infrastructure to small and medium enterprises and this helps SMEs grow and expand.

Small and medium businesses are facilitators of economic growth worldwide. These businesses play an important role in alleviating poverty through job creation. Developed and developing countries take advantage of the benefits of small and medium enterprises and hence this is perceived to accelerate the economics of any country (Pius, 2004). Some studies ascertain that getting rid of poverty calls for certain factors. These factors are innovation, family background, government support programs, training, or education. Additionally, other factors can be individual entrepreneur characteristics (Selemi, 2010).

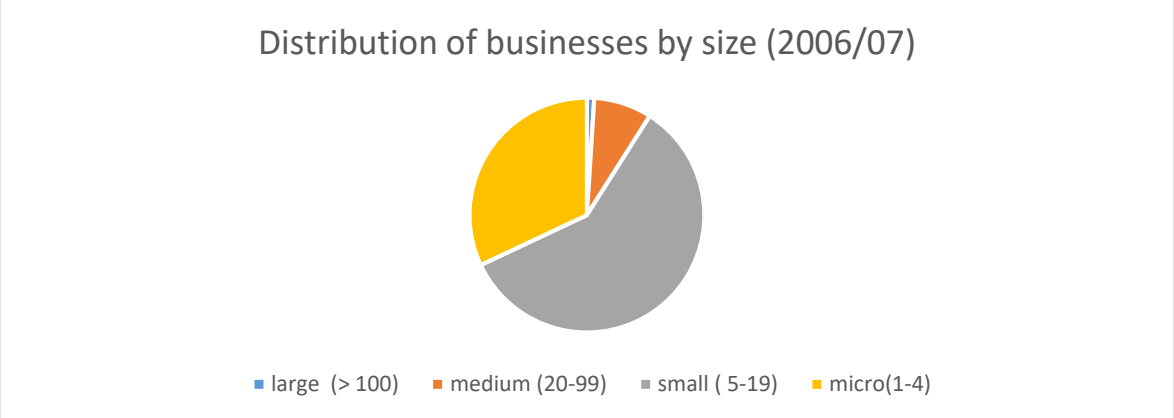
1.8 Distribution of Businesses by Size

A country in driving industrial development depends on SMEs for economic growth. In Uganda, the nature of the operation, the number of small enterprises, and the role they play in doubling endogenous sources of growth as well as strengthening the infrastructure have been recognized. Because of the interdependence and collaboration of small enterprises and large businesses, small businesses realized further expansion and growth (Saligman, 2004).

It is clear and far from an argument that small and medium enterprises have the potential to bring about domestic-led growth. This growth can enhance both new and existing industries. It also improves the productivity of the economy in environments that are competitive and challenging. SMEs activities brought economic growth to countries like Koreas, Taiwan, and economic growth (Selemi, 2010).

Countries like China, Germany, Japan, and Korea enjoyed the productivity of SMEs to gross domestic product (GDP). The significant contribution of SME activities in China, Germany, Japan, and Korea could range from 6.0 percent, 57.0 percent, 55.3 percent, and 50.0 percent respectively. Malaysia achieved 47.3 percent (Bank Negara Malaysia, 2003). By analyzing the contribution of SMEs activities in the three main sectors, namely; manufacturing, services, and agriculture, policymakers can know the importance of SMEs to economic growth in Uganda (Okpara & Pamela, 2007).

Figure 1. Distribution of business by size



Source: UBOS (2007)

1.9 Small Business Under Shared Economy

United bank defines a shared economy as a system that enables people, businesses to share goods or services online either free or for a fee. In 2015, Forge came to the market. Forge is a website that enables businesses and part-time employees to look for part-time employment opportunities in their geographical region and coordinate part-time scheduling ,(Kratzke, 2015).

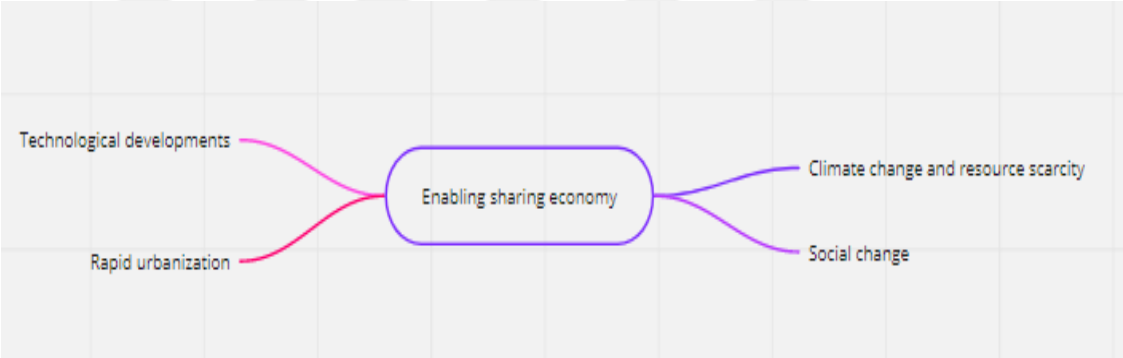
Table 7. Information about the effectiveness of shared economy in Europe and America

Company	Location	Business innovation	Success signals
Fixura	Fl	It is an online platform. It is peer-to-peer lending where it allows borrowers to seek funds from potential lenders. Since multiple participants are involved, the risk is reduced.	It has facilitated 4,500 loans, made available by 1,500 investors to 25 borrowers.
Peerby	Nl	It is an online market. It temporarily brings together the ones who need a specific object and the ones who have it.	It has won an international sustainability award and attracted funding from commercial investors.
Shareyourmeal	Nl	It is an online marketplace. It helps those who want to sell their homemade meals to the ones that are ready to buy them.	The company has experienced a growth of users from 60 to 120 per day. In Netherland and Belgium, it has 35,000 and 80, 00 users respectively.
Airbnb	US	It is an online and consumer-to-consumer platform. Peers list, discover or book accommodation online.	Airbnb was established in 2008 in san Francisco. Currently, it has users in 190 countries. In 2011, the company

			was valued at 1.3 billion.

Sources : (Kratzke, 2015)

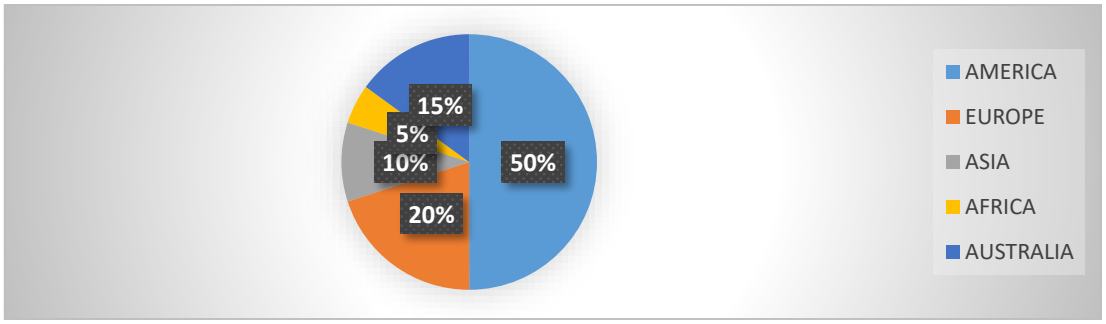
Figure 2. The driving growth of shared economy goods



Source: (Dauda, 2006)

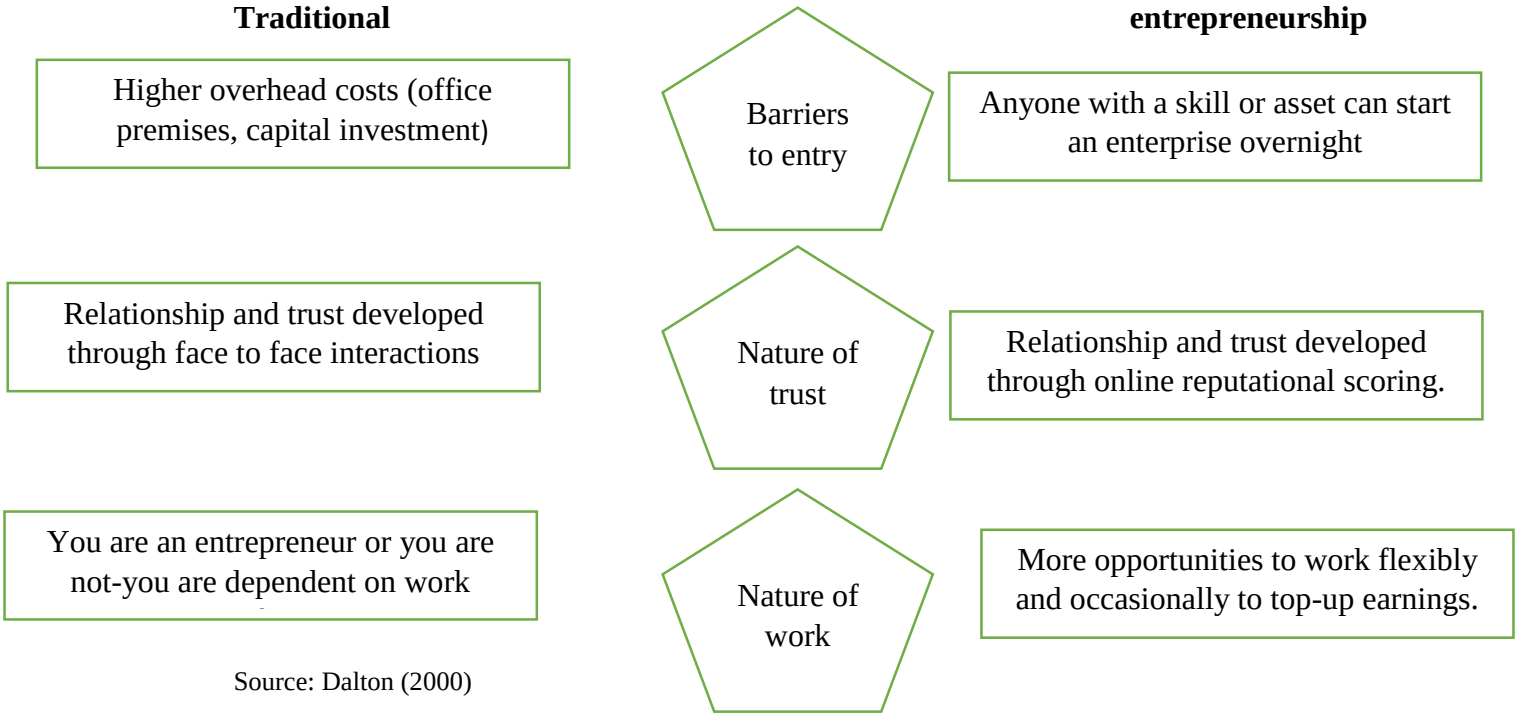
A shown in figure 2, Dauda (2006) says that with the help of a shared economy, demand and supply are matching very easily. This is because of the connected digital devices. Users in large cities can interact with multiple suppliers and have deeper social and trust-based relationships with their suppliers. An increasing number of a consumer feel that Access to items is more satisfying than ownership.

Figure 3. Shared economy across the world



Source : (Dauda,2006)

Figure 4. The Difference Between Entrepreneurship In The Traditional And Collaborative Economy



Source: Dalton (2000)

1.10 The Concept of Profitability

Bhatia (2005) described profitability as a state where the company earns more inflows than outflows. This is by Musgrave & Musgrave (2004) who said positive economic profit is the main objective of an entity. Therefore, profitability is captured in the financial statements of a corporation as an accounting profit. This accounting profit recorded in the books of account of the business explains that the income is more than the cost of the goods and services.

According to Nsubuga (2008) argues that the biggest obstacle to the growth of a small business is ignorance about tax obligations. He adds that small businesses make fewer profits these days and hence there is no taxable income.

According to Balunyawa (2006) higher tax rates affects the profits that an entity earns. Income tax reduces the returns of small businesses, hinders their leverage of growth, and causes poor revenue performance.

Furthermore, a study carried out by Pius (2004), revealed that imposing higher tax rates on taxable income of small and medium enterprises induce less revenue. Taxation reduces the profits of small businesses and it causes some of the businesses to exit the market because of a higher total average cost. Some of the small businesses raised the prices of their goods and services to meet the tax expense and continue their activity. However, this caused deadweight loss of taxation and left many of these businesses unhappy (Kiiza, 2000).

1.11 The Relationship Between Taxation and Economic growth of Small and Medium Enterprises

An economic profit is realized by a firm that gets more income than the total opportunity cost of producing and delivering goods or services (Nsubuga, 2008). He adds that an economic profit accrues to a firm of an average cost below the price of the product or service. This is the case of a single good at a profit-maximizing output.

Murphy and Bill (2007) defined a profit as an income. This income is more than the expenses plus costs plus taxes involved in the process of producing and delivering the

goods or services. He adds that profits can be used as the best measure of financial performance.

Mueller (2007) argues that a firm is said to be making a profit when the income it gets from a business activity exceeds all of the expenses incurred during the production and delivery of goods and services. A profit is simply more returns than operating expenses (Coleman, 2013).

Hobbes (2009) says a profit is an excess of money from a business transaction after all expenses are met. He adds that firms divide profits into two. Part of the profit is given as a dividend to the shareholders and investors of the firm and the part is set aside to meet depreciation expenses.

As shown in table 8, SMEs' contribution to employment, gross economic productivity, and other economic parameters of developed and developing countries are presented Olupa (2009) explains why SMEs in developed countries render more contribution to the economy. He says it is because of greater utilization of raw material, increasing employment, encouraging rural development, supporting entrepreneurship, mobilizing local savings, providing regional balance via spreading investment evenly, linkages with bigger industries, providing opportunities for self-employment, equipping with managers and semi-skilled workers the necessary expertise.

Table 8: SME contribution to economic development for the case developed countries

Contribution by country	Output contribution	Employment contribution
1. the USA	65%	80%
2. Japan	45%	80%
3. Western Europe	45%	55%

Source: Sabah Almogyed (2003)

Table 9: Contribution of small and medium businesses to economic development (developed countries)

Country	Export	Value addition	Contribution to GDP

Pakistan	18%	29%	5%
India	34%	40%	7%

Sabah Almogyed (2003)

Some studies were undertaken to know more about the linkage between gross turnover, taxation, and economic growth. This chapter of the study provides empirical studies which discuss the linkage between taxation, gross turnover, and economic growth. The literature covers the studies that were carried out within and outside Uganda.

Skinner (1987) carried out a study to determine the linkage between taxation and gross turnover of small and medium firms, as well as economic growth. The study used cross data and found that the relationship between taxation and gross turnover of SMEs seems to be negative.

1.12 The Relationship Between Taxation and Gross Turnovers of Small Business Enterprises

According to Murphy & Bıll (2007), the effect taxation has on small and medium enterprises can be summarized into two. First, taxation can affect the main factors of production, and second, it can reduce the demand for goods and services. Higher rates of taxes induce more customers to go for substitute products whıch causes the inflows of the company to be less than the outflows.

Church & Lewis (2002) say that a new small business goes through some growth stages as it begins to develop. He categorized the growth stages into five and these are existence, survival, take-off, and maturity. He adds that a different set of factors are essential to the survival of a firm as it goes through each stage of development.

Gindova & Fombrun (1999) argued that resources, capabilities, and core competencies help a firm gain a competitive advantage. Therefore, adequate resources help the firm grow and expand. with the help of resources-based theory, a small business can deal with growth obstacles, access technological resources, and market, human resources, financial resources, natural resources, and infrastructure.

According to Batty (2005) Laffer states that higher and lower taxes reduce the income generated by the government since tax revenue is equal to price times quantity sold. When higher taxes are imposed, there is a deadweight loss and hence few sales are made. Therefore, He says that moderate tax rates bring more tax revenue and enable businesses to blossom.

Bhatıa (2005) argues that fiscal policies play an integral part in the growth and profitability of a corporation. These policies are developed to improve the economy. Therefore, charging fair tax rates increase the productivity of the country since these businesses employ more physical and human capital whıch increases the gross domestic product of the country.

Table 10. Taxes, Fees, Charges, and Levies typically paid by a Small Business

Company name reservation fee	URSB	UGX20,000 + UGX 2,200 bank fee
Registration of company documents	URSB	UGX20,000
Filing of company resolution and forms	URSB	UGX20,000 perform
Stamp duty on transfer of shares	URSB	1.5 % on the amount transferred
Registration of transfer shares	URSB	UGX20,000 + 1% of amount of shares transferred
Trading license, required by all businesses and renewed annually	Municipal authority	Varies depending on the location and nature of business, business size,
Local service tax	Municipal authority	Depends on monthly turnover up to UGX 100,000
Property tax	Municipal authority	Minimum charge of UGX 2,000, but usually between 1-12% of ratable

		value
Market charges (paid by market vendors for stalls, shops, and stores).	Municipal authority	Varies paid monthly
Presumptive income tax	URA	Depends on gross annual turnover, up to UGX 2,062,500
VAT on inputs (below the threshold for VAT registration so ineligible for refunds)	URA	18 % on the value of good/service
Import duties	URA	Varies,0-60%
Excise duty	URA	Varies depending on the good.

Source: (Nsubuga, 2008)

1.13 Emperical evidences

Taxation is very important in that it facilitates economic development. The revenue generated inform of taxses are invested in viable projects that create both jobs and improved standard of living. But the concern lies on the principles of taxation. Small and medium businesses have goals of profit maximization and desire to grow and expand. So when imposing taxation , governments need to consider taxation principles (Balunyawa,2006). Horizontal equity argues that persons who are same or operate in the same position should be liable to carry the same tax burden. The ability- to -pay principles says that authorities should assess taxpayers and demand tax laibility basing on their ability to pay and as well as keeping in mind the personal characteristics of taxpayers. These pricnples aid the government in the formulation of effective and efficient tax policies (Nsubuga, 2008).

Small and medium enteprises finance their operation using their own profits. Tax policies that are in place to support government expenditure leave many small and medium businesses unhappy due to insuffienct after tax profits. Several studies put forward that higher tax rates affect the gross turnover of small and medium businesses and their growth. Some studies discuss the importance of finance for the survival, growth, and performance of a firm. For example, Khalizadeen-shirazi (1971) states that firms differ because of finance. He adds that a lack of finance can hinder the growth of a firm. Butter & Linter (1945) showed that SMEs depend on finance to grow and expand. He adds that the inability to access finance affects the formation, growth, and survival of a firm.

Also Oliveira & Fortunata (2005) studied business growth and finance constraint. The study used unbalanced data penal of a manufacturing firm in Portugal. The selected period was 1990 to 2001. The study recommends that the growth of Portuguese manufacturing firms is a finance constraint. Gavin (2000) undertook a study on the dynamics of the financial structure of SMEs. The study used empirical evidence of 150 new startups in Scotland. In the study, primary data was used data to examine the dynamic theory of small and medium firms.

A firm makes an economic profit when the average total cost is less than the price of a good or service. A higher rate of taxation makes a firm to increase the price of it is goods to meet the costs. An increased price of a good cause the demand of the good to decline (Okpara and Pamela 2007). Some firms are forced to reduce the supply of their goods or layoff some of their employers to match the demand and meet the costs of the goods. The decreased supply of goods affect the gross domestic product (GDP). Badri & Allahyari (2013) examined the effect that taxation and gross domestic product render on employment by using Iranian data from 1976 to 2007. The study used an autoregressive distribution model (ARDL). The long-term and short-term estimations depict that taxes negatively affect employment. But the gross domestic product (GDP) has a positive effect on employment.

Dowrick (1992) conducted a study on the organization for economic co-operation and development (OECD) and found that taxation negatively affects the gross turnover of SMEs. The study on is carried out from 1960-1985. The study of Easterly and Rebelo

(1993) discovered some tax distortion approaches seem to be negatively related to economic growth.

Zellner (2015) studied the effect of taxation on economic growth. The study used the Marshallian Macroeconomic model. The study was undertaken between the period 1987 and 2008. The findings indicated that taxation affects the growth of the economy.

Seward (2008) conducted a research study to examine the relationship between taxation and economic growth. The study used data gathered from industrialized countries. The selected period for the study was 1965 to 1995. The outcome shows that taxation and economic growth are negatively correlated.

Lee & Gordo (2005) studied how tax structure relates to the growth of the economy. They used cross-country data. The selected period for the study was 1970 to 1997. The findings indicated that statutory corporate tax rates and economic growth are negatively correlated. This implies that economic growth decreases as corporate tax rates increase.

Atems (2015) tried to examine the effect of taxation on economic growth both in the short run and long run. The study used a partial Durbin model and the data was obtained from 48 states. The selected period was 1967 to 2008. The outcome indicated that in both the short-run and long-run, taxation and economic growth are negatively related. a 1% increase results in cause 0.33% decrease in economic growth.

Yamarik (2012) undertook a study to determine how tax policies and economic growth in 48 states are related. The study used an error correction model and the period selected was 1967 to 2004. The findings showed that taxes affect economic growth.

Dackehag & Hansson (2012) undertook a study on the existence of linkage between economic growth and taxation. The study used panel data in 25 countries and the selected period was 1975 to 2010. The outcome indicated that corporate tax. Personal income tax affects economic growth. They added that there is some kind of rebuts correlation that exists between corporate tax and economic growth.

Szarowska (2010) carried out a research study to find out changes in taxation and the effect of those changes on the growth of the economy in the EU. In the study, yearly panel data of twenty-four countries in the EU was used. The selected period was 1995 to 2008. The findings showed that taxation and gross domestic product have a negative relationship. The study revealed that a decrease of 1% indirect tax result 0.43% growth rate in gross domestic product.

Stoilova (2017) carried out a study to determine how tax structure relates to economic growth. In the study, Barro's endogenous model was used and data was gathered from twenty-eight countries in the EU. The selected period was 1996 to 2012. The outcome showed that personal income affects economic growth positively while corporate tax harms economic growth.

Chigbu (2012) studied the Causality between the gross turnover of SMEs and taxation in Nigeria. The study used Augmented Dickey-Fuller, Granger Causality, Diagnostic Tests, and Johansen Co-integration. The outcome revealed that taxes affect economic growth and causal relationship exist between them.

Canicio & Zachary (2014) carried out a study in Zimbabwe to determine the linkage between taxation and the growth of the economy. The study specifically focused on the idea that taxation can increase government revenue and improve the standard of living.

In the study Granger Causality test, Johansen's Cointegration test, and vector error correction model were used to test the hypothesis. The selected period was 1980-2012. The outcome showed that taxation affects the allocation of resources.

Abel and Le Roux (2016) conducted a study of the impact of taxation and capital on economic growth using ARDL method of cointegeration in the united states between period 2004 to 2012. the findings were that taxes are harmful to economic growth. The result also revealed that affects economic growth positively.

Iriqat & Anabtawi (2016) undertook a study in Palestine to determine the existence of a linkage between taxation and gross domestic product. The research used the granger causality test and the selected period was 1999-2004. The findings indicated the inexistence of a causal relationship between tax revenue and the variables such as gross domestic product, government spending, consumption, investment, and balance of trade.

Munir & Sulatn (2016) carried out a research study in Pakistan to find out how taxation affects the growth of the economy. The study used an autoregressive distributive lag framework and the selected period was 1976 to 2014. The findings showed that taxation and gross domestic product do have a long-run relationship.

Holtz (2004) studied taxation effects on the returns of multinational firms. The study used granger causality test results on the multinational firm of ten years to analyze the variables. The findings indicated that the returns of these firms depend on taxation.

The above outcome of the empirical studies which are relevant to the thesis hypothesis testing were carried out by different researchers using different methods and data. Thus the study is interest in knowing whether the outcome of these studies will hold true that taxation affects gross turnover and economic growth or the opposite will hold true.

1.14 Hypothesis Development

Small and medium enterprises are said to be the driving force of economic growth these days, especially when it comes to employment creation and boosting the gross domestic product. As the literature discussed the gap between the number of people who are employed in the small and medium enterprises to be higher than the ones which are hired by big establishments, these businesses struggle with insufficient after tax profits. Profits are good incentives to entrepreneurship and higher productivity and they are also a measure of a financial performance (Balunyawa, 2006). It is reported that many small and medium businesses are unhappy due to higher tax rates that erode their profits which would have been used for reinvestment and growth and majority of these businesses do not last in operation for more than three years. so the study is interested in knowing the relationship that exist between the gross turnover of small and medium enterprises and taxation while also examining the effect that taxation has on gross turnover of SMEs and economic growth. Gross turnover of small and medium enterprises and economic growth have a positive relationship and increase in gross turnover leads to economic growth. To determine the effect that taxation has on gross turnover of small and medium enterprise, the study hypothesizes:

Hypothesis 1: Taxation has an effect on the gross turnover of small and medium enterprises and economic growth.

Hypothesis 2. The effect of Age on tax perception on the gross turnover of small and medium enterprises.

Hypothesis 3 . The effect of educational level on tax perception on the gross turnover of small and medium enterprises.

CHAPTER TWO

DATA DESCRIPTION AND METHODOLOGY

The study provides and discusses methods and procedures that were used to test the hypothesis. It discusses the study design, the population involved in the study, the sample size that was selected, data gathering methods and instruments, data analysis, processing, and presentation as well, and lastly the study limitations.

2.1 Data Source

This study used data from Uganda revenue authority as a secondary data and survey as a primary data to examine the effect of taxation on the gross turnover of small and medium enterprises and economic growth. The data is also useful to determine the relationship between tax rates and gross turnover of small and medium firms

Nsubuga (2008) in Uganda, there is no nationally agreed definition of SMEs just like elsewhere in the world. The micro and small enterprise policy unit (MSEPU) of Uganda provides the following definition of small, medium, and micro firms.

Micro enterprises are businesses that have less than 5 employees. They are often family members. The value of assets is below Ush 2.5 million (US$ 1,515). Land, building, and working capital are excluded from the assets. They have an annual turnover which is below US$ 6,060 (Ush 10 million). It is the threshold for those who have taxable income and are carrying out business activities (Nsubuga, 2008).

Small firms are businesses that have a maximum of 50 employees. The value of their assets is below Ush 50 million. The land, building, and working capital are excluded from the value of assets. Their annual turnover is between Ush 10-50 million (Nsubuga, 2008).

As shown in table 11 kayanula d & Quartey p 1999; peter Quartey 2001 provide a summary of different versions of definitions of different types of businesses.

Table 11. Business categories

Definition	Source
A small firm is a Firm that has fixed assets of less than US$ 250,000 in value. It excludes land.	World bank since 1976

Small businesses are firms that have fixed assets of US$ 50,000. But it excludes land.it has employees of less than or equal to 25.	Grindle et al (1989,9-10)
Firms that sell their output and have less than 50 employees.	USAID in the 1990s
A Large enterprise > has more than 100 employees A Medium enterprise > has between 20 to 99 workers A Small firm enterprise > has between 5 to19 employees A Micro firm enterprise > has 5 employees	The Definition provided by UNIDO for developing countries
Large enterprise > employees are more than 500 *Medium enterprise > has between 100 to 499 employees* *Small enterprise > employees are less than or more than 99 employees*	UNIDO's Definition for industrialized countries.

Uganda Revenue Authority was established in 1991 by Uganda Revenue Authority statue to take the responsibility of tax assessment, collection and as well as tax administration. Data acquired from Uganda Revenue Authority is important to the investigation since the authority is the one that sets tax rates and tax policies after a parliament approval.

Table 12. Tax liability and Gross turnover of SMEs

Tax liability	Gross turnover
825,000	55,000,000
765,000	51,000,000
780,000	52,000,000

750,000	50,000,000
757,500	50,500,000
762,000	50,800,000
780,000	52,000,000
500,000	49,000,000
500,000	47,000,000
500,000	44,000,000
500,000	42,000,000
400,000	35,000,000
400,000	34,000,000
400,000	25,000,000
400,000	25,000,000
400,000	25,000,000
400,000	25,000,000

Source: Uganda Revenue Authority

2.2 Data Sample

The study chose the sample size by using Krejcie and Morgan Table. In order to break the existing gap, Krejcie & Morgan (1970) introduced a table for easy determination of sample size for a particular population.

Table 13. Sample size determination

Table for Determining Sample Size for a Given Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size
"S" is sample size.

Source: Krejcie & Morgan, 1970

Table 14. Sample size

Respondents (category)	sample size
Retailers	40
Wholesalers	40
Total	80

The paper analyzed the effect of taxation on the gross turnover of SMEs in Uganda. The selected period for the study was 2002 to 2018. The study aims to determine the effect that taxation has on small and medium enterprises in Uganda, especially Kampala.

2.3 Independent Variable

The independent variables used in this study are taxation, trade and capital. The main focus of the study is on the effect of taxation on economic growth and the gross turnover of small and medium enterprises. The study also aims at knowing the effect that trade and capital can have on economic growth.

2.3.1 Taxation

Small and medium enterprises are liable to pay several taxes such as sales tax, exercise duty, custom duty, income tax (NEPAD & OECD, 2009). Taxation in Uganda is administered, assessed and collected by Uganda Revenue Authority headed by the general commissioner. Uganda Revenue Authority has the responsibility of collecting and assessing taxpayers under the following laws (Nsubuga, 2008).

1. Customs Tariff Act, Cap. 337;
2. East African Customs Management Act;
3. East African Excise Management Act;
4. Excise Tariff Act, Cap. 338;
5. Income Tax Act, Cap. 340;
6. Stamps Act, Cap. 342;
7. Traffic and Road Safety Act, Cap. 361;
8. Value Added Tax Act, Cap. 349;
9. Finance Acts (Various);
10. Gaming and Pool Betting (Control and Taxation) Act, Cap.292;

2.3.2 Trade

There is a general belief that trade has a positive effect on the economic growth. The share of developing countries in world trade has been increasing significantly while Africa makes up small share in world trade-only 2.8% of world's exports over the decade 2000–2010 (UNCTAD, 2013). This study examines the role of trade and as well as it is impact on economic growth, especially Uganda.

2.3.3 Capital

In Uganda, a lot entrepreneurs are interested in starting up their own business and this means injecting money into the business. Gross domestic product is a tool to determine the economic growth and it means the total monetary measurement of total goods and services produced in a country at a given period of time. Capital can be inform of human capital or money (Sarkar, 2007). The study aims at determining the impact of capital on economic growth.

2.4 Dependent variables

The study used gross turnover of small and medium enterprises as well as economic growth as dependent variables. Gross turnover equals to price of a good or service less the total cost of the good or service (Hobbes, 2009). Firms that make handsome profits contribute to the economic growth by investing half of the profits into the business such as buying new equipment and machinery or hiring more workers. Thus the study investigates the effect that taxation can have on gross turnover and what the effect means to the economic growth.

3.5 Reliability and validity

Reliability means the rate of trustworthy of the study is high. A study that is reliable is a one that is carried out appropriately and the outcome is trustworthy for the readers (Greener, 2008). The study used Cronbach's alpha method to measure the internal consistence of the scale. If the Cronbach's alpha value is greater than 0.7, the scale is

deemed reliable. As shown in table, the Cronbach's Alpha value was 0.752. This means the items under each variable, were consistent.

Table 15. Cronbach Alpha

Variables	Cronbach alpha
Taxation	.8258
Gross turnover of SMEs	.704

3.6 Models Used in the Study

Granger causality analysis was used in this study because it helps in investigating the patterns of correlation by using empirical datasets. In this study, Granger causality is employed to check the effect of taxation and to detect the nature of the causal relationship between Taxation and Gross turnover (GT) of SMEs.

To test the relationship and the effect taxation has on gross turnover, the study used the granger causality test. A simple Granger causality test involving two variables, taxation and gross turnover Is written as

$$GT = \sum_{i=2}^{n} aiTL_{t-i} + \sum_{j=1}^{n} B_j\, GT_{t-j} + U_{1t} \quad (1)$$

$$TL = \sum_{i=2}^{n} n_i TL_{t-i} + \sum_{j=1}^{n} \delta_j\, GT_{t-j} + U_{2t} \quad (2)$$

The null hypothesis testing:

H_0: when $\alpha = 0$, this hypothesis means that Tax liability does not Granger cause gross turnover against the alternative hypothesis.

H_1: $\alpha \neq 0$, this hypothesis means that tax liability does Granger cause economic growth.

Similarly, testing H_0: $\delta = 0$, this hypothesis means that gross turnover does not Granger cause tax liability against H_1: $\delta \neq 0$, which means that gross turnover does Granger cause tax liability.

The study also used another econometric model. To examine how taxation affects the growth of the economy, the model employs multiple regression analysis. The variables used are gross domestic products, taxation, and gross turnover, and trade openness.

Linear regression equation $\mathrm{INGDP_t} = a + \beta_1 \mathrm{LTX_t} + \beta_2 \mathrm{LTR_t} + \beta_3 \mathrm{LK_t} + u_t$ (3)

$\mathrm{GDP_t}$= Gross domestic Product

$\mathrm{TX_t}$ = Tax on gross turnover

$\mathrm{TR_t}$ = Trade openness

k_t = Capital

α = Constant

$\beta 1, \beta 2$ and $\beta 3$ = Slope Coefficients

The study tested the variables to know whether they are stationary or non-stationary. The study tried to determine the relationship between variables in terms of the long run. Augmented dickey fuller was employed to examine the non-stationarity of the variables. The Augmented dickey fuller is a modified version dickey fuller test. As shown by the equation below, lagged values are included:

$$\Delta Z_t = \theta + (P-1)Z_{t-1} + \gamma T + \delta \Delta Z_{T-1} + \varepsilon_{2t} \quad (3.2)$$

In the empirical analysis, the study used the Philips and perron (PP) test. It is because ADF tests do not include in the process of testing the hypothesis the cases of non-normality and heteroscedasticity. Because of structural breaks and serial correlation PP test is suitable. The equation below reflects the test.

$$\Delta Z_t = \theta + (P-1)Z_{t-1} + \gamma\left(t - \frac{T}{2}\right) + \delta \Delta Z_{r-1} + \varepsilon_{3t} \quad (3.3)$$

The study applied Autoregressive Distributed Lag (ARDL) model. This model was invented by Pesaran and Shin (1999). Then it was later expanded further by Pesaran et.al (2001) and Pesaran et.al (2000). The study selected the ARDL approach because it is suitable for other cointegration tests such as the Johansen framework. The model studies the long-run relationship between exogenous variables and dependent variables. ARDL model can be used in different order of integrations.

Co-integration assumes that among the economic time series there is a long-run equilibrium. In the Oder to keep long-run information intact, modeling time series is carried out with the help of co-integration. This model has become a frequently used

model due to its advantages. It is useful at a time where a single long-run relationship exists. This is because the procedure of ARDL can identify between explanatory and dependent variables. It assumes the relationship that exists between dependent variables and exogenous variables is a single reduced form of an equation. (Pesaran, 2001).

The model estimates the below conditional error correction models:

$$\Delta LGDP_t = \alpha_1 + \alpha_t T + \alpha_{GDP} LGDP_{t-1} + \alpha_{TX} LTX_{t-1} + \alpha_{TR} LTR_{T-1} + \alpha_k LK_{t-1} + \sum_i^p = 1 \alpha_i \Delta LGDP_{t-1} + \sum_j^\alpha = 0 \ \alpha_j \Delta TX_{t-j} + \sum_k^r = 0 \ a_k \Delta tr_{t-k} + \sum_s^s = 0 \alpha_s \Delta K_{t-s} + \varepsilon_{1t} \quad (3.4)$$

Δ - The first difference operator.

T - The time trend,

ΔGDPt - The gross domestic product,

logTXt - The taxation,

logTR – The trade openness

logKT is the capital.

The procedure of the bound test is like this. First, the F-test examines long-run relationships between variables and tests the Joint significance of the lagged level of the variables. Below is the null hypothesis for the nonexistence of co-integration;

$$H_0 = \alpha_{GDP} = \alpha_{TX} = \alpha_{TR} a_k = 0$$

This is tested against the alternation hypothesis.

$$H_1 = \alpha_{GDP} \neq \alpha_{TX} \neq \alpha_{TR} \neq \alpha_k \neq 0$$

F-statistics which fall above the upper critical value prompts the rejection of the H_0 while the decision for accepting H_0 is taken if the F-statistics fall below the lower critical value. For the first case, the result is concluded in favor of co-integration but when the F-statistic occurs within two bounds, afterward the cointegration test turns out inconclusive.

CHAPTER THREE

FINDINGS

This section of the study looks at the results on the effects of taxation on the gross turnover of SMEs in Uganda. The study used both primary and secondary sourced data to come up with findings. The outcome presented here is in line with the set of objectives of the study.

3.1 Descriptive Statistics

The study that was carried out involved both male and female respondents who were selected at random to avoid gender bias.

3.1.1 The effect of age on tax perception

To comprehend whether age has an effect on tax perception in Uganda, the participants were introduced to different items to have their say. Their responses were computed by making an aggregate of responses given by respondents to the 5point Likert scale (1=20-30, 2=31-40, 3=41-50, 4= and 5= Above 60) which sought to find out how age impacts tax perception which was categorized according to their percentages and means as follows:

Table 16. Age group of respondents

Age group (years)	Frequency	Percentage
20-30	20	25
31-40	30	37.5
41-50	15	18.75
50- 60	10	12.75
Above 60	5	6.25
Total	80	100

A small busıness is a business involving one to five persons where simple enough activities are managed directly on a person-to-person basis. (Kızza, 2006). He says that people who dominate business fall the age group of40-50. As shown in table 17, the

study indicates that most businesses in the Kıkuubo market are dominated by the age group of people between 30-40 years constituting 43.75% of the respondents, 25% between 20-30 years, 18.75% between 40-50 years and 12.5% are above 50 years.

This, therefore, implies that the SMEs in the Kıkuubo market is being carried out mainly by youth between the ages of 30-40 years. This has been a result of unemployment problems in Kampala and around.

3.1.2 The effect of Education level on tax perception

To know more about whether education level has an effect on tax perception in Uganda, the respondents were introduced to different items to have their say. Their responses were computed by making an aggregate of responses given by respondents to the 5point Likert scale (1= Prımary, 2=Secondary , 3= Tertiary institutions, 4= University and 5= other), which sought to find out how education level impacts tax perception which was categorized according to their percentages and means as follows:

Table17. Qualification of respondents

Level	Frequency	Percentage
Prımary	10	12.5
Secondary	30	37.5
Tertiary ınstıtutıon	20	25
University	15	18.75
Others	5	6.25
Total	80	100

Source: Prımary data

A small business is a business involving one to five persons where simple enough activities are managed directly on a person-to-person basis. (Kızza, 2006). He adds that one needs to have entrepreneurship skills and an understanding of the environment to

manage and run SMEs. It enables one to earn and enjoy satisfactory profits thereby also paying taxes required. As provided in table 17, the findings indicate that 18.75% of the respondents have a university qualification, 25% qualified from a tertiary institution, 43.75% at least reached secondary, and 12.5% reached prımary level. Therefore, this ımplies that the majorıties of the busıness owners are lıterate.

3.1.3 Tax assessment and collection.

The study collected data to know more about the period SMEs survive in operation.

Table 18. The Existence OF Business

Years	Frequency	Percentage
Less than 1 year	10	12.5
2 years	15	18.75
3 years	35	43.75
Above 3 years	20	25
Total	80	100

A study carried out by Tumwıne (2001) revealed that high taxes hinder business expansions, wıth a big proportion of business profits ending up being paid as taxes.

Therefore, profıts of small business enterprises may be greatly reduced because of the taxes paid by them. To survive, traders have been forced to increase the prices of their commodities to incorporate the tax element but this has left most of them unhappy as the demand for their commodities reduced hence reduction in their sales. Once sales rate declines, profits decrease, and this causes some businesses to exit the market. (Kııza, 2003). As sown in Table 18, it was found out that 43.75% of the business had existed for 3 years while 25% existed in the period three and above years, 18.75% existed between the period one to two years and only 12.5% existed for less than a year. Therefore, this shows that very few people are joınıng busıness.

3.1.4 Registration of taxation

The study analyzed the data acquired from participants to determine the business that are registered with taxation and those which are not.

Table 19. Tax registration

Registered	No. Of respondents	Percentage
Yes	25	31.25
No	55	68.75
Total	80	100

Business registered for income tax Source: Primary data

As shown in Table 19, the findings indicate that 31.25% of respondents are registered while 68.75% were not registered. Therefore, this implies that the majorities of the business enterprises are not registered.

3.1.5 Effects of taxation on survival of SMEs

The study attempted to determine the effect of taxation on the survival of SMES and the table below provided the relevant information.

Table 20. Taxation Effect On SME Survival

Detail	No. Of respondents	Percentage
Greatly	40	50
Moderately	25	31.25
Fairly	0	0
Does not affect	15	18.75
Total	80	100

Taxes affect the profitability of business resources (Mutebi, 2004). Sales tax on small businesses greatly reduces it is profitability, limits it as leverage of growth, and creates poor revenue performance, (ASio, 2004). As depicted in table 20, the findings indicate that 50% of the respondents said it affects greatly the survival of their businesses while

31.25% of the respondents asserted that sales tax moderately affects the survival of their business.

No one answered that tax fairly affects the survival of theır busıness. 18.75% of the respondents said that sales tax does not affect the survival of their business. Therefore, this implies that sales tax greatly affects the survival of SMEs.

3.1.6 Frequency of payıng tax

The study was interested in determining the time it takes for taxpayers to pay the taxes.

Table 21. The Time It Takes To Pay Taxes

Period	Frequency	Percentage
Promptly	45	56.25
After remınder	35	43.75
Total	80	100

As provided in table 21, the findings indicate that 56.25% of the respondents are willing to pay taxes promptly, and 43.75% pay that tax after a reminder. This, therefore, indicates that the majorıties of the business owners are interested in paying taxes promptly.

3.1.7 Types of taxes paid by SMEs

The study analyzed the data acquired from participants to know more about the types of taxes taxpayers are liable.

Table 22. Types of Taxes

Type of tax	No. Of respondents	Percentage
Corporate	8	10
Sales tax	52	65
Customs duty	5	6.25
Income tax	15	18.75
Total	80	100

As shown in table 22, the study shows that 10% of the participants said that corporation tax affects their business the most. 65% said that sales tax affects their business. 6.25% said that customs duty affects their business and 18.75% said that income tax affects their business. This, therefore, implies that most businesses are affected by sales tax.

It is also indicated that business owners have mixed feelings on various types of taxes they pay since these affect their businesses at different levels as shown by the percentages as in the table.

3.1.8 Effect of taxation on SMEs

The study was interested in determining how taxation affects SMEs.

Table 23. Effect of Taxation

Detail	No. Of respondents	Percentage
Very much	50	62.5
Moderate	20	25
Rarely	10	12.5
Does not affect	-	-
Total	80	100

Reınıkka (2006), found that Uganda has similar investment rates compared to other fırms, but profit rates are 56 percent point lower than in other African countries. It is noted that high taxes contribute to a greater extent to this disparity despite many other constraints that exist.

As shown in table 23, majorıty of the respondents revealed that sales tax greatly affects profit levels of their busınesses. This was indicated by a 62.5% response rate.

3.2 Inferential Results

This part provides the results of the models that are used in the study.

3.2 .1 Unit root tests

The ARDL cointegeration method can be valid if the variables are stationary in the case of I(0) or (1) or mixed integrating order. The most important assumption of the ARDL method is that the variables must be integrated at I(0) or I(1) or I(0)/I(1). The two-unit root tests are usually applied to verify whether each variable is stationary or not. The tests are augmented Dickey-Fuller test (ADF) and Phillips-Perron test (PP).

The results of the ADF and PP tests for stationarity are illustrated in table 24. The t-statistics for all the variables are greater than the critical values at 1%, 5%, and 10%

Levels of significance, respectively for both ADF and PP tests. This indicates that the null hypothesis of unit root cannot be rejected, implying that all the variables are non-stationary at level form. The findings of the first difference suggested that all the variables are stationary at 5% level of significance.

Table 24. Unit root test results

	Levels		**First difference**	
Variable	**ADF**	**PP**	**ADF**	**PP**
LGDP	**-2.11**	**-2.24**	**-3.96****	**-3.88****
LK	**-2.37**	**-3.98**	**-4.67***	**-4.58***
LTR	**-3.51**	**-3.57**	**-5.00***	**-5.35***
LTAX	**3.23**	**-2.66**	**-5.28***	**-9.97***

3.2 .2 Bounds test to Co-integration

ARDL bounds test is applied to identify whether there exist a cointegeration relationship among the variables. The upper bound assumes that all the regressors are I(1), and the lower bound assumes that the regressors are I(0). Here the null hypothesis of F-bounds test is that there is no cointegeration among variables. If the calculated T-statistics is below the lower bound, the null hypothesis will be accepted. If the T-statistics is higher than the upper bound, the null hypothesis will be rejected and the cointegeration among variables will be verified. If the T-statistics lies between the upper and lower bounds, the result cannot be conclusive.

Table 25. Bound test

Test statistics	**Value**	**Significance**	**I (0)**	**I (1)**
F-statistics	**8.531916**	**1%**	**3.66**	**4.67**
K		**5%**	**2.77**	**3.66**
		10%	**2.38**	**3.3**

As shown in table 25 the T-statistics 8.53 is greater than the critical bound values at all significant levels (1%,5%,10%). This means that the variables are co-integrated at level 1%, 5% and 10%. Therefore, this suggests that the overall results exhibit three cointegeration.

3.2 .3 Estimating Short-run and Long-run Elasticities

As portrayed in table 26, the sign of the long-run coefficient of Lcapital, Ltrade openness are positive where as Ltax on gross turnover is negative. This means that capital has a long-run positive effect on economic growth and is significant at 1%.

In other words a 1% increase in capital is expected to increase economic growth by 0.20%, ceteris paribus.

The findings are in line with Khobai, Abel, and Le Roux (2016) who established that an increase in capital is expected to increase economic growth, also stated that there is a long run positive effect between capital and economic growth.

The result portray a negative long-run relationship between taxes and economic growth. The result reveal that a 1% increase in taxes is expected to decrease economic growth by 0.01%. This is in line with the findings of Atems(2015), Stoilova (2017) , Badri and Allahyari (2013) who established that higher taxes have negative impact on economic growth in 48 states of the United states , 28 European Union countries and Iran , respectively. The results of trade openness and economic growth show a positive long run relationship between them and is also significant at 1% level of significance.

The result show that a 1% increase in trade openness is expected to increase economic growth by 0.49%, ceteris paribus. This confirms the result found by Khobai, Abel and Le Roux (2016).

Table 26. Long Run results

Variables	Coefficient	T-statistics	Probability
C	9.63	15.37	0.0013
Lcapital	0.21	3.56	0.00
LTrade openness	0.48	7.67	0.00
LTax on gross turnover	-0.01	-2.76	0.0094
R^2	0.98		
DW	1.32		

As shown in table 27 of short-run results, capital negatively affects economic growth. This is not significant at all levels. Trade openness positively affects economic growth. Usually not noteworthy at all levels. Moreover, the results uncover that tax charges harm economic development and are noteworthy at 5% levels of significance.

In table 28 of short-run comes about, ECM is negative at a 5% level of importance. The estimation of ECM (-1) is -0.12. ECM is a negative bolster that comes about in the long-run relationship. The deviations of short-run from long-run balance are adjusted by 12.24 toward long-run harmony annually.

Table 27. Short-run results

Variable	Coefficient	T-statistics	Probability
C			
Lcapital	-0.027	-1.25	0.22
LTrade openness	0.0343	1.697	0.10
LTax on gross turnover	-0.0037	-2.206	0.03
ECM(-1)	-0.1223	-1.98	0.05

3.2 .4 Short-run diagnostics

The study used Breush-Godfrey test for serial correlation .The study also used Breush-Pegan Godfrey test for heteroscedasticity. The test also checked for normality.

	F- F-statistics	P Probability
Test BG serial correlation test	1.55	0 .22
BPG Heteroscedasticity test	1.63	0.17
Normality	0.168	0.93

Table 28. Short-run diagnostics

The p-value of the serial correlation is found to be insignificant. So this means that there is no serial correlation in the residuals of the model.

The p-value of heteroscedasticity is found to be insignificant. So this implies that there is no heteroscedasticity in the residuals of the model. The p-value of Jarque-Bera is greater than 0.1. this means that the model is normally distributed.

3.2 .5 Stability Tests

In the study, the cumulative sum of recursive residuals (CUSUM). It is utilized to decide the solidness of long-run parameters. The H_0 is acknowledged at a 5% level of importance. Typically since the plot of the testis inside the basic limits.

The short-run and long-run gauges are proficient and solid. This is since the test lies between the upper and lower basic limits. It appears the demonstration is steady.

Figure 5. Plot of the cumulative sum of recursive residuals

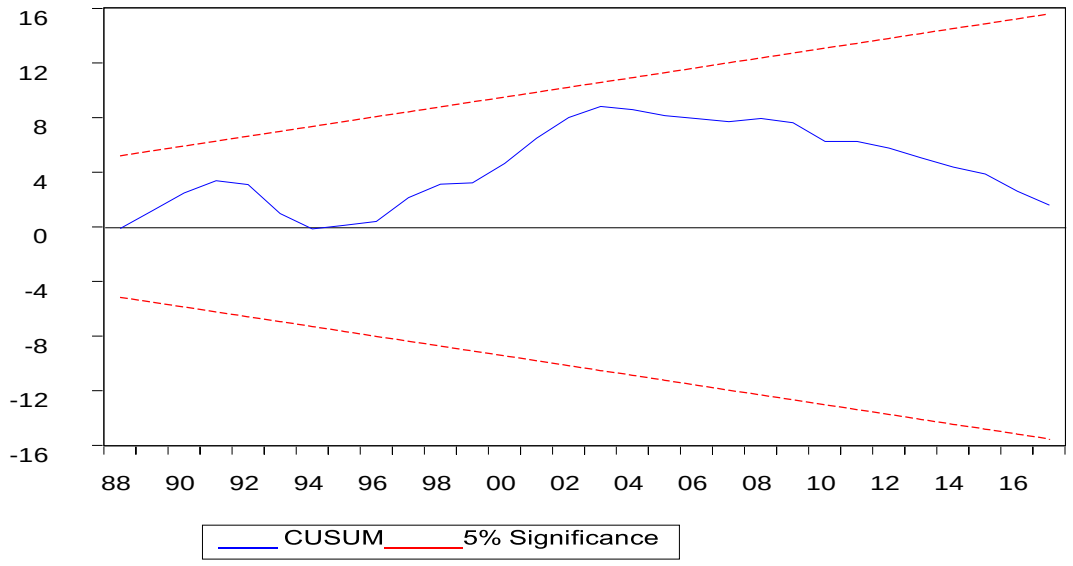
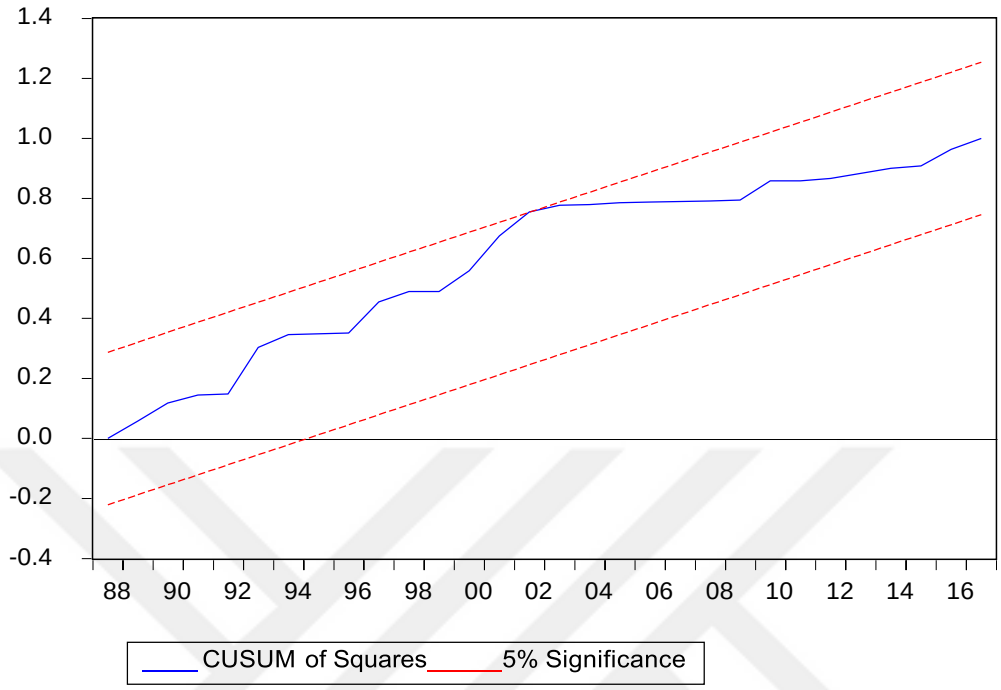


Figure 6. Plot of Cumulative sum of squares of recursive residuals



3.2 .6 Granger causality test

The study used granger causality analysis to find out the causal relationship between the variables.

Table 29. Granger causality test

Null Hypothesis:	Obs	F-Statistic	Prob.
GT does not Granger Cause TL	15	0.22209	0.8047
TL does not Granger Cause GT		4.65554	0.0372

The Granger causality test indicates a statically significant negative relationship between taxation and gross turnover by 0.0372 at a 95% significance level.

3.2.7 Correlations

The study used correlation analysis to determine the correlation between Age and tax perception.

3.2.7.1 Age and tax perception

The study provides in the table below the results of the analysis.

Table 30. Spearman's correlation analysis for age and tax perception.

			Age	Effect of perception
Spearman's rho	Age	Correlation Coefficient	1.000	.861**
		Sig. (2-tailed)	.	<.001
		N	79	79
	Effect of taxation perception on gross turnover	Correlation Coefficient	.861**	1.000
		Sig. (2-tailed)	<.001	.
		N	79	79

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

Spearman correlation was run to determine the relationship between age and taxation. There was a strong, positive correlation between taxation and age.

3.2.7.2 Education and tax perception

The study provides in the table below the results of the correlation analysis on the correlation between Education and tax perception.

Table 31. Spearman's correlation for educational level and tax perception.

			Education level	Effect of taxation perception on gross turnover
Spearman's rho	Education level	Correlation Coefficient	1.000	.905**
		Sig. (2-tailed)	.	<.001
		N	79	79
	Effect of taxation perception on gross turnover	Correlation Coefficient	.905**	1.000
		Sig. (2-tailed)	<.001	.
		N	79	79

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

Spearman correlation was run to determine the relationship between Education level and taxation. There was a strong, positive monotonic correlation between taxation and Education.

3.2.7.3 Comparison

This is a comparison between people who fall into the category of primary and secondary and those who fall into the category of tertiary institution and university.

Table 32. Relation of Primary and secondary education for effect of tax perception

			Effects of tax perception	primary and secondary
Spearman's rho	Effect of taxation perception on gross turnover	Correlation Coefficient	1.000	.541**
		Sig. (2-tailed)	.	<.001
		N	40	40
	primary and secondary	Correlation Coefficient	.541**	1.000
		Sig. (2-tailed)	<.001	.
		N	40	40

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

The result of the analysis showed that there exists a moderate positive correlation between the effect of tax perception and people who fall into the category of secondary and primary education.

Table 33. Tertiary and university

			Effect of tax perception	tertiary and university
Spearman's rho	Effect of taxation perception on gross turnover	Correlation Coefficient	1.000	.936**
		Sig. (2-tailed)	.	<.001
		N	40	40
	tertiary and university	Correlation Coefficient	.936**	1.000
		Sig. (2-tailed)	<.001	.
		N	40	40

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

The result showed there is a strong positive correlation between effect of tax perception and people who fall into the category of tertiary institutions and university. This mean that people who have university qualification and those who had finished tertiary institutions tend to perceive that taxation has an effect on gross turnover than those who have finished primary and secondary. This showed by a strong correlation and moderate correlation.

3.3 Empirical Findings and Analysis of Hypothesis

In the part of the study, the findings on the hypothesis and the theoretical analysis pertaining to the hypothesis are discussed.

3.3.1 Effect of taxation on gross turnover

The study used both primary and secondary date to test the hypothesis. The models such as granger causality test and ARDL were used in the study to find the effect of taxation on gross turnover of small and medium enterprises and the causal relationship between taxation and gross turnover of SMEs. The findings revealed that taxation negatively affects small and medium enterprises since taxation consumes the profits that could be set aside for reinvestment. The findings of the primary data showed that taxation does affect significantly the survival of small and medium enterprises by a response rate of

50% while 31.25% response rate indicated that taxation has a moderate effect on the survival of SMEs.

The outcome for the ARDL bound test shows F-statistics of 8.53. It is at all levels of significance, as well as falls above the critical bound value. It means that the variables are co-integrated at 1%, 5%, and 10% levels. The long run and short run results suggest that there is a negative effect that runs from taxation to gross turnover of small and medium enterprises than to economic growth. The results showed that a 1% increase in taxation is expected to cause 0.01 decrease in economic growth.

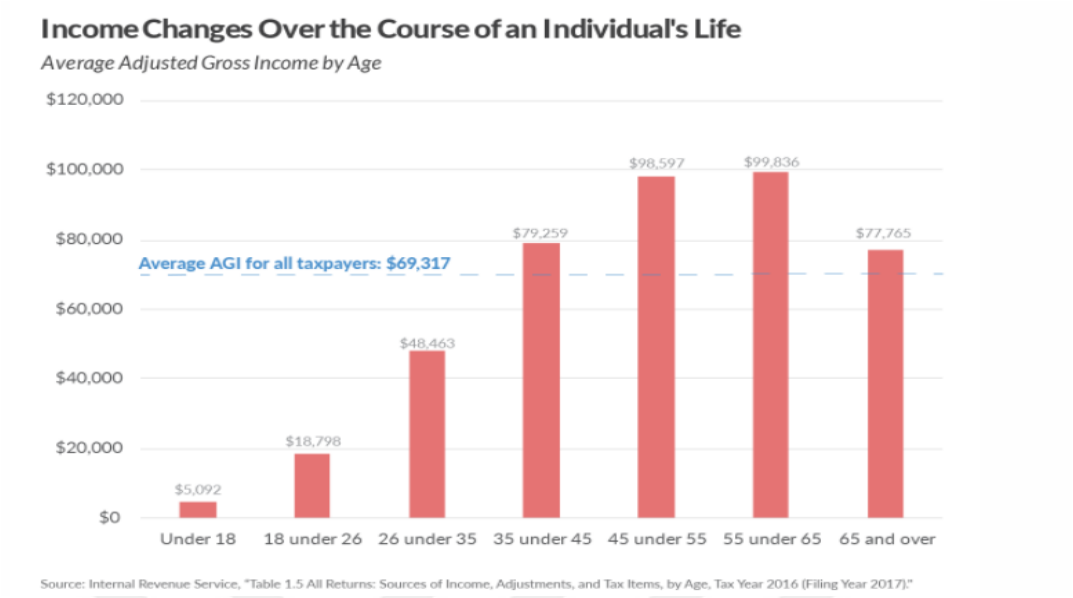
The outcome of the Granger causality test indicated that variables like taxation and gross turnover have a negative relationship by 0.0372.

It is statistically significant at 95%. The study therefore accepts the null hypothesis that taxation affects the gross turnover of small and medium enterprises and rejects the hypothesis that taxation does not affect the gross turnover of small and medium enterprises. Atems (2015), Stoilova (2017), and Badri & Allahyari (2013) agree with the findings.

3.3.2 Effect of age on tax perception

The finding of spearman correlation showed that there is a strong positive correlation between age and taxation. So this implies that age affects taxation. As taxpayers mature and gain work experience, their income tends to increase. It is the life cycle issue that is attributed to difference in income levels among taxpayers. The average income of a taxpayer increases dramatically as he or she ages and acquires education and experience (Tosun, 2005).

Figure 7. Income changes as a result of age.

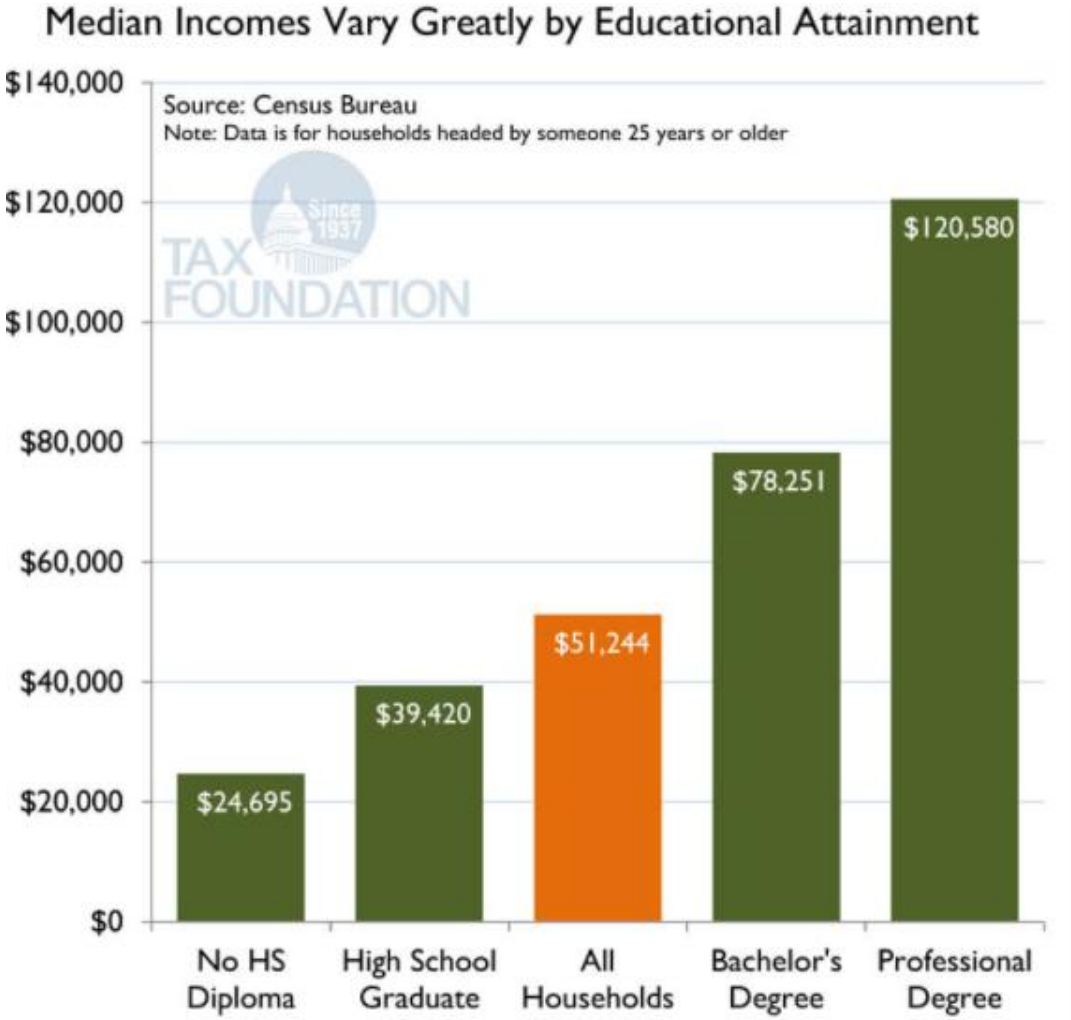


As illustrated in the chart, taxpayers who are about to retire, let us say 55 and under 65 reported an average adjusted gross income of $99,836 compared to an average adjusted gross income of for all taxpayers of $69,317 and the average of $18,798 of the 18 under 26 age group. This showed that income increases as taxpayers gross older and gain more experience.

3.3.3 Effect of educational level on tax perception

The results of spearman correlation revealed that there is a strong positive correlation between educational level and taxation. Taxpayers with college degrees earn more than those with high school diploma (Babatunde, 2017)

Figure 8. Income changes a result of educational level



As shown in the chart, a medium household income was $51,244, but a household with a college degree worker earned a median income of $78,251. For those who obtained graduate degrees earned $120,580 and three times the income of a high school diploma holder.

CONCLUSION

This part of the study presents the conclusion of the effect of taxation on gross turnover of small and medium enterprises. It also provided the limitation and recommendation of the study.

This study was undertaken to determine the linkage between the gross turnover of small and medium businesses and tax rates in Kampala. In the study primary and secondary, sources of data were employed to test the hypothesis. Surveys of open-ended questions were used as primary to gather the primary data. The available sources like Uganda Revenue Authority were used as secondary data. The ideal period selected for the study was 2002 to 2018. The outcome of the primary data showed that taxation affects the gross turnover of small and medium enterprises.

The study used the Autoregressive Distribution Lag (ARDL) model as an analysis tool to examine the linkage between variables in terms of long-run and short-run. The findings revealed that taxes affect the gross turnover of SMEs. This effect hinders economic growth which means tax charges and the growth of the economy are negatively correlated in both the short-run and long run. Atems (2015), Stoilova (2017), and Badri & Allahyari (2013) agree with the findings.

In the study, a causality relationship between variables was examined using the granger causality test. The outcomes indicated that there is unidirectional causality between taxation and gross turnover of small and medium enterprises in Kampala. The direction of causality runs strictly from taxation to gross turnover to economic growth. Finally, for the case of Kampala, this paper provides a suggestion for policymakers that taxation substantially affect the economic growth

The study recommends that government authorities should consider tax restructuring to help small and medium enterprises so as for these firms to contribute to economic growth. It also suggests that authorities responsible for tax collection and administration like URA (Uganda Revenue Authority) should play important role in providing tax educatıon programs to taxpayers, especially SMEs. They should provide it through various platforms such as newspapers, local radio, and television stations. To avoid the language barrier, tax education should be carried out in languages that the target

audience can understand. Tax collectıng bodies should also undertake a nationwide registration exercise to register small businesses that earn taxable income.

Appendix: Questıonnaıre

Dear respondents; I am a student at Istanbul Commerce Unıversıty. My study focuses on the effect of taxation on the gross turnover of SMEs in Uganda. Please provide your answers to this questionnaire as truthfully as possible. The research is academic. The researcher guarantees that your answers will be maintained their confidentiality. Read the questions thoroughly and provide your answers with care.

Sectıon A:

1. Gender of the respondent

Female respondent	Male respondent

2. Age of the respondent

The study used Likert method of scaling to scale the responses from the questionnaire. (1= Prımary, 2=Secondary, 3= Tertiary institutions, 4= University and 5= other).

21-31	31-41	41-51	60 and above

3. Qualification of the respondent

The study made us of liker scaling method to scale the participants' responses.(1= Prımary, 2=Secondary , 3= Tertiary institutions, 4= University and 5= other),

Primary	Secondary	Tertiary institution	University

4. What is your position in the business?

owner	Employee

5. How long have you been in business?

less than 1 year	2 years	3 years	more than 3 years

Sectıon B:

Tax assessment and collection

1. Is this business enterprise registered for income tax?

Yes	No

2. What type of taxes are you liable to?

Corporations	
income tax	
sales duty	
custom duty	

3. How often do you make the payment due?

Promptly	
After reminder	

4. How does taxation affect the survival of small businesses?

It affects greatly	
It has a moderate effect	
Does not affect at all	

Sectıon C:

Effect of tax on SMEs

1. Does taxation affect your profitabılıty?

Yes	
No	

2. If yes, how does it affect your profitabılıty (profit margın)?

It affects very much	
If affects moderately	
It rarely affects	
It does not affect at all	

3. How do you like the negatıve effect of the taxation to be reduced?

It is better to reduce tax rates	
Allow Payments on ınstallments	
Provide tax educatıon	

THANK YOU FOR YOUR PARTICIPATION

REFERENCE

Atems, B. (2015).Another look at tax policy and state economic growth. *Economic Letters*, 127(1), 64-67.

Badri, A & Allahyari, S. (2013). An analysis of the effects of taxes and GDP on employment in Iran's economy. *European journal of natural and social science*, 3(3), 1546- 1553.

Balunyawa, w. (2006).Income tax administration ın Uganda (1st Ed.). Kampala: prentice

Batty (2005). Profitability and growth of small and medium enterprises (2nd Ed.). Kampala: Viskas

Bhatıa, H. (2005). Publıc Fınance. (20th Ed.). Kampala: Vıkas publıshıng House Ltd.

Butter and Linter (1945). The relationship between small business growth and finance (2nd Ed.). London: Pearson

Babatunde, A. (2017). Taxation revenue and economic growth in Africa, journal of accounting and taxation, 9(2), 11-22.

Canicio & Zachary (2014). Causal Relationship between Government Tax Revenue Growth and Economic Growth: A Case of Zimbabwe (1980- 2012). *Journal of Economics and Sustainable Development*, 5, (17), 10-21.

Carl (2001).Survival and growth of small and medium enterprises (4th Ed.).London: Pearson

Chigbu, E. 2012). An Empirical Study on the Causality between Economic Growth and Taxation in Nigeria. *Journal of Economic Theory*, 4(2): 29-38.

Christina, M (2016). The problems and prospects faced by small and medium scale enterprises (1st Ed.). Kampala: prentice publishers

Church & Lewis (2002).Relationship between firm's growth and returns (10th Ed.). London: Pearson

Coleman (2013).Profitability of business enterprises. (3rd Ed.). London: Pearson

Dackehag, M. & Hansson, A. (2012). Taxation of Income and Economic Growth: An Empirical Analysis of 25 Rich OECD Countries. Sweden, Lund: Lund University Department of Economics. Working Paper No 6.

Dalton (2000).Principles of public finance (4th edıtıon).London: max publıshıng House.

Dauda (2006) .financial intermediation and real sector growth (1st Ed.).Legos: Pearson

Dowrick, S. (1992). Estimating the Impact of Government Consumption on Growth. *Mimeo Economics Letter*, 116(2), 161-165.

Easterly, W. & Rebelo, S. (1993). Fiscal policy and economic growth. *Journal of Monetary Economics*, 32(3), 417-458.

Gavin (2000).Relationship between finance and growth of a business enterprise (4th Ed.). London: Routledge

Gibson (2008).Small businesses and sources finance (4th Ed.). London: Pearson

Godfried and Song (2000). The model of financing scale of manufacturing businesses in Ghana (3rd Ed.).Ghana: Pearson

Greener, S. (2008). Business research methods. BookBoon.

Hobbes (2009).Profits and Entrepreneurship (4th Ed.). London: Pen Well Publıshıng House".

Holtz (2004).Small business taxation in transition countries (2nd Ed.). Manchester: Pearson

Iriqat, R. (2016). GDP and Tax Revenues-Causality Relationship in Developing Countries: Evidence from Palestine. *International Journal of Economics and Finance*, Vol. 8, No. 4.

Kayanula, D & Quartey, P. (2000).The policy environment for promoting small and medium enterprises (3rd Ed.). Kampala: prentice publishing house

Khalizadeen-shirazi(1971).The effect of financial constraints on the profitability of a business enterprise(2nd Ed.). London: Pearson

Khalızadh, J.(2005).Tax polıcy ın developıng world(4th Ed.). Kampala: viskas

Kiiza (2000).Taxation and profitability of small and medium enterprises (3rd Ed.). Kampala: prentice

Lee, Y. & Gordon, R. (2005).Tax structure and economic growth. *Journal of Public Economics*, 89(1), 1027-1043.

Mueller. (2007).Profıt ın the long run (4th Ed.). London: Pearson

Munir and Sulatn(2016). Are Some Taxes Better for Growth in Pakistan?. A Time Series Analysis, MPRA Paper No. 68828

Murphy & Bıll. (2007). ıncome tax (17th edıtıon) London: Pitman Publıshers.

Musgrave & Musgrave. (2004). Publıc fınance ın theory and practıce (10th Ed.). London: Pearson

NEPAD & OECD. (2009). Taxation for investment and development: An overview of policy challenges in Africa: Africa Investment Initiative. Obayomi, W. (2020). Finance act, 2019-impact analysis, February, Revised Edition, KPMG, 3.

Nissanke(2000).Sources of finance for small business enterprises(3rd Ed.).Ghana: Pearson

Nsubuga, D (2008).The role of small-scale busıness ın Uganda's economy (2nd Ed.). Kampala: prentice publishing

Ojok. (2000).Taxation in Uganda (2nd Ed.). Kampala: viskas publishing house

Okpara and Pamela (2007). Small business and medium enterprises' financing options (17th Ed.) Chicago: Society for the Advancement of Management

Oliveira and Fortunata (2005). Small business growth and finance constraints (1st Ed.). Legos: Pearson

Olupa (2009).Small business contribution economic development (4th Ed.). Legos: Pearson

Pius, K. (2004).ıncome tax ın Uganda (1st Ed.) Kampala: viskas publishing house

Sabah, A. (2003) Small businesses and economic growth: short and long run of it. *Economics Letters*, 114, (3), 162-165

Saligman (2004). Taxation of small business enterprise (1st Ed.)Kampala: prentice publishing

Sarkar, D. (2007). The Role of Human Capital In Economic Growth Revisited. *Applied Economics Letters*, 2007, 14, pp.419– 423.

Selemi (2010).Taxation and development of small business enterprises (2nd Ed.). Kampala: viskas

Seward, T. (2008).The Impact of Taxes on Employment and Economic Growth: Evidence from the industrialized countries. Munich, Germany: *MPRA working paper series*, No: 16574

Skinner J. (1987).Taxation and Output Growth: Evidence from African Countries. Kampala, Uganda: *NBER Working Paper Series*, No: 2335.

Stoilova, D. (2017).Tax structure and economic growth: Evidence from the European Union. Contaduría y Administración, 62, (3), 1041–1057

Szarowska, I. (2010).Changes in taxation and their impact on economic growth in the European Union. Acta Universitatis Agriculturae et Silviculturae Mendeleianae Brunensis, Vol. 59, No. 2 , pp. 325-332.

Tosun S. (2005), Economic growth and tax components: An analysis of tax changes in OECD, Applied economics, 35(19), 2251-2263.

William, K. (2015). Taxation of small and medium enterprises (1st Ed.). Kampala: prentice hall

Yamarik, S. (2012). Tax policy and state economic growth: short and long run of it. Economics Letters, 116, (2), 161-165

Zellner, A. (2015).Evaluation of the effect of reduced personal and corporate tax rates on growth rates of the U.S economy. *Econometric Reviews*, 34(1), 56-81.