**TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA: A CASE OF UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED**

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**ABSTRACT**

The study was set to examine taxation policies and financial performance of small and medium enterprises in Uganda, using a case of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. The study was guided by these objectives: To establish whether Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance. To establish whether taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited and to examine whether tax administration criteria improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**METHODOLOGY**

The study used a population of 112 selected from Uganda Aromatics Limited and Rabonge Essential Oil Project Limited and a sample of 88 respondents was selected using Neumann’s formula (2000). Cross sectional research design and descriptive were used and both quantitative and qualitative approaches of data collection were used. The used questionnaires, interview guide and documentary checklist to collect data from the field.

**FINDINGS**

Study finding revealed that R=.889a, R Square=.790 and Adjusted R Square=. 787; this indicates that the significance level was found and the hypothesis tested proved that there is a positive and significant relationship between taxation policies and financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**CONCLUSION**

The study concluded that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance; taxation awareness and knowledge enhanced financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited and tax administration criteria improved financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**RECOMMENDATIONS**

The study recommends that the government of Uganda, through policymakers should be able to align the tax systems or policies in order to conform to the environment specific production, importation, exportation, and performance needs for the SMEs. Through such measures, the taxation threshold will be bearable to the SMEs and this is likely to improve financial performance.

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