**TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL**

**AND MEDIUM ENTERPRISES IN UGANDA: A CASE OF UGANDA**

**AROMATICS LIMITED AND RABONGE ESSENTIAL OIL**

**PROJECT LIMITED**

**BY**

**ANTHONY GULOBA**

**2020/FEB/MTM/M226939/WKD/KLA**

**A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS**

 **AND INFORMATION TECHNOLOGY IN PARTIAL FULFILMENTOF**

**THE REQUIREMENTS FOR THE AWARD OF THE DEGREE**

**OF MASTER OF TAXATION MANAGEMENT OF**

**NKUMBA UNIVERSITY, ENTEBBE UGANDA**

**JANUARY, 2022**

# DECLARATION

I hereby declare that this report is my own original work and has not been submitted to any other institution, and that the work of others has been appropriately referenced.

Signature…………………….……………………..……. Date……...………………………..……………….…….....

 **Anthony Guloba**

# APPROVAL

This dissertation has been arrived at under my supervision and is worthy of the award of a Masters’ degree in Taxation Management of Nkumba University.

Signature…………………………………..……………. Date:………………………....…………………………

 **Nabutsale I.R. Ojambo**

 (Supervisor)

# DEDICATION

I dedicate this dissertation to my family and lecturers who supported me during the academic years.

# ACKNOWLEDGEMENT

I am very grateful to my family for the support right from the start to the end of this study. This research is a joint contribution of the student, lecturers, respondents and my supervisor. I am heavily indebted to all those who together contributed to the successful production of this academic research work. I generally convey my heartfelt appreciation to the MTM Class, Feb 2020 intake for the support and discussions they provided during our study. I am also indebted to my lecturers who provided me with the knowledge that I have used in compiling this dissertation.

In a special way, I wish to thank the staff of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited for the support and cooperation during data collection exercise, my line manager and workmates for the support when my schedule could not permit me be in two places at the same time.

Above all, I thank My Lord for His faithfulness, love, strength, guidance and protection throughout my academic struggle.

# TABLE OF CONTENTS

[DECLARATION i](#_Toc94346029)

[APPROVAL ii](#_Toc94346030)

[DEDICATION iii](#_Toc94346031)

[ACKNOWLEDGEMENT iii](#_Toc94346032)

[TABLE OF CONTENTS v](#_Toc94346033)

[LIST OF TABLES ix](#_Toc94346034)

[LIST OF FIGURE xi](#_Toc94346035)

[LIST OF ABBREVIATIONS xii](#_Toc94346036)

[DEFINITION OF KEY TERMS xiii](#_Toc94346037)

[ABSTRACT xiv](#_Toc94346038)

[**CHAPTER ONE:**](#_Toc94346039) [**INTRODUCTION** 1](#_Toc94346040)

[Background to the Study 1](#_Toc94346041)

[Problem Statement 4](#_Toc94346042)

[Purpose of the Study 4](#_Toc94346043)

[Objectives of the Study 4](#_Toc94346044)

[Research Questions 5](#_Toc94346045)

[Research Hypothesis 5](#_Toc94346046)

[Scope of the Study 5](#_Toc94346047)

[Justification for the Study 6](#_Toc94346048)

[Significance of the Study 6](#_Toc94346049)

[Settings of the Study 7](#_Toc94346050)

[Arrangement of the Study 8](#_Toc94346051)

[**CHAPTER TWO:**](#_Toc94346052) [**STUDY LITERATURE** 9](#_Toc94346053)

[Introduction 9](#_Toc94346054)

[Literature Survey 9](#_Toc94346055)

[Theoretical Review 10](#_Toc94346056)

[Literature Review 13](#_Toc94346057)

[Concept of Taxation Policy 13](#_Toc94346058)

[Compliance with taxation policies enhance financial performance 14](#_Toc94346059)

[Taxation awareness and knowledge enhance financial performance 17](#_Toc94346060)

[Tax administration criteria and Financial Performance of SMEs 21](#_Toc94346061)

[Financial Performance 23](#_Toc94346062)

[Conceptual Framework 25](#_Toc94346063)

[**CHAPTER THREE:**](#_Toc94346066) [**RESEARCH METHODOLOGY** 26](#_Toc94346067)

[Introduction 26](#_Toc94346068)

[Research Design 26](#_Toc94346069)

[The Study Population 26](#_Toc94346070)

[Sample Size 27](#_Toc94346072)

[Sample Size Determination 27](#_Toc94346073)

[Sampling Methods and Techniques 28](#_Toc94346075)

[Data Collection Procedure 28](#_Toc94346076)

[Data Collection Methods 28](#_Toc94346077)

[Interview Method 28](#_Toc94346078)

[Questionnaire Method 28](#_Toc94346079)

[Document Review 29](#_Toc94346080)

[Data Collection Instruments 29](#_Toc94346081)

[Self Administered Questionnaires 29](#_Toc94346082)

[Interview Guide 29](#_Toc94346083)

[Document Review Checklist 29](#_Toc94346084)

[Validity and Reliability of Instruments 30](#_Toc94346085)

[Validity of Instruments 30](#_Toc94346086)

[Reliability of Instrument 30](#_Toc94346088)

[Data Processing 31](#_Toc94346089)

[Data Analysis 31](#_Toc94346090)

[Ethical Considerations 31](#_Toc94346091)

[Limitations of the Study 31](#_Toc94346092)

[**CHAPTER FOUR:**](#_Toc94346093) [**DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS** 32](#_Toc94346094)

[Introduction 32](#_Toc94346095)

[Gender of the respondents 32](#_Toc94346096)

[Age group of the Respondents 32](#_Toc94346098)

[Highest Level of Education of Respondents 33](#_Toc94346100)

[Position held by the respondents 33](#_Toc94346102)

[Duration in Service 34](#_Toc94346104)

[**CHAPTER FIVE:**](#_Toc94346106) [**UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED COMPLY WITH ALL TAXATION POLICIES TO ENSURE EFFECTIVE FINANCIAL PERFORMANCE** 35](#_Toc94346107)

[Introduction 35](#_Toc94346108)

[Enterprise complies with the implemented national taxation policies and procedures 35](#_Toc94346109)

[The enterprise receives government trainings on tax compliance 36](#_Toc94346111)

[Enterprise owners clearly and easily understand the tax laws and regulations 36](#_Toc94346113)

[Tax payer file tax returns declare all taxable income accurately 37](#_Toc94346115)

[Tax registration procedure obligations are easy for the enterprise 38](#_Toc94346117)

[Taxpayer compliance is influenced by tax rates and perceptions of taxpayers 38](#_Toc94346119)

[Enterprise incurs tax compliance costs 39](#_Toc94346121)

[Taxpayer compliance is influenced by tax administration systems 40](#_Toc94346123)

[The enterprise fulfills its tax obligations to avoid sanctions. 40](#_Toc94346125)

[Difficult importation and exportation tax procedures 41](#_Toc94346127)

[TESTING HYPOTHESIS ONE (1) 42](#_Toc94346129)

[Correlations between tax compliance and financial performance 42](#_Toc94346130)

[Model Summary 42](#_Toc94346132)

[Coefficientsa 43](#_Toc94346134)

[ANOVA 43](#_Toc94346136)

[**CHAPTER SIX:**](#_Toc94346138) [**TAXATION AWARENESS AND KNOWLEDGE ENHANCE FINANCIAL PERFORMANCE OF UAL AND RABONGE ESSENTIAL OIL PROJECT LIMITED** 44](#_Toc94346139)

[Introduction 44](#_Toc94346140)

[Shareholders are aware of most tax laws and guidelines 44](#_Toc94346141)

[Lack of understanding the rationale of taxes and knowledge of different taxes 44](#_Toc94346143)

[Awareness of taxpayers is often associated with willingness and compliance 45](#_Toc94346145)

[The enterprise is aware the consequences of failing to pay taxes on time 46](#_Toc94346147)

[Taxpayer knowledge is measured through knowledge and understanding of rights 46](#_Toc94346149)

[Lack of awareness of taxation policies affects the free operation of the enterprise 47](#_Toc94346151)

[Enterprise involve in tax planning by implementing various strategies 48](#_Toc94346153)

[Information about taxes is always readily available to the tax payer 48](#_Toc94346155)

[Correctly calculate the tax amount payable basing on the available information 49](#_Toc94346157)

[TESTING HYPOTHESIS TWO (2) 50](#_Toc94346159)

[Correlations between taxation awareness and knowledge and financial performance 50](#_Toc94346160)

[Model Summary 50](#_Toc94346162)

[Coefficients 51](#_Toc94346164)

[Analysis of Variance (Anova) 51](#_Toc94346166)

[**CHAPTER SEVEN:**](#_Toc94346168) [**TAX ADMINISTRATION CRITERIA IMPROVE FINANCIAL PERFORMANCE OF UAL AND RABONGE ESSENTIAL OIL PROJECT LIMITED.** 52](#_Toc94346169)

[Introduction 52](#_Toc94346170)

[Process of identifying the tax payer, assessing the tax payable, collecting taxes 52](#_Toc94346171)

[Tax administrators improve tax payers’ convenience in tax assessment 52](#_Toc94346173)

[Tax authority provides greater assistance by creating favorable conditions 53](#_Toc94346175)

[Tax administrators sensitize SME owners on different taxes imposed on them 54](#_Toc94346177)

[Tax authority has ever given assistance as regards tax awareness 54](#_Toc94346179)

[Process of carrying out tax audits, tax debt collection, handling appeals 55](#_Toc94346181)

[Weaknesses in tax administration are mainly caused by lack of relevant information 56](#_Toc94346183)

[Tax authorities help taxpayers to file taxes by providing information needed 57](#_Toc94346185)

[Tax administrators sensitize tax payers about the consequences of tax evasion 57](#_Toc94346187)

[Generalization of tax administration based on financial performance is problematic 58](#_Toc94346189)

[Financial Performance of UAL and Rabonge Essential Oil Project Limited. 59](#_Toc94346191)

[The profits of the enterprise are growing at a satisfactory rate. 59](#_Toc94346192)

[Taxes have reduced the return on investments. 60](#_Toc94346194)

[Taxes have inhibited the growth of the business entity. 60](#_Toc94346196)

[Sales revenue of the enterprise is growing at a satisfactory rate 61](#_Toc94346198)

[TESTING HYPOTHESIS THREE (3) 61](#_Toc94346200)

[Correlations between Tax Administration and Financial Performance 62](#_Toc94346201)

[Model Summary 62](#_Toc94346203)

[Analysis of Variance (ANOVA) 62](#_Toc94346207)

[Coefficients 63](#_Toc94346210)

[MULTIPLE REGRESSION ANALYSIS 64](#_Toc94346213)

[Correlations between taxation policies and financial performance 64](#_Toc94346215)

[**CHAPTER EIGHT:**](#_Toc94346217) [**HARMONIZATION TOWARDS TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA** 66](#_Toc94346218)

[Introduction 66](#_Toc94346219)

[Taxation Policies 66](#_Toc94346220)

[Tax Compliance 66](#_Toc94346221)

[Tax Awareness and Knowledge 69](#_Toc94346223)

[Tax Administration 71](#_Toc94346224)

[Financial Performance 72](#_Toc94346225)

[**CHAPTER NINE:**](#_Toc94346226) [**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS** 74](#_Toc94346227)

[Introduction 74](#_Toc94346228)

[Summary of Findings 74](#_Toc94346229)

[Conclusions 76](#_Toc94346230)

[Recommendations 78](#_Toc94346231)

[Areas for the Further Research 79](#_Toc94346232)

[REFERENCES 80](#_Toc94346233)

[APPENDICES 87](#_Toc94346234)

[APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE 87](#_Toc94346235)

[APPENDIX II: INTERVIEW GUIDE 91](#_Toc94346236)

# LIST OF TABLES

[Table 3.1: Target Population 26](#_Toc94346071)

[Table 3.2: Sample Size 27](#_Toc94346074)

[Table 4.1: Gender of the respondents 32](#_Toc94346097)

[Table 4.2: Age group of respondents 32](#_Toc94346099)

[Table 4.3: Highest Level of Education of Respondents 33](#_Toc94346101)

[Table 4.4: Department of Respondents 33](#_Toc94346103)

[Table 4.5: Duration in Service 34](#_Toc94346105)

[Table 5.1: Enterprise complies with the implemented national taxation policies 35](#_Toc94346110)

[Table 5.2: The enterprise receives government trainings on tax compliance. 36](#_Toc94346112)

[Table 5.3: Owners clearly and easily understand the tax laws and regulations 36](#_Toc94346114)

[Table 5.4: Tax payer file tax returns declare all taxable income accurately 37](#_Toc94346116)

[Table 5.5: Tax registration procedure obligations are easy for the enterprise. 38](#_Toc94346118)

[Table 5.6: Taxpayer compliance is influenced by tax rates 38](#_Toc94346120)

[Table 5.7: Enterprise incurs tax compliance costs 39](#_Toc94346122)

[Table 5.8: Taxpayer compliance is influenced by tax administration systems 40](#_Toc94346124)

[Table 5.9: The enterprise fulfills its tax obligations to avoid sanctions. 41](#_Toc94346126)

[Table 5.10: Difficult importation and exportation tax procedures 41](#_Toc94346128)

[Table 5.11: Correlations between Tax Compliance and financial performance 42](#_Toc94346131)

[Table 5.12: Model Summary 43](#_Toc94346133)

[Table 5.13: Coefficientsa 43](#_Toc94346135)

[Table 5.14: ANOVAa 43](#_Toc94346137)

[Table 6.1: Shareholders are aware of most tax laws and guidelines 44](#_Toc94346142)

[Table 6.2: Lack of understanding the rationale of taxes and knowledge of taxes 45](#_Toc94346144)

[Table 6.3: Awareness of taxpayers is often associated with willingness & compliance 45](#_Toc94346146)

[Table 6.4: The enterprise is aware the consequences of failing to pay taxes on time 46](#_Toc94346148)

[Table 6.5: Taxpayer knowledge is measured through understanding of rights 47](#_Toc94346150)

[Table 6.6: Lack of awareness of taxation policies affects the free operation 47](#_Toc94346152)

[Table 6.7: Enterprise involve in tax planning by implementing various strategies 48](#_Toc94346154)

[Table 6.8: Information about taxes is always readily available to the tax payer 49](#_Toc94346156)

[Table 6.9: Correctly calculate tax amount payable basing on available information 49](#_Toc94346158)

[Table 6.10: Correlations taxation awareness, knowledge and financial performance 50](#_Toc94346161)

[Table 6.11: Model Summary 51](#_Toc94346163)

[Table 6.12: Coefficientsa 51](#_Toc94346165)

[Table 6.13: ANOVAb 51](#_Toc94346167)

[Table 7.1: Process of identifying the tax payer, assessing the tax payable 52](#_Toc94346172)

[Table 7.2: Tax administrators improve tax payer’s convenience in tax assessment 53](#_Toc94346174)

[Table 7.3: Tax authority provides greater assistance by creating favorable conditions 53](#_Toc94346176)

[Table 7.4: Tax administrators sensitize SME owners on different taxes 54](#_Toc94346178)

[Table 7.5: Tax authority has ever given assistance as regards tax awareness. 55](#_Toc94346180)

[Table 7.6: Process of carrying out tax audits, tax debt collection, handling appeals 55](#_Toc94346182)

[Table 7.7: Weaknesses in tax administration are caused by lack of information 56](#_Toc94346184)

[Table 7.8: Authorities help taxpayers to file taxes by providing information needed 57](#_Toc94346186)

[Table 7.9: Tax administrators sensitize tax payers about the effects of tax evasion 58](#_Toc94346188)

[Table 7.10: Generalization of tax administration based on financial performance 58](#_Toc94346190)

[Table 7.11: The profits of the enterprise are growing at a satisfactory rate. 59](#_Toc94346193)

[Table 7.12: Taxes have reduced the return on investments. 60](#_Toc94346195)

[Table 7.13: Taxes have inhibited the growth of the business entity. 60](#_Toc94346197)

[Table 7.14: Sales revenue of the enterprise is growing at a satisfactory rate 61](#_Toc94346199)

[Table 7.16: Correlations between Tax Administration and Financial Performance 62](#_Toc94346202)

[Table 7.17: Model Summary 62](#_Toc94346205)

[Table 7.18: ANOVAa 63](#_Toc94346208)

[Table 7.19: Coefficients 63](#_Toc94346212)

[Table 7.20: Multiple Regression Model 64](#_Toc94346214)

[Table 7.21: Correlations between Taxation Policies and Financial Performance 65](#_Toc94346216)

# LIST OF FIGURE

[Figure 2.1: Conceptual Framework 25](#_Toc94346065)

# LIST OF ABBREVIATIONS

ADF African Development Fund

PAYE Pay As You Earn

ROA Return on Assets

ROE Return on Equity

ROI Return on Investment

ROS Return on Sales

SMEs Small Medium Enterprises

TIN Tax Identification Number

UALUganda Aromatics Limited

UBOS Uganda Bureau of Statistics report

USD United States Dollar

VAT Value Added Tax

# DEFINITION OF KEY TERMS

Tax: Refers to the compulsory and non-refundable contribution executed by the government for the public purpose whose payment is not followed by concurrent benefit in return (Maseko and Manyani, 2011).

Financial performance: This is defined as the act of performing any financial activity or the degree to which financial goals and objectives are accomplished (Waweru, 2014). The financial performance was operationalized using cashflow which was measured by profitability, investment and sales growth.

Enterprises: This can be described as a business, an organization or a company or any purposeful endeavors that generate income (Wei and Wen, 2019).

Small and medium enterprises: The small-sized entities in Uganda are those whose annual turnovers are less than USD 10000, and medium-sized firms are those with annual turnover ranging from USD 10000 to USD80000 (World Bank, 2018).

Taxation*:* This refers to the mandatory levying of taxes on businesses in the form of a certain percentage as per their sizes.

#

**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.

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.

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.

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.

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.

# CHAPTER ONE

# INTRODUCTION

# Background to the Study

The study is about taxation policies and financial performance of small medium enterprises (SMEs) in Uganda, using Uganda Aromatics Limited and Rabonge Essential Oil Project Limited as a case study.

The study is significant because taxation policy towards SMEs is an important issue because SMEs are a significant segment of the economy, despite being individually smaller in size than larger firms. In addition, they improve the standard of living of a majority of the population. Therefore, revenue authorities have to take these above features into account when establishing the components of taxation policy that are associated with SME. Despite the vibrancy of SME, they have a major negative characteristic: they often have an extremely short life span. Some of the factors that lead to the winding down of SME soon after their inception are tax related, including multiple taxation and enormous tax burdens. The profitability and growth of SME can be accessed through the parameters of sales revenue, asset accumulation, and returns on capital, therefore it is important to find out the effect that taxation policy has on them.

Small and Medium Enterprises (SMEs) play an integral part in economic development, particularly regarding tax awareness creation to uplift the people’s standard of living (Acciari and Mocetti, 2013). However, the financial performance of SMEs is afflicted by such challenges as lack of financial resources to pay tax and unfavorable taxation policies (Mària and Murillo, 2013). The financial performance of SMEs has, therefore, been affected by the high taxes that are required of them. Consequently, the SMEs’ financial performance has been greatly affected. Coupled with the ever-unpredictable business environment due to unstable politics and economy, SMEs have been hit hard as a result of the high tax regime (Kamar, 2015).

The selected case studies are important because these SMEs pay different taxes such as Income Tax, VAT, PAYE, Stamp Duty, Import and Exports, Motor Vehicle. Uganda Aromatics Limited is a private limited company incorporated on 1st March 2006 with registered number: 78854. It deals in farming, processing and dealing essential oil, food flavors and spices. Rabonge Essential Oil Project Limited began as a corporative society in 1984, focusing on growing of essential crops like lemon grass, palmarosa grass citronella grass, until year 2010 they begun processing by themselves for export to South Africa by the Help of the African Development Fund (ADF) Support projects, then into forming a limited company in 2005.

This study based on the theory of Ability-To-Pay Theory. The theory was advanced by a Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean Baptiste Say (1767-1832), the English economist John Stuart and Mill (1806-1873). The theory states that the taxation should be levied according to an individual’s ability to pay; that is, public expenditure should come from business. Basically, this is indeed the basis of progressive tax -the tax rate increases by the increase of the taxable amount and is the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrenders money to the government which he would have used for personal use.

In Uganda, SME’s are defined as enterprises employing more than 5 and not exceeding a maximum of 50 employees, with the value of assets including, land, building and working capital of less than Ug.Shs 50 million (US$ 30,000) and annual income turnover of between Ug.Shs 10- S0million (US$ 6,000-30,000) (Opondo, 2013). Small and medium enterprises are businesses which are independently owned and operated by few individuals. They can be defined in terms of sales volume and number of employees in the business indicated by structural development, profitability and employment levels. They mainly engage in buying produce, market vending, shop keeping, second hand clothing, health/herbal services, telephone services and many others Uganda Bureau of Statistics report (UBOS, 2014). Over the years, Small and Medium Scale enterprises in Uganda have been an avenue for job creation and empowerment of Uganda’s citizens providing about 50% of all jobs in Uganda and also for local capital formation. Taxation refers to a fee levied by the government or regional entities on transaction, product or activities in order to finance government expenditures (The Tax Justice Network Africa).

Taxation is the process whereby charges are imposed on individuals or property by the legislative branch of the federal government and by many state governments to raise funds for public purposes. The theory that underlies taxation is that charges are imposed to support the government in exchange for the general advantages and protection afforded by the government to the tax payer and his or her property. The existence of government is a necessity that cannot continue without financial means to pay its expenses; therefore, the government has the right to compel all citizens and property within its limits to share its costs (Pied, John Phillip 2013).

According to Balunywa et al. (2010) taxation policy was enacted by the government to promote small business enterprises. Despite the fact that the policy was enacted to promote Small business enterprises, they have continued to perform poorly (Kiiza, 2005). Most of small business enterprises do not survive for more than one year (Wannenburg, et al, 2009). Moving the argument along Rooks, Sserwanga (2009) argues that many of these businesses don’t live more than a year. Tax policy should target the creation of conducive environment and assistance in which small businesses can expand their activities.

According to (Hilton, Mahar, and Selto, 2006), the lack of proper taxation policies is currently one of the most serious issues, They claimed that inefficient taxation policies may damage firm’s profitability and as a result complicate the difficulties of the firm’s business. Taxation policies involve the process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals, smith, (2010). Research on small firms revealed that enterprises with a formal planning system appeared to be more profitable than those without, and also that smaller firms were less likely to have formal plans (Masurel and Smith 2010).

According to Alfred (2007) financial performance is the measurement of how a SME has utilized its resources to generate revenues. Financial performance is normally measured by the gearing ratios, profitability ratios and the liquidity ratios. Profitability ratios of any enterprise portrays the picture of how well an entity has employed the resources efficiently, liquidity ratios deals with the capacity of business entities to accomplish the short term obligations and the gearing ratios indicates the extent of debt employment by the companies.

According to Kothari (2004), financial performance can be defined as the act of performing any organization activity or the degree to which goals and objectives are accomplished. It generally indicates how viable strategies laid down help the company to get better results or outcome. This, therefore, helps the company in meeting daily business objectives (Antwi and Hamza, 2015).

Further, Santos and Brito (2016) defined financial performance as the assessment of how well organizations generate income using their assets by employing many different methods. Based on the above definition, poor performance adversely affects the overall organizational growth plans since the said organization may not be able to meet daily operations. This, therefore, shows there as on for the need for good financial performance so that the organizational objective regarding improved performance. Therefore, this study focused on profitability, productivity, cash flows, and return on investment as the parameters of financial performance.

According to Taxation Policy Manual (2020) the SMEs were set to achieve the following objectives:

1. To comply with all implemented taxation policies and procedures
2. To maintain sound and appropriate tax administration.
3. To encourage proper taxation awareness and knowledge.
4. To ensure transparency and accountability in the SMEs activities.

This study therefore will examine the extent to which these objectives have been achieved in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Problem Statement

Despite of the above set of objectives, Uganda Aromatics Limited and Rabonge Essential Oil Project Limited continue to struggle with non-tax compliance, improper tax administration and inadequate tax awareness and knowledge. This has put these firms at risk of closure, financial inadequacy, and poor service delivery. From that background, this study seeks to examine how proper taxation policy enhances efficient financial performance of Uganda Limited and Rabonge Essential Oil Project Limited.

Despite the services provided by Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, their financial performance is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually. These rates seem to be taking an upward trend which has led to winding up of some small and medium enterprises as most of them do not celebrate their third birth day. These SMEs face proportionally higher tax compliance costs than larger enterprises. Therefore the researcher sought to investigate more about the impact of taxation on financial performance of Uganda Limited and Rabonge Essential Oil Project Limited.

This study examined the extent to which the above set objectives have achieved to ensure proper financial performance at Uganda Limited and Rabonge Essential Oil Project Limited.

# Purpose of the Study

The major purpose of the study was to assess the impact of taxation policies and performance of small medium enterprises in Uganda, using Uganda Aromatics Limited and Rabonge Essential Oil Project Limited as case studies.

# Objectives of the Study

The study was guided by the following research objectives;

1. To establish whether Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance.
2. To establish whether taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.
3. To examine whether tax administration criteria improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Research Questions

The study was guided by the following research questions;

1. How does Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance?
2. How does taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited?
3. How does a tax administration criterion improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited?

#

# Research Hypothesis

The following are the hypotheses of the study:

**H0:** There is no statistically significant relationship between taxation policies and financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**H1:** There is statistically significant relationship between taxation policies and financial performance of Aromatic Uganda Limited and Rabonge Essential Oil Project Limited.

# Scope of the Study

The study is on taxation policies and financial performance of small medium enterprises (SMEs) in Uganda, focusing on a case of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. The study focused on compliance with taxation policies, taxation awareness and knowledge and tax administration. Aromatic Uganda Limited is located in Awyanyi Village, Nagongera Town Council, West Budama, Tororo District, Eastern Uganda. Rabonge Essential Oil Project Limited is located at Tawojwoki cell, Central ward, Nagongera Town Council, West Budama North, Tororo District.

# Justification for the Study

In the Uganda, SMEs always face discrimination in regard to taxes, since taxation measures are generally unfriendly to them. This, therefore, means that minimization of tax compliance costs could improve the SMEs financial performance. By such measures, SMEs would be able to easily comply with taxation measures because taxation will be deemed affordable. However, in the Uganda, taxation systems are unbearable, and most SMEs view such systems as a hindrance to their overall growth and development, and consequently performance. Therefore, the imposition of high taxation rate to SMEs could prevent many potential investors from investing and at the same time could lead to the death of several SMEs in the country.

This study, hence, aimed at assessing how taxation measures in the Uganda affect the performance of SMEs. The study was also motivated by the fact that taxation measures in the Uganda have been long deemed to be friendly to those businesses that have a connection with taxation authorities. In contrast, businesses that have no connection with the government tend to be treated unfairly during the implementation of taxation procedures, resulting in their poor performance.

#

# Significance of the Study

The study would be imperative to the following stakeholders;

**Uganda Revenue Authority:** First, the URA which is the taxation authority in Uganda would find the research important in helping in its making decisions on viable taxation measures needed for improved performance of SMEs. The URA in the country would also be able to determine appropriate measures that can be embraced to protect SMEs from high taxation.

**Aromatic Uganda Management**: The study would guide the management in streamlining their taxation compliance, tax administration programs so as to achieve high financial performance. The findings and recommendations would guide the management and staff on creating avenues so as to improve financial performance that directly impacts on overall performance. The study shall also help to identify the taxation challenges in the company hence management can able to take corrective action to address them.

**Further Research:** Further, this study would form a basis for further research for individuals such as scholars, researchers, and academicians who would be interested in the subject of tax compliance in Uganda and elsewhere. Also, to the policymakers, the study findings might guide in the process of coming up with tax policies that could provide a helpful environment for SMEs to prosper. Similarly, the study provides insightful recommendations to policymakers on areas that need readjustment to make the taxation program friendly to entrepreneurs.

# Settings of the Study

The study is on taxation policies and performance of small medium enterprises in Uganda, taking Uganda Aromatics Limited and Rabonge Essential Oil Project Limited as case study.

**Aromatic Uganda Limited**

Aromatic Uganda Limited is a private limited company incorporated on 1st March 2006 with REG NO:78854. Dealing in farming, processing and dealing essential oil, food flavors and spices. Aromatic Uganda Limited is located in Awyanyi Village, Nagongera Town Council, West Budama, Tororo District, and Eastern Uganda.

Vision of Aromatic Uganda Limited is to be the leading essential oil processor and exporter in African. Its mission is farmer participation, manage research in respect of production, processing, trading in essential oils, flavors, and continuous farmer trainings, product certifications. Aromatic Uganda Limited objectives are; to plant, cultivate, grow, buy, sell pack and export essential oils, to promote and provide services to farmer, producers, processors and traders’ essential oils and to work closely with the public and private sector organizations and individuals for growing and marketing of essential oils.

**Rabonge Essential Oil Project Limited**

It began as a corporative society in 1984, focusing on growing of essential crops like lemon grass, palmarosa grass citronella grass, until year 2010 they begun processing by themselves for export to South Africa by the Help of the African Development Fund (ADF) Support projects, then into forming a limited company in 2005.Rabonge Essential Oil Project Limited is located at Tawojwoki cell, Central ward, Nagongera Town Council, West Budama North, Tororo District.

Company Vision: To be the number one essential crop growers in East African. Company Mission: Collaborating and seeking knowledge through research in respect of essential crop farming and creating linkages with other grower in African. Company Objectives are to undertake research on essential oil production and marketing, to promote the growing of essential oil crops in the region and to set up refineries and related industries with a motive of commercialization of essential oil crops in the region.

#

# Arrangement of the Study

This study was arranged into nine chapters;

Chapter one presents introduction to the study. It contains the background of the study, statement of the problem, the purpose of the study, objectives of the study, research questions, scope of the study, the setting of the study, significance of the study, and the arrangement of the report. Chapter Two presents the literature related to taxation policies and performance of Small and Medium Enterprises. Chapter Three presents the study methodology used in the study.

Chapter four presents findings on biographic background of the respondents at in Aromatic Uganda Limited and Rabonge Essential Oil Project Limited. Chapter five presents findings on whether Aromatic Uganda Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective performance. Chapter six presents findings on whether taxation awareness and knowledge enhance performance of Aromatic Uganda Limited and Rabonge Essential Oil Project Limited. Chapter seven presents findings on whether tax administration criteria improve performance of Aromatic Uganda Limited and Rabonge Essential Oil Project Limited. Chapter eight presents the ways and means of harmonizing taxation policies and performance in SMEs. Chapter nine presents the summary of findings, conclusions and recommendations of the study.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter reviews what other scholars or researchers have written in relation to the topic under study. The chapter also identifies the gaps that have not been filled by other writers for purposes of addressing them during data collection. The section of this chapter also highlights the theories used to improve taxation policy and financial performance of SMEs.

# Literature Survey

A survey of literature on taxation policy and performance is carried out by different researchers in regard to different areas of research. However few researches have come out to go deep into taxation policies and performance in essential oil producers in Uganda.

Tomusange (2016) conducted a study on tax policy and the growth of SMEs in Uganda, Taking SMEs in Rubaga Division. He found out that the resources small scale businesses direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. It was discovered that there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. He concluded that reducing the compliance costs and tax rate increases the small enterprises profit margin. Tomusange in his study did not mention how taxation awareness and knowledge enhance performance in SMEs. Therefore, the current study seeks to fill the gap.

Kasato (2018) did a research on tax policy and the growth of SMEs in Mbarara Municipality. He found out that an overly complex tax system and tax regime in its administration and enforcement makes tax compliance unduly burden and often have a distortion effect on the development of SMEs as they face high tax burden and these results in a tax system that imposes high expenses on the society. Therefore a poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources. Kasato in his study did not reflect how tax administration criteria improve performance of SMEs. Therefore, the current study seeks to bridge the gap.

**Ali - Mustapha (2015) focused on the determinants of the behaviour of citizens in regard to compliance with tax in Uganda. The study findings indicated that factors such as high administrative costs and high taxation rates influenced the attitudinal behavior of taxpayers. The study established that certain factors, for instance, lack of awareness, complex tax policies, and double taxing, affect tax compliance.** Ali in his study did not reflect how tax compliance improves performance of SMEs. Therefore, the current study seeks to bridge the gap.

# Theoretical Review

The study was based on the theory of Ability-To-Pay Theory. The theory was advanced by Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean Baptiste Say (1767-1832), the English economist John Stuart and Mill (1806-1873). The theory states that the taxation should be levied according to an individual’s ability to pay; that is, public expenditure should come from business. Basically, this is indeed the basis of progressive tax-the tax rate increases by the increase of the taxable amount and is the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrenders money to the government which he would have used for personal use.

According to M. Slade Kendrick (1939), Ability to pay, the dominant theory of taxation, is usually interpreted in terms of sacrifice. It is held to justify progressive taxation under any one of three possible interpretations of sacrifice: the equal, equal-proportional, and least-sacrifice theories. These theories rest in turn on three assumptions: the declining marginal utility of money with an increase in its supply, the existence of sacrifice. Analysis discloses each of these supports to be defective and thereby breaks down the theory of ability to pay. Progressive taxation may, however, be justified on other grounds. These grounds should be founded on the broad realities of the economic system. Taxes have economic effects, and these effects entail social consequences. The choice of the taxes to be laid and rates at which they are to be applied expresses a preference for one set of economic effects, and hence of social consequences, to another. The theory of taxation, progressive or other, should correspond to these facts. The thin nebula of hedonism in reverse is no longer adequate.

This theory was indeed the most equitable tax system since people with greater income or wealth and can afford to pay more taxes should be taxed at a higher rate than people with less individual income tax and has been widely used in industrial economies. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. This theory suggests that the tax payers of TOT should pay unconditionally and according to their paying capacity (Chigbu, Eze and Ebimobowei, 2012).

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

The relevance of the theory to the current study was based on the fact it suggests that taxation policies on SMEs should be able to guarantee the SMEs’ performance and consequently, compliance. By evaluating the taxation effect on SMEs’ performance, the research proposed correct tax policies that could provide good environment for enterprises.

**Taxation Morale Theory**

The theory was initially put forth by German scholar Schmölders in 1976. The theory states that some organizations prefer compliance while a good number demonstrate noncompliance (Horodnic, 2018). Tax morale theory elaborates on the behavior of taxpayers on taxation. Researchers point to the fact that tax morale can influence the commitment to pay taxes as indicated by Doerrenberg and Peichl (2013).

The theory argues that SMEs entrepreneurs can evade tax as long as other business members do the same and vice versa. It assumes that organizations or business can be motivated into paying taxes based on the taxation policies available that are friendly to them. Again the theory assumes that SMEs’ owners will abide by taxation measures if and when they feel that the authorities enact policies that spur business growth (Collier,2010).

However, several critics have argued that human beings are sometimes irrational when it comes to compliance with taxation rules, hence the notion by tax morale theory that a motivated person can abide with tax requirement is wrong (Torgler and Schaltegger, 2005). According to Molero and Pujol (2012), even when businesses are motivated and their morale boosted regarding a friendly business environment, many taxpayers could still and are likely to fail to pay taxes just because they feel not obliged to do so despite the good financial income of their businesses. Some may still exercise ignorance of the need to be tax compliant; hence the theory is not realistic.

The relevance of the theory is based on the fact SMEs are businesses that should be part of taxpayers. However, the SMEs’ urge to pay tax is based on whether they feel motivated to pay or to evade. Therefore, to pay tax or to avoid taxation depends on the morale they possess in doing business. If the business environment is unfriendly, they lack morale in doing business and are then likely to avoid paying taxes and vice versa. Consequently, avoidance of tax payment means that their business operation will be restricted.

**Allingham and Sandmo (A-S) Theory**

The A-S theory was put forth by Allingham and Sandmo (1972). It argues that authorities deter evasion of tax by way of sanctions. Taxpayers could opt to avoid tax compliance in the assumption that they will be better off without paying, and this could be attributed to high and unfavorable taxation regime, as maintained by Gahramanov (2009). According to the theory, taxpayers would also evade tax when they perceive that the cost of compliance is high. The theory assumes that a tax regime that seems costly and expensive tends to promote evasion of tax among the payers (Dhami and Al-Nowaihi, 2007). As observed by Allingham and Sandmo, the higher the taxes, the high the possibility that many potential taxpayers will evade; the oppositeis true (Sandmo, 2005).

In support of the A-S theory, Yitzhaki (2013) argued that a higher business income should lead to a higher taxation threshold; consequently, the taxation produced from such entities should be able to help in the funding of government expenses.

The A-S theory’s relevance to this study is that owing to the hardships they face in terms of taxation regulations, stringent deadlines, and proper bookkeeping requirements, SMEs are vulnerable to evasion of taxes. This indicates that taxation may have an adverse effect on SMEs’ financial performance, especially when tax policies are unfavorable to the SMEs and this may result in the sanctioning of their (SMEs) businesses by the authorities, as a result affecting their (SMEs) businesses. Therefore, the link between the A-S theory with taxation is on deterring tax evasion through a financial audit and promotes the financial health of SMEs; consequently, good performance could be obtained.

**Modigliani and Miller (MandM) Capital Structure Relevance Theory**

This study was underpinned by Modigliani and Miller (MandM) capital structure relevance theory (1958). According to the theory, a firm’s financial performance is independent of the capital structure of the firm (Modigliani and Miller, 1963). The theory argues that despite changing the firm’s capital structure mix, the firm’s financial performance remains identical. Further, the theory posits that a firm’s performance grows with the firm’s capital structure, meaning that the greater the firm’s cash flows, investments, and profitability, the better the anticipated firm’s financial performance. The capital structures do not change the firm’s financial performance, but only change the mix of debt and equity in the firm financing to enhance the financial performance of the firm.

In summary, the MandM capital structure relevance theory contends that SMEs’ performance is attached to their cash flows and sales growth. This, therefore, implies that the firm’s financial performance grows in line with its sales growth, profitability, investment opportunities, and consequently, the presence of improved firm performance of SMEs. The relevance of the theory was based on its postulation that the performance of an organization can be measured through, for instance, profitability, investments, cashflows, and growth of sales. These are some of the sub-variables that were used in the current study to measure performance. The theory is mostly criticized for the simple reason that it ignores corporate and personal taxation and the personal aspect of financing through retained earnings.

# Literature Review

The issue of taxation policies and financial performance of Essential Oil Producers is not unique in Uganda. The studies carried out by a number of researchers have left some gaps that this study seeks to cover. This section reviews different literatures that have been applied to solve similar problems in different areas of the world.

# Concept of Taxation Policy

According to Mulooki and Mugisha (2012), a tax is an involuntary payment by person referred to as a tax payer therefore taxes are distinguished by their compulsory nature and by lack of relationships between the amounts paid and the values of the basic services received by the tax payers. Taxes are essential (World Bank, 2014). Taxation increases incentives for public participation in political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. Taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services (Moore, 2007).

Tax is a compulsory levy imposed on individual’s income and consumption of goods by relevant authority. The tax is the charge imposed by the government upon individuals and corporations to raise revenue. Taxation is being employed to achieve many objectives involves raising revenue required to meet the government expenditure, wealth distributions, economic price stability and economic development and financial performance. The effort has been made to examine taxation as a tool for revenue financial performance in the country for structural developments, but the issues relating to taxation as a tool for financial performance and enterprise sustainability have been not considered (Enahoro, 2012). In America states, taxation policy is supported with aim to encourage tax restructuring to raise revenue for public activities (Fashola, 2009).

According to Adams (2010) an American businessman, taxation is a burden in which citizens must bear to sustain their government since the government has certain activities for the benefits of those in it governs. Though taxation may not be most significant source of revenue to the government in terms of enterprise size, however, taxation is important raising government revenue from the point of view of business certainty but not consistency in performance. Despite the inherent power of government to impose taxes, identifying the means of taxations has been used to promote fiscal distributions of income, but not identify the problems that militate against the use of taxations as financial performance in small enterprises.

Taxation policy is the choice by government as to what taxes to levy in what amounts and on whom it has both micro economic aspects. The micro economic aspects concern the overall quantity of taxes to collect which can inversely affect the level of economic activity. This is one component of fiscal policy. The micro economic aspects concern issues of fairness who to tax allocative efficiency that is which taxes will have how much of a distorting effect, on the amounts of various f types of economic activity.

# Compliance with taxation policies enhance financial performance

Tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of country, for example by declaring income, filing a return, and paying the tax due in a timely manner (James and Alley, 2012).Overall, tax compliance involves being aware of and observing the state and international tax laws and requirements set forth by government officials and other taxing authorities.

Tax compliance is a complex term to be explicitly defined (Marti, 2010). Otherwise, it can be construed as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely.

Tax compliance tends to be a more significant aspect of tax policy. This is due to most of the old problems that still exist and new considerations that are developing such as self-assessment, the emergence of the global economy, and electronic commerce. Furthermore, people are reluctant to pay taxes because of intellectual and moral development of the community, taxation systems that are difficult for the public to understand, and control systems cannot be implemented properly.

Tax compliance is an obligation that is fulfilled by taxpayers based on the taxpayers' perception of the fairness of the tax burden they bear, and the effect of satisfaction on government services. Tax compliance can be defined as a condition where taxpayers fulfill all tax obligations. Taxpayers are said to be obedient if the taxpayer does not have arrears or delay in paying taxes (Nurmantu, 2010). Obedient means that the taxpayer has a willingness to fulfill his taxation obligations in accordance with applicable regulations without the need for inspection, careful investigation, warning or threat and the application of legal and administrative sanctions (Gunadi, 2013). There are two types of compliance, namely: 1) formal compliance i.e. a condition where taxpayers formally fulfill obligations in accordance with provisions in tax laws, 2) material compliance, namely a condition where taxpayers substantively or substantially fulfill all tax material provisions, namely according to the content and spirit of taxation laws and managerial compliance which also includes formal compliance (Rahayu, 2010).

Taxpayer compliance can be influenced by various factors including the existence of government policies and programs, awareness of taxpayers in paying taxes, knowledge and understanding of tax regulations, tax sanctions, and tax services (Listyowati, et al., 2018). Furthermore, taxpayer compliance can also be influenced by tax administration systems, information and accounting systems, tax law enforcement systems, tax audits, and tax rates, education levels, income levels, and perceptions of taxpayers towards tax sanctions. If all of these factors can be improved and applied in the taxation system, it is not impossible that tax compliance can be realized (Oladipupo & Obazee, 2016).

Chang and Jin, (2013) define tax compliance as the ratio of declared income to actual income. Andreoni, et al (2008) claimed that tax compliance should be defined as taxpayers' willingness to observe tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) tries to define tax compliance as the most Not Sure term to describe taxpayers' willingness to pay their taxes. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2013).

Alabede et al, (2011) have defined tax compliance as the full payment of all taxes due, this is evidenced by taxpayer willingness to meet the obligations and responsibilities imposed on them by the tax laws, rules and regulations without the revenue agency applying any enforcement activity (SEATINI Uganda; Tax Justice Network Africa, 2013). Several scholars such Alabede et al (2011) have described and measured tax compliance in terms of timeliness, reliability, returns filling and timely payment. Odongo (2014) found tax compliance levels among the SMEs in Uganda to be very low.

Tax compliance is fulfilling all tax obligations as specified by the law freely and completely. Tax compliance means submitting a tax return within the stipulated period, correctly stating income and deductions, paying assessed taxes by due date and paying levied taxes. Through the correct declaration and paying on time of an SME’s taxes, the company ensures budget transparency and prevents itself from being legally prosecuted. The complexity of tax laws, the high discretionary powers of tax officials, the low cost of punishment are only some factors creating Opportunities for corruption in revenue administration. An SME can resist bribery demands on tax officials only if it is in fact declaring correct revenues and paying taxes on those venues (Kaplan et al., 2006).

Tax compliance is a complex term to be explicitly defined (Marti, 2010). Otherwise, it can be construed “as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities” (James and Alley, 2012).

In complement, Oberholzer, (2008) also believes that tax compliance is still a challenge in developing countries due to the complex systems of taxation used yet there are only a few tax experts who can comprehend them. This has resulted in additional costs incurred by the tax payers including SMEs to hire tax professionals that can file tax returns on their behalf.

Bozdoğanoğlu, (2016) observed that on top of the direct costs incurred by tax payers especially the SMEs towards meeting their tax compliance costs, they face an extra tax burden associated to the diverse and complicated tax system. The scholar further maintains that tax compliance costs have continuously become a fixed cost element that has imposed a relatively higher burden on the small and medium enterprises compared to the large enterprises that accrue benefits from returns to scale due to prompt compliance. These high tax compliance costs inhibit the financial prosperity of both the proprietor and the employees in the SMEs.

It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally (Pope and Abdul-Jabbar, 2008). Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness.

In complement, Oberholzer, (2008) also believes that tax compliance is still a challenge in developing countries due to the complex systems of taxation used yet there are only a few tax experts who can comprehend them. This has resulted in additional costs incurred by the tax payers including SMEs to hire tax professionals that can file tax returns on their behalf. Bozdoğanoğlu, (2016) noted that a simplified system of taxation could support SME tax payers to meet their tax duties and thus reduce the burden of tax compliance among SMEs. He further emphasizes that such a system can only be achieved if tax administrators can ease compliance by providing tax education. A streamlined tax administration strategy is fundamental in addressing the tax compliance costs faced by SMEs (Bozdoğanoğlu, 2016).

Jousten, (2007) also concludes by emphasizing the importance of having fixed costs relating to tax compliance and administration where he recommends the mandate of having a simplified tax structure to accommodate all tax payers including the SME sector so as to lower the presence and magnitude associated to these fixed costs.

Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (Ahmed, and Braithwaite, 2005). Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may give rise to incorrect filling of their tax returns and loss of revenue to the government. Tax compliance among Small and Medium Enterprises has been identified as a critical issue in developing economies (Tusubira and Nkote, 2013).

The literature on tax compliance of SMEs although insightful, it lacks adequate experiences on the influence of tax compliance on SME performance.

#

# Taxation awareness and knowledge enhance financial performance

Tax awareness refers to a situation where the taxpayer knows what the tax is, where to pay, when to pay and how much to pay. The degree of information about the tax is an important factor on the behavior of the tax payers and how it influences tax evasion (Munoz, 2013). Less educated taxpayers are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion. Some tax payers find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional non- compliance if tax payers have problems maybe in failing of tax returns.

Awareness taxpayer in paying taxes on time will affect the high and low on tax compliance. Consciousness is the state knows, understands the circumstances and feels. Therefore, doing the tax awareness is to understand the attitude taxpayer or an individual taxpayer to understand the meaning, function and purpose of the payment of taxes. Knowledge of tax rules is important to cultivate a submissive behavior, however, because the taxpayer must comply if they do not know the tax laws, then how taxpayers can submit tax returns on time if they do not know when the time to maturity in the submission of tax returns.

Taxpayer awareness is the attitude of understanding corporate or individual taxpayers to understand the meaning, function and purpose of tax payments. Awareness of taxpayers is the most important factor in the modern taxation system (Harahap, 2014). Consciousness is an element in humans to understand reality and how they act or behave towards reality. Jatmiko (2016) explains that consciousness is a state of knowing or understanding. Awareness of paying taxes that encourage taxpayers to pay taxes, namely: (i) Awareness that tax is a form of participation in supporting the country's development. (ii). Awareness that delaying tax payments and reducing the tax burden is very detrimental to the country. (iii). Awareness that taxes are determined by law and can be forced. Low public tax awareness is often one of the causes of the large tax potential that cannot be captured.

Tax awareness is often an obstacle in the issue of collecting taxes from the public. It has also been empirically proven that the higher taxpayer tax awareness is, the higher the level of taxpayer compliance (Nurkhin, et al., 2018). Mangkoesoebroto (201) states that awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations, especially in the following matters: (1). Increasingly higher public knowledge is easy for the government to raise awareness of taxpayers especially regarding the relationship between costs and benefits of every government activity. (2). Level of education, this is needed in understanding taxes and filling out tax forms that sometimes feel complicated for the community. (3). The prevailing system is mainly a fair tax system and an easy and simple administration system. Awareness of the taxpayer is a good faith someone to fulfill the obligation to pay taxes based on a sincere conscience. Awareness of taxpayers can be seen from their sincerity to fulfill their tax obligations (Dharma & Suardana, 2014).

Awareness of taxpayers means that taxpayers are willing to carry out their tax obligations such as registering, calculating, paying and reporting the amount of tax payable. Nurkhin, et al (2018) states that taxpayer awareness has a real influence on taxpayer compliance and non-compliance. Taxpayers with high awareness tend to be more obedient in paying taxes compared to taxpayers with low awareness. Awareness of the taxpayer is a good faith someone to fulfill the obligation to pay taxes based on a sincere conscience. People who have tax awareness mean that taxpayers are obedient to pay taxes because they do not feel disadvantaged from the tax collection carried out and feel no coercion (Arum and Zulaikha, 2012).

Tax knowledge is information possessed by taxpayers regarding matters relating to taxation. Knowing how to recapitulate gross income each month, pay income tax, and report taxes are activities that can measure how much tax knowledge is possessed by taxpayers. If taxpayers do not have taxation information, it will affect taxpayer compliance (Mardiasmo, 2016).

Tax knowledge is an essential element in a voluntary compliance tax system (Kasippilai, 2010), particularly in determining an accurate tax liability (Palil, 2015; Saad et al., 2013). More recent studies undertaken in Malaysia (Loo, 2009) also suggested tax knowledge to be the most influential factor to determine taxpayers’ compliance behavior under the self-assessment system. On similar note, the absence of tax knowledge may lead to noncompliance behavior among taxpayers, either intentionally or unintentionally. This is postulated by McKerchar (2015) who studied small business taxpayers in Australia. She suggested that small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behavior. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, et al., 2009).

Tax Knowledge: Someone who has education will be aware and obedient to their rights and obligations, without having to be forced and threatened by some sanctions and penalties. Low tax knowledge can lead to mistrust and negative attitudes towards taxes, while good tax knowledge is correlated with a positive attitude towards taxes. Taxpayer knowledge can be measured through knowledge and understanding of the rights, obligations and responsibilities as a taxpayer. If taxpayers already know and understand their obligations as taxpayers, they will carry out these obligations to obtain rights and carry out responsibilities as taxpayers. Understanding tax regulations is the process by which taxpayers know taxation and apply that knowledge to tax payments. To improve taxpayer compliance, taxpayers must understand their rights and obligations as taxpayers (Suryadi, 2016).

Indicators of tax knowledge consist of knowledge of tax regulations, knowledge of calculating the amount of tax payable, and knowledge of filling out notification letters. There are 2 factors that influence tax knowledge, namely: 1) internal factors, including education, interests, experience, and age, 2) external factors such as economy, information, and culture/environment (Notoatmodjo, 2013. Knowledge of taxpayers about tax payments and methods will greatly help make it easier to meet their tax obligations. High or low knowledge of taxpayers can be measured by understanding the procedure or how to fill out notification letters, understanding the reporting deadline, and understanding tax and administrative sanctions (Taslim, 2007).

One of the factors that influence taxpayer compliance is knowledge of taxation information obtained by taxpayers. Knowledge of taxation is the ability of a taxpayer to know tax regulations both about the tax rate based on the law to be paid, as well as tax benefits that will be useful for their lives. Taxpayers who do not have the perception of taxation tend to have disobedient attitudes and vice versa if they understand about taxation, they will be compliant and will be more maximized in settling their tax obligations (Famami & Norsain, 2019).

Taxpayers will try to fulfill their obligations to avoid sanctions in force in tax regulations (Rahayu, 2017). The aspect of tax knowledge for taxpayers greatly influences the attitude of taxpayers towards fair taxation systems. The better quality of knowledge will provide an attitude of fulfilling obligations properly through the existence of a country's taxation system which is considered fair. With the increase in public taxation knowledge through taxation education both formal and non-formal it will have a positive impact on taxpayer compliance in paying taxes (Sari & Fidiana, 2017).

Santi (2012) avows that knowledge of taxation is the reasoning and meaning of arrest on tax laws. The people should have a knowledge and understanding of tax regulations, due to meet tax obligations, taxpayers need to know about taxes in advance. Without their knowledge and understanding of the tax rules, the public may not want to pay taxes. With their understanding of tax good, the public will better understand the importance of paying taxes, and what benefits can be felt directly and indirectly. With the knowledge and understanding of tax rules, the people will be open-minded, that taxes are purely used for the needs of the nation and its people. With this understanding of the tax, the level of corruption and fraud that may occur can be minimized. Simultaneously, the level of compliance of taxpayers to pay taxes will increase.

# Tax administration criteria and Financial Performance of SMEs

Tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. It may also refer to a structure or procedure of identification of potential taxpayer, collection and laws governing taxation. Bahl (2008) asserts that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

Tax Administration is simply the implementation and enforcement of tax laws which is achieved through, inter alia: proper registration of taxpayers, processing of tax returns, carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers, detection and prosecution of tax fraud; and imposing of penalties and interest payments (Matthijs and Victor, 2016, James and Moses, 2012). It is believed that tax administration is very important in tax compliance (Margaret and Chris, 2009) and the extent of success of the Tax. Administration in its role should be reflected through a higher level of tax compliance and a lower level of tax evasion (Gordana, 2015). In spite of the tax administration being so critical, Tax fairness has also been known to be very significant with tax compliance. It is taken as the balance in costs and benefits of the tax (Peter and Goslinga, 2009).

According to Juan and Juan (2012), tax Administration can be assessed by the quantitative technique based on numerical indicators to measure relative success of tax collection and its effectiveness, qualitative approach looking for the existence of certain characteristic of good governance in the tax system and the systematic approach designed to identify practices and trends that distinguish the world’s most advanced tax administrations based on their ability to ensure a high level of compliance at a low administrative cost (Juan and Juan, 2012).

While there is controversy regarding how taxes should be administered (Matthijs, 2016, Alan, 2007), it is agreed that tax administration is key component of any tax system with regard to tax compliance (Gordana , et al, 2015). It has been established that the nature of tax administration affects tax compliance (Okoye, Akenbor, and Obara, 2012).Thus, the fundamental role of the tax administration should be to render quality taxpayer services and to encourage voluntary compliance of tax laws, and also to detect and penalize non-compliance, the success of this role shall be reflected through a higher level of tax compliance.

Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. Good tax administration requires strong technical capacity by the administrative agency but also a well-designed tax (Margaret and Chris, 2009). The administrative agency should be able to identify and evaluate the effects of both current tax policies and tax policies under consideration, be able to simplify the current tax system if needed, within the economic and political spectrum, be aware of any law changes and emerging avoidance practices, and maintain a connection between the rule of law and tax administration.

According to Jaime et al, (2011), Tax administration processes are interdependent. Selective reform efforts in one area will show limited results in a tax administration with generally weak performance. An improvement in the audit selection process, for example will have limited impact on tax revenues, if the collection function f the tax administration is not performing; and the establishment of a Large Taxpayer Unit will not be effective, if due to a lack of training qualified tax inspectors are not available to staff the unit. A comprehensive reform approach therefore is compelling to improve the efficiency and effectiveness of highly ineffective tax administrations.

Chandler (2013) noted that the consequences of poor tax administration: collections, financial performance and corruption is complex leading to unintentional tax evasion and significant gap on tax gap. Further, tax reform reduces tax code complexity and increase the equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures and revenues. The tax authority provides greater assistance to tax payers creating favorable conditions for tax enforcement measures.

According to Alm (2016) the important trend in tax reforms has been a shift from an enforcement paradigm to a service paradigm. The paradigm emphasizes on criminal aspects of tax evasion represented in tax administration measures. There are increased enforcement measures and stiff penalties for tax evasion. Tax authorities focus on helping taxpayer accurately file taxes by providing information needed (Alm, 2016).

Tax administration in many developing countries appears to be that all taxpayers are potential criminals and that subjecting to them to taxation is fundamentally a matter of identifying and controlling and catching those cheating (Biber (2010). There are no modern tax systems can work on fear alone, problems of tax enforcement cannot be solved simply by calling in the tax police. There are many benefits from observing taxpayers more as clients than criminals. Taxpayers services emphasizes on reducing taxpayer’s uncertainty by describing some of the recent services and communicate clearly what the law is instead of changing it every year and taking compliance cost designing legal and administrative procedures. There is a problem in knowing how best to deal with taxation (Berhan, 2015).

The inherent power of the government to impose taxes is assured at all times of its tax revenue no matter the tax. The government is fully to modernize and automate all tax systems to improve tax payers’ convenience in tax assessment and payment process while at the same time entrenching effective and modern human resources management practices in tax authorities (Argeen 2014).

According to Abertbach and Christensen (2017) the effective amnesty is one that is given to launch a new era of tough tax enforcement. Facilitating compliance involves elements of improving services to taxpayers and third party agents by providing clear instructions, understandable forms and assistance in information needs. Monitoring compliance needs establishment of taxpayers’ current accounts and management of tax systems. This is covering ultimate taxpayers and their third party agents involved in tax system and appropriate procedures to detect non-filers and delayed payments. The improving compliance needs a judicious mix of measures and additional measures to determine non compliance like establishing a reasonable risk of detection and effective application of penalties (Berhan and Jenkins 2015).

#

# Financial Performance

Several scholars have explained financial performance variedly. According to Galy and Sauceda (2014), financial performance is the subjective measure of how well a firm can use its asset to generate revenue. Simply put, it is a measure of how a particular firm meets its obligations within a certain time frame. This study used measures of financial performance such as cashflow that possess certain elements, including the growth of sales, profitability, and investments. These are among some of the financial measures being used by SMEs.

Financial Performance according to Dyer and Reeves’ (2015) definition consists of outcomes (return on invested capital or return on asset and stock value or shareholder return). Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 2007).

Jackson (2009) defines financial performance measurement as a way of ensuring that resources available are used in the most efficient and effective way. The essence is to provide for the organization the maximum return on the capital employed in the business. Financial performance for Commercial banks is very important because managers need to know how well the financial institutions are performing. There are two major reasons as to why financial institutions should have financial performance measurement (Jenkins, 2007). The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance.

According to Haber and Reichel (2015), financial performance measurement generally looks at the firm’s financial ratios such as liquidity ratios, activity ratios, profitability ratios and debt ratios. Liquidity is a firm’s ability to pay its debts and meet its tax obligations when they are due and may also refer to the solvency of the firm’s total financial position. Activity ratios pertain to the measure of how fast various accounts can be converted into money or sales while debt ratios is the measure of the extent of debt in relation to a firms total assets. The various criteria for measuring profit relate the firm’s enterprises earnings to sales, assets, owner’s equity and share value (Haber and Reichel, 2015).

**Profitability**

In order for SMEs to survive, there is a need for good profit-making. However, SMEs’ growth could be hampered by the existing policies regarding taxation. SMEs that make small profits experience inadequate resources for any meaningful expansion. Conversely, the SMEs that make good profit may witness an improved financial performance. Today’s profitability among SMEs may be traded off against their tomorrow’s profitability (Margaretha and Supartika, 2016). Therefore, good mechanisms regarding taxation can be beneficial to SMEs growth. Thus, the capital employed by businesses should be productively utilized. Return on asset is one of the measures that can be used to assess the efficiency of SMEs in relation to whether they are making profits or not. Further, the rate of return on equity can provide useful information about the profit-making of SMEs.

**Sales Growth**

The study uses sales growth as a performance measure. Sales growth has been used as a financial measure before; hence, its usage in this study was justified (Watson and Robinson, 2013). Moreover, literature points out that the growth of sales is suitable as a measure of SMEs’ financial performance not only in Uganda but beyond. This is because sales growth can accurately indicate performance better than other measures of accounting. According to Sulaiman and Yusoff (2010), there should be a positive link among the growth of sales and financial performance of SMEs. Therefore, determining sales growth in as far as SMEs is concerned is significant because it indicates whether the SMEs are performing or not.

#

# Conceptual Framework

According to Creswell (2013), conceptual framework is a basic structure of a research consisting of a certain abstract ideas and concepts that a researcher wants to observe or analyze. This study seeks to examine the impact of taxation policies on the financial performance of Aromatic Uganda Limited and Rabonge Essential Oil Limited.

#  Independent Variable Dependent Variable

**Taxation Policies**

* Tax compliance
* Tax awareness and knowledge
* Tax Administration Criteria

**Financial Performance**

* Profitability
* Productivity
* Return on Investment
* Cashflow
* Sales growth

**Intervening Variables**

* Government tax policies and regulations.
* Organization policies
* Code of conduct

# Figure 2.1: Conceptual Framework

**Source: Mathieson and Roldos (2011) as modified by the Researcher, 2021.**

# CHAPTER THREE

# RESEARCH METHODOLOGY

# Introduction

This chapter presents a detailed description of the methodology to be used in collecting relevant data to the study. It contains the research design, study population, sample size, data collection methods, data collection instruments, data processing, data presentation, and data analysis techniques.

# Research Design

A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem research study (Creswell, 2013). The study used a cross-sectional and descriptive research design. This design was used to give a clear relationship between tax policy and financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. These designs are also good because it generates quick self-reports from the selected respondents under study. The qualitative and quantitative approaches were employed based on the Uganda Aromatics Limited and Rabonge Essential Oil Project Limited staff drawn from different departments. These research approaches intends to collect accurate data and facilitate in the analysis of the relationships between study variables, that is, taxation policy and financial performance.

# The Study Population

According to (Bell, J. 2009), a population study is a study of a group of individuals taken from the general population who share a common characteristic, such as age, sex, or health condition. The study population consisted of 112 respondents were drawn from the department of administration and management, supervisors, machine operators, finance and accounts, marketers and farmers (both direct and indirect) as shown in the table 3.1:

# Table 3.1: Target Population

|  |  |
| --- | --- |
| **Category** | **Target Population** |
| Administration and Management | 10 |
| Finance and Accounts | 10 |
| Marketers  | 35 |
| Supervision | 06 |
| Machine Operators | 06 |
| Farmers | 45 |
| **Total**  | **112** |

 Source: Primary Data, 2021

# Sample Size

A sample is a subset containing the characteristics of a larger population (Adèr, 2008). Samples are used in statistical testing when population sizes are too large for the test to include all possible members or observations. From the population of study, the sample size of 88 of the respondents were drawn from the administration and management, supervisors, machine operators, finance and accounts, marketers and direct and indirect farmers. The distribution of the respondents is as shown below:

# Sample Size Determination

The sample size of respondents is 88 as calculated using Neumann's formulae as follows.

 n = N

 1+ N (e)2

Where: n = sample size,

 N = target population

 e = level of significance = e = 0.05 = e2 = (0.05)2 =0.0025

 n = 112
 1 + 97(0.05)2

 n = 112

 1 + 112(0.0025)

 n = 112
 1 + 0.28

 n = 112
 1.28

 **n =** **88**

# Table 3.2: Sample Size

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Target Population** | **Sample Size** | **Sampling technique** |
| Administration and Mgt. | 10 | 08 | Purposive Sampling |
| Finance and Accounts | 10 | 08 | Purposive Sampling |
| Marketers  | 35 | 25 | Random Sampling |
| Supervision | 06 | 05 | Random Sampling |
| Machine Operators | 06 | 05 | Random Sampling |
| Farmers | 45 | 37 | Random Sampling |
| **Total**  | **112** | **88** |  |

**Source: Primary Data** **(2021)**

# Sampling Methods and Techniques

Sampling methods are classified as either probability or non-probability. In probability samples, each member of the population has a known non-zero probability of being selected. Probability methods include random sampling, systematic sampling, and stratified sampling (Creswell, 2013). In non-probability sampling, members are selected from the population in some nonrandom manner. Purposive and random sampling was used to select the sample. Purposive sampling involved selecting a certain number of respondents based on the nature of their work in relation to taxation policy and financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. Random sampling involved selecting respondents from the population listing by chance. In this way, every member has an equal chance of being selected.

# Data Collection Procedure

The researcher obtained an introduction letter from the School of Business Administration which the researcher presented to the administration and management of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited for permission.

# Data Collection Methods

In this study, two types of data were used; the primary data and the secondary data. The primary data was obtained from primary sources by use of interviews and self-administered questionnaires. Secondary data was obtained from secondary sources that involve the analysis of various internal and external documents in order to obtain the information and other sources that are necessary for the production of the final report. The data collection methods to be used are described below:

# Interview Method

Interview means face to face interaction between the interviewee and the interviewer (Amin, 2005). The interviews were held with those respondents identified purposely crucial to the provision of explanations to the topic under study. The questions for the interview were both open-ended and closed. The open-ended questions give chance to more discussions, while the closed questions were asked for particular responses. The interview method helps the researcher to collect additional views from respondents on the topic under study. The questions were filled on spot and the respondents were interviewed from their offices or departments to save time.

# Questionnaire Method

A survey is a list of questions aimed at exacting specific data from a particular group of people. This enabled the researcher to assess thoughts, opinions and feelings of respondents. The researcher used self-administered questionnaires that was given to 88 respondents and collected after a week. This was designed to gather information and explore the key variables were addressed to Administration and management, finance, sports department and sports students. Both open and closed ended questionnaires were used to let the respondents give their own opinion about the research problem.

# Document Review

This method was used in order to get data from taxation records of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. The secondary data was gathered from published books, research reports, journal and internet. These provides information was needed in the study and writing of the final report.

# Data Collection Instruments

The study used data collection instruments including self-administered questionnaire, interview guide and document review checklist.

# Self-Administered Questionnaires

A self-administered questionnaire (SAQ) refers to a questionnaire that has been designed specifically to be completed by a respondent without intervention of the researchers collecting the data. This study used structured questionnaires designed by the researcher in order to collect relevant data. Open-ended questionnaires were used in order to supplement each other. The close-ended questionnaires were used to get information that is definite, while the open-ended questions were used in getting detailed information on Taxation Policies and Financial Performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Interview Guide

The researcher carried out personal interviews to complement data collected using self administered questionnaires. The interview guides were used to ensure consistency and uniformity of the questions asked so as to ensure reliability of the findings of the study. The interviews lasted for about 15 minutes with each respondent in a bid to probe deeply the various developments with regard to taxation policies and financial performance as well as various procedures putted in place to ensure effective financial performance.

# Document Review Checklist

Document review checklist includes the use of secondary sources of data. Relevant documents from Uganda Aromatics Limited and Rabonge Essential Oil Project Limited were reviewed to elicit related data to the study in question. The documents include the tax reports and related books, dissertations, websites etc. The use of these documents enabled the researcher to make an informed comparison between interpretation of events and those recorded in the documents. Relevant data from reviewed documents were photocopied for further use in the study.

# Validity and Reliability of Instruments

The following are the validity and reliability of instruments;

# Validity of Instruments

According to Aaron and Aaron (2009:561), “The validity of a measure refers to whether it actually measures what it claims to measure”. The questionnaire was tested so as to test levels of adaptability on all respondents who are included in the study. Guidance was sought from the supervisor and other researchers so as to ensure validity of instruments.

The interview guide was constructed to obtain a systemic coverage of the topic, with a keen focus on the study objectives in order to ensure content validity. Saunders et al, (2009) reveal that validity is the degree of accuracy to which data collection method measures what it intended to measure or the extent to which research findings are about what they claim to be about. To increase validity, the interview questions were framed in a very clear and concise manner to make sure each question measures each variable at a time.

# The researcher involved colleagues in the field to search for the items that were measured. However, the researcher used a group of people to test those that have the exact opposite traits or behaviors are interested in measuring the validity. The formula for Lawshe was used to measure the validity of research instruments, and is summarized in the formula below:

CVR = (n- N/2)/ (N/2)

CVR= content validity ratio or Index,

n= number of respondents indicating "essential",

N= total number of respondents.

# Reliability of Instrument

Reliability of an instrument refers to the ability of an instrument to give uniform responses/answers each time it is used on the same phenomenon. Inter-rater reliability was employed. Here assistants did interviewing or content analysis for the researcher. To calculate this kind of reliability, the researcher reported the percentage of agreement on the same subject between raters and that of the assistants. However, half of the test, instrument, or survey was used to analyze the half as if it is the whole. Then comparison of these results was taken with the overall analysis.

Reliability aims to demonstrate that the data gathered if repeated gave the same results. The goal when discussing reliability is to minimize the errors and biases in the case study. The researcher endeavors to avoid subjectivity in the research by maintaining a high level of consistency during the interview. This is to be ensured by the establishment of the interview guide was found in Appendix II. The interview questions were reframed and some will be added because of the lessons from the pilot study. Saunders et al, (2009) notes that, bias is an important threat to reliability. Therefore to increase objectivity both to the researcher and interviewees, the anonymity of the respondents were guaranteed.

# Data Processing

Data processing involves scrutiny of the responses given on the questionnaires by different respondents. Data was sorted, edited, and interpreted. The coding and tabulation of the data obtained from the study followed. Quantitative data was summarized and presented using descriptive statistics like tables. These aimed at enabling quick reading and understanding of the data. The frequency tables with percentages were aimed at giving a visual impression to the readers.

# Data Analysis

Data was analyzed using various statistical techniques. Analysis was carried out using the Statistical Package for Social Scientists (SPSS) in order to test the relationship between the independent variable and the dependent variable, that is, tax policies and financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Ethical Considerations

The researcher ensured that access to data is only through the permission of the concerned authorities. The collected data was protected from unofficial access and only refined data for research purpose was presented.

# Limitations of the Study

The researcher encountered low response rates since such data about essential oil produces needs secrecy. This was solved by using different instruments in the study that generated more information on the study.

The researcher encountered the problem of lack of cooperation by some respondents, as well as the bureaucratic procedures in the company. The researcher overcame this problem by being humble or and straight forward.

# CHAPTER FOUR

# DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

# Introduction

This chapter presents analysis and interpretation on the key findings on the demographic characteristics of respondents. Bio-data information of respondents is extremely momentous since respondents play an important role through articulating and bestowing the responses about the problem. Keeping this in mind, in this study a set of personal characteristic questions about age, gender, education level, duration at work, category of deployment of the respondents in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited engrossed in this study and others were presented in this section;

# Gender of the respondents

Table 4.1 indicates that 62(70.5%) of the respondents were male and 26(29.5%) were female. This means that the study succeeded in avoiding gender bias in the data collection process. This is an important consideration given that both sexes were involved in the carrying out research on the topic under study.

# Table 4.1: Gender of the respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |   | Frequency |  Percent | Cumulative Percent |
|  | Valid | Male  | 62 | 70.5 | 70.5 |
|  |   | Female  | 26 | 29.5 | 100.0 |
|  |   | Total | 88 | 100.0 |  |

**Source: Field Data (2021)**

# Age group of the Respondents

Table 4.2 shows that 22(25%) respondents are 21-25 years, 22(25%) are 26-30, 28(31.8%) are 31-35 years, 10(11.4%) are 36-40 years and 6(6.8%) were above 41 years. This implies the respondents were grown-ups and able to give reliable information on the effect of taxation policies on financial performance of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited.

# Table 4.2: Age group of respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid |  | 21 - 25 years | 22 | 25.0 | 25.0 |
|   |  | 26 - 30 years | 22 | 25.0 | 50.0 |
|   |  | 31 - 35 years | 28 | 31.8 | 81.8 |
|   |  | 36 - 40 years | 10 | 11.4 | 93.2 |
|   |  | Above 41 years | 6 | 6.8 | 100.0 |
|   |  | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

# Highest Level of Education of Respondents

In table 4.3, results reveal that, 26(29.5%) acquired certificates, 26(29.5%) had acquired diploma, 28(31.8%) had acquired bachelors degree and 8(9.1%) had masters. This means that the respondents were able to read and understand the questions in the questionnaire and give appropriate answers on the study.

# Table 4.3: Highest Level of Education of Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency | Percent | Cumulative Percent |
|  | Valid | Certificate | 26 | 29.5 | 29.5 |
|   |  | Diploma | 26 | 29.5 | 59.1 |
|   |  | Degree | 28 | 31.8 | 90.9 |
|   |  | Masters | 8 | 9.1 | 100.0 |
|   |  | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

#

# Position held by the respondents

Result of finding in table 4.4 shows the position held by the respondents at Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, it indicates that 8(9.1%) were administrative and managerial staff, 8(9.1%) were from finance and accounts, 25(28.4%) were from marketing department, 5(5.7%) were supervisors, 5(5.7%) were machine operators and 37(42%) were indirect and direct farmers. The respondents were able to present suitable information on topic under study.

# Table 4.4: Department of Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Administration and Mgt. | 8 | 9.1 | 9.1 |
|   | Finance and Accounts | 8 | 9.1 | 18.2 |
|  | Marketers | 25 | 28.4 | 46.6 |
|   | Supervision | 5 | 5.7 | 52.3 |
|   | Machine Operators | 5 | 5.7 | 58.0 |
|   | Farmers | 37 | 42.0 | 100.0 |
|   | Total | 88 | 100.0 |  |

**Source: Field Data (2021)**

# Duration in Service

A question was asked to find out the number of years respondents have spent while working with these organizations. Their responses are as shown in table 4.5; 16(18.2%) of the respondents have spent less than 1 year, 18(20.5%) have spent 1-3 years, 28(31.8%) have spent 4-7 years, 16(18.2%) have spent 8-10 years and 10(11.4%) have spent over 10 years working with Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. This reveals that most of the respondents had experience in SME operations therefore their information was reliable to the study.

# Table 4.5: Duration in Service

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent |  Cumulative Percent |
| Valid | Less than 1 Year | 16 | 18.2 | 18.2 |
|   | 1 - 3 years | 18 | 20.5 | 38.7 |
|  | 4 -7 years | 28 | 31.8 | 70.5 |
|   | 8 -10 years  | 16 | 18.2 | 88.6 |
|  | Over 10 years | 10 | 11.4 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

# CHAPTER FIVE

# UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED COMPLY WITH ALL TAXATION POLICIES TO ENSURE EFFECTIVE FINANCIAL PERFORMANCE

# Introduction

This chapter presents the findings on whether Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance. The study findings in respect of objective one of the study are presented, analyzed and interpreted using descriptive statistics such as frequency tables.

# Enterprise complies with the implemented national taxation policies and procedures

On the question whether the enterprise complies with the implemented national taxation policies and procedures to ensure effective financial performance, their responses were 12(13.6%) strongly disagreed, 12(13.6%) disagreed, 48(54.6%) agreed and 16(18.2%) strongly agreed as shown in the table 5.1.

# Table 5.1: Enterprise complies with the implemented national taxation policies

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 12 | 13.6 | 27.2 |
|   | Agree | 48 | 54.6 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Table 5.1 indicates that 72.8% of the respondents were in agreement that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited complies with the implemented national taxation policies and procedures to ensure effective financial performance. This means that these enterprises are aware of and observing the national tax laws and requirements set forth by government and other taxing authorities. On the other hand, 27.2% of the respondents were in disagreement. This means that sometime these enterprises fail to comply with rigid implemented tax laws.

# The enterprise receives government trainings on tax compliance

When respondents were asked whether the enterprise receives government trainings on tax compliance, their responses were 14(15.9%) strongly disagreed, 14(15.9%) disagreed, 52(59.1%) agreed and 8(9.1%) strongly agreed as indicated in the table 5.2.

# Table 5.2: The enterprise receives government trainings on tax compliance.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 14 | 15.9 | 31.8 |
|   | Agree | 52 | 59.1 | 90.9 |
|   | Strongly Agree | 8 | 9.1 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 5.2 show that 68.2% of the respondents were in agreement that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited receives government trainings on tax compliance. This means that training workshops are always aimed at providing SMEs with key information about the compliance and planning risks inherent in tax transactions and the operation of any businesses in Uganda. This has enabled SMEs owners to gain knowledge of the major areas of tax risk. Though, 28(31.8%) of the respondents were in disagreement. this means that sometime these enterprises are not trained on fulfilling tax compliance. They further elaborated that SME owner should also be encouraged to share their experiences in developing strategies to improve their tax systems; this will help them to improve their financial performance.

# Enterprise owners clearly and easily understand the tax laws and regulations

The study asked whether enterprise owners clearly and easily understand the tax laws and regulations governing SMEs in Uganda. Their responses were 18(20.5%) strongly disagreed, 12(13.6%) disagreed, 10(11.4%) were not sure, 32(36.3%) agreed and 16(18.2%) strongly agreed as portrayed in the table 5.3.

# Table 5.3: Owners clearly and easily understand the tax laws and regulations

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.5 | 20.5 |
|   | Disagree | 12 | 13.6 | 34.1 |
|  | Not Sure | 10 | 11.4 | 45.5 |
|   | Agree | 32 | 36.3 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Research findings in table 5.3 indicate that 54.5% of the respondents were in agreement that owners of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited clearly and easily understand the tax laws and regulations governing SMEs in Uganda. This means that owners of these enterprises know the tax rules and regulations that stipulate how, when, and how much must be paid in taxes to local and state authorities. Though, 11.4% were not sure and 34.1% of the respondents were in disagreement. This means that some owners of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited up to now are still struggling to know the benefits of some taxes imposed on them, this has affected the fiscal performance of these enterprises. Therefore, tax authorities should sensitize SME stakeholders on the benefits of each and every taxed inflicted on them.

# Tax payer file tax returns declare all taxable income accurately

A tax return is a form or forms filed with a tax authority that reports income, expenses, and other pertinent tax information.  Respondents were asked whether tax payer file tax returns declare all taxable income accurately and disbursing all payable taxes within the stipulated period. Their responses were 16(18.2%) strongly disagreed, 10(11.4%) disagreed, 8(9.1%) were not sure, 30(34.1%) agreed and 24(27.2%) strongly agreed as exposed in the table 5.4.

# Table 5.4: Tax payer file tax returns declare all taxable income accurately

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.2 | 18.2 |
|   | Disagree | 10 | 11.4 | 29.6 |
|   | Not Sure | 8 | 9.1 | 38.7 |
|   | Agree | 30 | 34.1 | 72.8 |
|   | Strongly Agree | 24 | 27.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 5.4 presents that the majority 61.3% of the respondents were in agreement that tax payer file tax returns declare all taxable income accurately and disbursing all payable taxes within the stipulated period. This reveals that tax returns allow Uganda Aromatics Limited and Rabonge Essential Oil Project Limited to calculate their tax liability, schedule tax payments, or request refunds for the overpayment of taxes from the tax authorities. This has enabled them to enhance their financial performance. However, 9.1% were not sure and 29.6% of the respondents were in disagreement. This means that sometime owners of these SMEs do not file all their tax returns, with a mission of evading some taxes.

# Tax registration procedure obligations are easy for the enterprise

On the question whether tax registration procedure obligations are easy for the enterprise, their responses were 16(18.2%) strongly disagreed, 8(9.1%) disagreed, 10(11.4%) were not sure, 18(20.4%) strongly agreed and 36(40.9%) strongly agreed as indicated in the table 5.5.

# Table 5.5: Tax registration procedure obligations are easy for the enterprise.

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.2 | 18.2 |
|   | Disagree | 8 | 9.1 | 27.3 |
|   | Not Sure | 10 | 11.4 | 38.7 |
|  | Strongly Agree | 18 | 20.4 | 59.1 |
|   | Agree | 36 | 40.9 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 5.5 indicate that 61.3% of the respondents were in agreement that tax registration procedure obligations are easy for Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. This indicates that registration involves assigning a TIN to the enterprise, and issue a Taxpayer Registration Certificate. They further revealed that TIN is a company unique tax identifier. Once issued, it is used to identify all SME tax transactions and dealings with the authorities for tax related purposes. It is also used for all communications between enterprise and the tax authorities. Though, 11.4% of the respondents were not sure and 27.3% were in disagreement. This implies that sometime the tax authorities are lethargic in the process of tax registration which affects the performance of these enterprises.

# Taxpayer compliance is influenced by tax rates and perceptions of taxpayers

Tax compliance is the degree to which a taxpayer complies or fails to comply with the tax rules of the country. Respondents were asked whether taxpayer compliance is influenced by tax rates, income levels, and perceptions of taxpayers towards tax sanctions. Their responses were 12(13.6%) strongly disagreed, 8(9.1%) disagreed, 32(36.4%) and 36(40.9%) strongly agreed as shown in the table 5.6.

# Table 5.6: Taxpayer compliance is influenced by tax rates

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 8 | 9.1 | 22.7 |
|   | Agree | 32 | 36.4 | 59.1 |
|   | Strongly Agree | 36 | 40.9 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

In table 5.6, the majority 77.3% of the respondents were in agreement that taxpayer compliance is influenced by tax rates, income levels, and perceptions of taxpayers towards tax sanctions. This means that taxpayers acted and made decision to pay or report their taxes based on their levels of income, percentage at which SME is taxed among others. On the other hand, 22.7% of the respondents were in disagreement. It was also discovered that the taxpayers' perception towards the fairness of the tax has an impact on the tendency towards noncompliance. That means that sometime Uganda Aromatics Limited and Rabonge Essential Oil Project Limited feel the tax is unfairly imposed and tend to evade paying some taxes.

# Enterprise incurs tax compliance costs

Compliance costs are the costs which taxpayers incur in meeting obligations imposed under tax legislation. Respondents were asked whether the enterprise incurs tax compliance costs for example consultancy costs, labor costs, legal costs. Their responses were 14(15.9%) strongly disagreed, 16(18.2%) disagreed, 12(13.6%) were not sure, 30(34.1%) agreed and 16(18.2%) strongly agreed as shown in the table 5.7.

# Table 5.7: Enterprise incurs tax compliance costs

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 16 | 18.2 | 34.1 |
|  | Not Sure  | 12 | 13.6 | 47.7 |
|   | Agree | 30 | 34.1 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Result in table 5.7 present that 52.3% of the respondents were in agreement that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited incurs tax compliance costs for example consultancy costs, labor costs, legal costs. This means that these enterprises incur extra costs besides the actual tax liability, they further elaborated that these tax compliance cost sometime are larger than the actual taxes paid by these enterprises, which have affected their financial performance. Still, 13.6% were not sure and 34.1% of the respondents were in disagreement. Therefore, tax compliance costs should meet the requirements laid upon to SMEs in complying with a given structure and the level of tax to enable them ensures effective financial performance.

# Taxpayer compliance is influenced by tax administration systems

Tax compliance refers to taxpayers' decision to comply with tax laws and regulations by paying tax timely and accurately. The study asked whether taxpayer compliance is influenced by tax administration systems, tax law enforcement systems and tax audits. Their responses were 14(15.9%) strongly disagreed, 10(11.4%) disagreed, 8(9.1%) were not sure, 40(45.5%) agreed and 16(18.2%) strongly agreed as reflected in the table 5.8.

# Table 5.8: Taxpayer compliance is influenced by tax administration systems

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 10 | 11.4 | 27.3 |
|  | Not Sure  | 8 | 9.1 | 36.3 |
|   | Agree | 40 | 45.5 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Research findings in table 5.8 present that 63.7% of the respondents were in agreement that taxpayer compliance is influenced by tax administration systems, tax law enforcement systems and tax audits. This means that there is a process where tax authorities such as URA, local authorities conducts an official examination/review of SME’s accounts and financial information to ensure they are being reported accurately, correctly and in completeness according to the tax laws. Though, 9.1% were not sure and 27.3% of the respondents were in disagreement. Therefore, tax administrations need to ensure that taxpayers comply with the rules and adequate resources (well trained staff, budget), this will help them to ensure effective financial performance.

#

# The enterprise fulfills its tax obligations to avoid sanctions.

Tax obligation means with respect to any period an amount equal to the total obligation of the company to withhold and deposit, state or local employment and income taxes. When respondents were asked whether the enterprise fulfills its tax obligations to avoid sanctions, their responses were 14(15.9%) strongly disagreed, 10(11.4%) disagreed, 16(18.2%) were not sure, 30(34.1%) agreed and 18(20.4%) strongly agreed as depicted in the table 5.9.

# Table 5.9: The enterprise fulfills its tax obligations to avoid sanctions.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 10 | 11.4 | 27.3 |
|  | Not Sure  | 16 | 18.2 | 45.5 |
|   | Agree | 30 | 34.1 | 79.5 |
|   | Strongly Agree | 18 | 20.4 | 100.0 |
|   | Total | 88 | 100.0 |   |

Source: Field Data (2021)

Findings in table 5.9 indicate that 54.5% of the respondents were in agreement that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited fulfills its tax obligations to avoid sanctions. This means that these enterprises pay all applicable taxes, interest, penalties and costs of collection. This has enabled them to enhance their financial performance On the other hand, 18.2% were not sure and 27.3% of the respondents were in disagreement. Therefore, these SMEs should consult tax advisors to determine the impact on income and plan accordingly for any additional tax withholding before financially committing to their programs.

# Difficult importation and exportation tax procedures

On the question whether difficult importation and exportation tax procedures have led to dismal financial performance, their responses were 16(18.2%) strongly disagreed, 10(11.4%) disagreed, 8(9.1%) were not sure, 30(34.1%) agreed and 24(27.3%) strongly agreed as presented in the table 5.10.

# Table 5.10: Difficult importation and exportation tax procedures

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.2 | 18.2 |
|   | Disagree | 10 | 11.4 | 29.6 |
|   | Not Sure | 8 | 9.1 | 38.6 |
|   | Agree | 30 | 34.1 | 72.7 |
|   | Strongly Agree | 24 | 27.3 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Table 5.10 indicate that the majority 61.4% of the respondents were in agreement that difficult importation and exportation tax procedures have led to dismal financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. They further revealed that imported goods are charged a value added tax (VAT) of 18% and a 15% withholding tax, which is not reclaimable; all these charges are affecting their financial performance. However, 9.1% were not sure and 29.6% of the respondents were in disagreement. Therefore, the first thing these SMEs should do is to ensure that all goods to be imported comply with the taxation procedures as implemented by the local and national tax authorities and also meet Ugandan standards as prescribed by Uganda National Bureau of Standards, this will enable them to ensure efficient financial performance.

# TESTING HYPOTHESIS ONE (1)

The hypothesis was tested in order to establish whether Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all taxation policies to ensure effective financial performance or not, Pearson Correlation, model summary and regression analysis were used.

# Correlations between tax compliance and financial performance

Results of the correlation analysis revealed that there is a significant and positive relationship between tax compliance and financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, (r=0.786, P<0.05). This implies that these enterprises comply with the implemented national taxation policies and procedures and enterprise owners clearly and easily understand the tax laws and regulations governing SMEs in Uganda, this has helped them to boost their financial performance.

# Table 5.11: Correlations between Tax Compliance and financial performance

|  | Tax Compliance  | Financial Performance |
| --- | --- | --- |
| Tax Compliance | Pearson Correlation |  1 |  .786\*\* |
| Sig. (2-tailed) |  |  .000 |
| N |  88 |  88 |
| Financial Performance | Pearson Correlation |  .786\*\* |  1 |
| Sig. (2-tailed) |  .000 |  |
| N |  88 |  88 |
| \*\*. **Correlation is significant at the 0.01 level (2-tailed).** |

# Model Summary

Tax compliance was used as the independent variable and dependent variable as financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. It was established that there is a significant relationship between the variables. The observed value of 0.618or 61.8% of R-square is significant and positive; this means that these enterprises complies with new and old tax laws governing SMEs in Uganda. This has helped them to enhance their financial performance.

# Table 5.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .786 | .618 | .617 | .1253 |

a. Predictors: (Constant), Tax Compliance

# Coefficientsa

Financial Performance was used as the dependent variable and Tax Compliance as independent variable. It was established that the independent variable (ß=0.786, t=127.280, P<0.000), this indicates that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited comply with all tax rules and regulations administering SMEs in the country , this has influenced improved financial performance in these enterprises.

# Table 5.13: Coefficientsa

| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) |  .106 |  .028 |  |  3.808 |  .000 |
| Tax Compliance |  .780 |  .008 |  .786 |  127.280 |  .000 |
| a. Dependent Variable: Financial Performance  |

# ANOVA

The analysis-of-variance (ANOVA) table 5.14 was used to test the equivalent positive hypothesis, the F= 162.185, p<0.000 there is a linear regression relationship between tax compliance and financial performance. The result indicates that taxation policies and procedures are complied with to enhance financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Table 5.14: ANOVAa

| Model | Sum of Squares | df | Mean Square | F | Sig. |
| --- | --- | --- | --- | --- | --- |
| 1 | Regression |  144.006 |  1 |  144.006 |  162.185 |  .000a |
| Residual |  .827 |  87 |  .009 |  |  |
| Total |  144.833 |  88 |  |  |  |
| a. Predictors: (Constant), Tax Compliance b. Dependent Variable: Financial Performance |

# CHAPTER SIX

# TAXATION AWARENESS AND KNOWLEDGE ENHANCE FINANCIAL PERFORMANCE OF UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED

# Introduction

This chapter presents the findings on taxation awareness and knowledge enhances financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. Survey results are discussed using descriptive statistical method including tables with frequencies and percentages. These results of findings on second objective of the study provide the basis for recommendations.

# Shareholders are aware of most tax laws and guidelines

The study asked whether shareholders are aware of most tax laws and guidelines about taxation of incomes for SMEs. Their responses were 14(16%) strongly disagreed, 20(22.7%) disagreed, 34(38.6%) agreed and 20(22.7%) strongly agreed as shown in the table 6.1.

# Table 6.1: Shareholders are aware of most tax laws and guidelines

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.0 | 16.0 |
|   | Disagree | 20 | 22.7 | 38.7 |
|   | Agree | 34 | 38.6 | 77.3 |
|   | Strongly Agree | 20 | 22.7 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 6.1 show that 61.3% of the respondents were in agreement that shareholders are aware of most tax laws and guidelines about taxation of incomes for SMEs. This means that taxpayers individually take responsible to calculate, pay and report their own tax. On the other hand, 38.7% of the respondents were in disagreement. Therefore, taxpayers are knowledgeable of how to calculate tax and how to pay their tax liability.

# Lack of understanding the rationale of taxes and knowledge of different taxes

On the question whether there is poor/lack of understanding the rationale of taxes and knowledge of different taxes imposed on the business entity, their responses were 14(15.9%) strongly disagreed, 10(11.4%) disagreed, 6(6.8%) were not sure, 36(40.9%) and 22(25%) strongly disagreed as shown in the table 6.2

# Table 6.2: Lack of understanding the rationale of taxes and knowledge of taxes

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 10 | 11.4 | 27.3 |
|   | Not Sure | 6 | 6.8 | 34.1 |
|   | Agree | 36 | 40.9 | 75.0 |
|   | Strongly Agree | 22 | 25.0 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 6.2 indicate that 65.9% of the respondents were in agreement that there is poor/lack of understanding the rationale of taxes and knowledge of different taxes imposed on Aromatics Uganda Limited and Rabonge Essential Oil Project Limited. This showed that the low levels of knowledge on taxation and understanding on the procedures of tax payment and reporting owned by the taxpayers resulted from the lack of information dissemination by tax authorities. Still, 6.8% were not sure and 27.3% of the respondents were in disagreement. Therefore taxpayers should always be knowledgeable of how to calculate tax and how to pay their tax liability to ensure effective financial performance.

# Awareness of taxpayers is often associated with willingness and compliance

Respondents were asked whether awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations. Their responses were 12(13.6%) strongly disagreed, 10(11.4%) disagreed, 8(9.1%) were not sure, 18(20.5%) agreed and 40(45.5%) strongly agreed as indicated in the table 6.3.

# Table 6.3: Awareness of taxpayers is often associated with willingness & compliance

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 10 | 11.4 | 25.0 |
|   | Not Sure | 8 | 9.1 | 34.1 |
|   | Agree | 18 | 20.5 | 54.5 |
|   | Strongly Agree | 40 | 45.5 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 6.3 indicate that the majority 66% of the respondents were in agreement that awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations. This means that tax awareness makes taxpayers (Uganda Aromatics Limited and Rabonge Essential Oil Project Limited) understand the rights, obligations and sanctions. However, 9.1% were not sure and 25% of the respondents were in disagreement. Therefore, these enterprises should be equipped with the tax education so that everyone has a sufficient knowledge on tax compliance.

# The enterprise is aware the consequences of failing to pay taxes on time

Respondents were asked whether the enterprise is aware of the consequences failing to pay taxes on time. Their responses were 14(16%) strongly disagreed, 10(11.3%) disagreed, 14(16%) were not sure, 24(27.2%) agreed and 26(29.5%) strongly agreed as shown in the table 6.4.

# Table 6.4: The enterprise is aware the consequences of failing to pay taxes on time

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.0 | 16.0 |
|   | Disagree | 10 | 11.3 | 27.3 |
|   | Not Sure | 14 | 16.0 | 43.3 |
|   | Agree | 24 | 27.2 | 70.5 |
|   | Strongly Agree | 26 | 29.5 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 6.4 indicate that 56.7% of the respondents were in agreement that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited are aware of the consequences of failing to pay taxes on time. This means that the owners of these enterprises are aware of consequences such as prosecution, interest pay, penalty pay, property loss, criminal charges, among others. They further elaborated that the lack of compliance with tax regulations forces tax authorities to apply costly and coercive tax enforcement methods. However, 16% were not sure and 27.3% of the respondents were in disagreement. Therefore, tax authorities should always sensitize tax payer upon the dangers of invading taxes.

# Taxpayer knowledge is measured through knowledge and understanding of rights

When respondents were asked whether taxpayer knowledge is measured through knowledge and understanding of the rights, obligations and responsibilities of the taxpayer, their responses were 10(11.4%) strongly disagreed, 12(13.6%) disagreed, 54(61.4%) agreed and 12(13.6%) strongly agreed as portrayed in the table 6.5.

# Table 6.5: Taxpayer knowledge is measured through understanding of rights

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.4 | 11.4 |
|   | Disagree | 12 | 13.6 | 25.0 |
|   | Agree | 54 | 61.4 | 86.4 |
|   | Strongly Agree | 12 | 13.6 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Focusing on findings in table 6.5, the majority 75% of the respondents were in agreement that taxpayer knowledge is measured through knowledge and understanding of the rights, obligations and responsibilities of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited. This means that these taxpayers fulfill all tax obligations and carry out their tax rights appropriately; this has enabled to ensure proper financial performance. Nonetheless, 25% of the respondents were in disagreement. This means that sometime these enterprises fail to comply with tax obligations and rights which have affected their financial performance. They further revealed low tax knowledge lead to mistrust and negative attitudes towards taxes, while good tax knowledge is correlated with a positive attitude towards taxes.

# Lack of awareness of taxation policies affects the free operation of the enterprise

Tax awareness is the attitude of understanding corporate or individual taxpayers to understand the meaning, function and purpose of tax payments. When respondents were asked whether lack of awareness of taxation policies and procedures affects the free operation of the enterprise and consequently financial performance, their responses were 10(11.4%) strongly disagreed, 14(15.9%) disagreed, 8(9.1%) were not sure, 30(34.1%) agreed and 26(29.5%) strongly agreed as depicted in the table 6.6.

# Table 6.6: Lack of awareness of taxation policies affects the free operation

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.4 | 11.4 |
|   | Disagree | 14 | 15.9 | 27.3 |
|  | Not Sure  | 8 | 9.1 | 36.4 |
|   | Agree | 30 | 34.1 | 70.5 |
|   | Strongly Agree | 26 | 29.5 | 100.0 |
|   | Total | 88 | 100.0 |   |

Source: Field Data (2021)

Research findings in table 6.6 present that 63.6% of the respondents were in agreement that lack of awareness of taxation policies and procedures affects the free operation of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited and consequently financial performance. They further elaborated that tax knowledge and awareness of tax regulation simultaneously contribute to taxpayer compliance. Though, 9.1% were not sure and 27.3% of the respondents were in disagreement. Therefore, taxpayer awareness should be measured by knowing tax functions, understanding taxpayers’ rights and obligations and be able to calculate taxes, being able to pay taxes, and being able to report taxes, thus improving financial performance.

# Enterprise involve in tax planning by implementing various strategies

Tax planning is a focal part of financial planning. On the question whether enterprise involve in tax planning by implementing various strategies in order to minimize tax paid for given period. Their responses were 18(20.5%) strongly disagreed, 14(15.9%) disagreed, 6(6.8%) were not sure and 44(50%) agreed and 6(6.8%) strongly agreed as presented in the table 6.7.

# Table 6.7: Enterprise involve in tax planning by implementing various strategies

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.5 | 20.5 |
|   | Disagree | 14 | 15.9 | 36.4 |
|   | Not Sure | 6 | 6.8 | 43.2 |
|   | Agree | 44 | 50.0 | 93.2 |
|   | Strongly Agree | 6 | 6.8 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 6.7 reflect that 56.8% of the respondents were in agreement that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited involve in tax planning by implementing various strategies in order to minimize tax paid for given period. **This implies that proper tax planning have enabled these enterprises to minimize litigation**, **reduce tax liabilities** and **leverage productivity.** However, 6.8% were not sure and 36.4% of the respondents were in disagreement. Therefore, tax planning should be a legitimate way of reducing tax liabilities in any given financial year. It helps SMEs utilize the tax exemptions, deductions, and benefits offered by the authorities in the best possible way to minimize liability; this will help these SMEs to ensure improved financial performance.

# Information about taxes is always readily available to the tax payer

The study asked whether information about taxes is always readily available to the tax payer, their responses were 18(20.4%) strongly disagreed, 14(16%) disagreed, 8(9.1%) were not sure, 18(20.4%) agreed and 30(34.1%) strongly agreed as revealed in the table 6.8.

# Table 6.8: Information about taxes is always readily available to the tax payer

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.4 | 20.4 |
|   | Disagree | 14 | 16.0 | 36.4 |
|   | Not Sure | 8 | 9.1 | 45.5 |
|   | Agree | 18 | 20.4 | 66.9 |
|   | Strongly Agree | 30 | 34.1 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

According to findings in table 6.8, the majority 54.5% of the respondents were in agreement that tax authorities make information about taxes always ready available to Aromatics Uganda Limited and Rabonge Essential Oil Project Limited and make sure that these enterprises ensure compliance with the existing tax laws. They also encourage these enterprises fulfill their obligations to avoid sanctions. Still, 9.1% were not sure and 36.4% of the respondents were in disagreement. This means that sometime these enterprises do not receive needed information on the imposed taxes. Therefore, the fundamental role of the tax administration is to render quality taxpayer services and information concerning different taxes and also encourage voluntary compliance of tax laws, and also detect and penalize non-compliance.

# Correctly calculate the tax amount payable basing on the available information

Respondents were asked whether the enterprise is able to correctly calculate the tax amount payable basing on the available information. Their responses were 18(20.5%) strongly disagreed, 10(11.4%) disagreed, 4(4.5%) were not sure, 18(20.5%) agreed and 38(43.1%) strongly agreed as indicated in the table 6.9.

# Table 6.9: Correctly calculate tax amount payable basing on available information

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.5 | 20.5 |
|   | Disagree | 10 | 11.4 | 31.9 |
|   | Not Sure | 4 | 4.5 | 36.4 |
|  | Agree | 18 | 20.5 | 56.9 |
|   | Strongly Agree | 38 | 43.1 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Results in table 6.9 indicate that 63.6% of the respondents were in agreement that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited are able to correctly calculate the tax amount payable basing on the available information. This reveals that these enterprises accurately calculate sales tax, income taxes and property taxes. They further revealed that taxes payable are paid within a normal operating cycle (typically less than 12 months). Though 4.5% were not sure and 31.9% of the respondents were in disagreement. This means that sometime these enterprises fail to calculate their taxes payable as required.

# TESTING HYPOTHESIS TWO (2)

The hypothesis was tested in order to establish whether taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited or not, Pearson Correlation, model summary and regression analysis were used.

# Correlations between taxation awareness and knowledge and financial performance

Correlation results revealed that there is a significant and positive relationship between taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, (r=.796, P<0.05). This implies that the shareholders of these enterprises are aware of most tax laws and guidelines about taxation for SMEs. There is proper understanding of the rationale of taxes and knowledge of different taxes imposed on them. Awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations; this has influenced effective financial performance.

# Table 6.10: Correlations taxation awareness, knowledge and financial performance

|  | Tax Awareness and Knowledge | Financial Performance |
| --- | --- | --- |
| Tax Awareness and Knowledge | Pearson Correlation |  1 |  .796\*\* |
| Sig. (2-tailed) |  |  .000 |
| N |  88 |  88 |
| Financial Performance | Pearson Correlation |  .796\*\* |  1 |
| Sig. (2-tailed) |  .000 |  |
| N |  88 |  88 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The model summary reflected in table 6.11 show *R* square = 0.634 or 63.4%. The observed value of 0.796 or 79.6% is significant and positive; this means that tax awareness and knowledge on taxation obligation has improved Uganda Aromatics Limited and Rabonge Essential Oil Project Limited’s financial performance. The Adjusted R2 (.633) is the percentage of the variability in the enterprises’ financial performance that explain the linear regression. The result shows that these enterprises involve in tax planning by implementing various strategies in order to minimize tax penalties. Results further revealed that the owners of these farms are aware of most tax laws and guidelines about taxation; this has helped to enhance their financial performance.

# Table 6.11: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .796 | .634 | .633 | . 1276 |

a. Predictors: (Constant), Tax Awareness and Knowledge

# Coefficients

In table 6.12, Financial Performance was used as the dependent variable and Tax Awareness and Knowledge as independent variable. It was established that Tax Awareness and Knowledge (ß=0.796, t=50.143, P<0.05), this indicates that the owners of these farms are aware of most tax laws and guidelines about taxation; this has helped to enhance their financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Table 6.12: Coefficientsa

| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) |  .360 |  .066 |  |  5.446 |  .000 |
| Tax Awareness and Knowledge |  .765 |  .019 |  . 796 |  50.143 |  .000 |
| a. Dependent Variable: Financial Performance  |

# Analysis of Variance (Anova)

The analysis-of-variance (ANOVA) table 6.13 was used to test the equivalent positive hypothesis, the F= 254.335, p<0.05 there is linear relationship between independent variable and the dependent variable. The result indicates that tax awareness and knowledge enhances financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

# Table 6.13: ANOVAb

| Model | Sum of Squares | df. | Mean Square | F | Sig. |
| --- | --- | --- | --- | --- | --- |
| 1 | Regression |  139.667 |  1 |  139.667 |  254.335 |  .000a |
| Residual |  5.166 |  87 |  .056 |  |  |
| Total |  144.833 |  88 |  |  |  |
| a. Predictors: (Constant), Tax Awareness and Knowledge b. Dependent Variable: Financial Performance |

# CHAPTER SEVEN

# TAX ADMINISTRATION CRITERIA IMPROVE FINANCIAL PERFORMANCE OF UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED.

# Introduction

This chapter presents the findings on tax administration criteria improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. Survey results are discussed using descriptive statistical method including tables with frequencies and percentages. These results of findings on third objective of the study provide the basis for recommendations.

# Process of identifying the tax payer, assessing the tax payable, collecting taxes

Respondents were asked whether there is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability. Their responses were 12(13.6%) strongly disagreed, 12(13.6%) disagreed, 54(61.4%) and 10(11.4%) strongly agreed as presented in table 7.1.

# Table 7.1: Process of identifying the tax payer, assessing the tax payable

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 12 | 13.6 | 27.2 |
|   | Agree | 54 | 61.4 | 88.6 |
|   | Strongly Agree | 10 | 11.4 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 7.1 indicate that 72.8% of the respondents were in agreement that there is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability. This means that there is proper tax administration of the SMEs However, 27.2% of the respondents were in disagreement. Therefore, administration of a tax system must cover an enormous and diverse number of rules to enable SMEs performs well.

# Tax administrators improve tax payers’ convenience in tax assessment

Tax assessment is the job of determining the value, and sometimes determining the use, of property, usually to calculate a property tax. On the question whether tax administrators improve tax payers’ convenience in tax assessment, their responses were 18(20.5%) strongly disagreed, 12(13.6%) disagreed, 6(6.8%) were not sure, 24(27.3.5%) agreed and 28(31.8%) strongly agreed as presented in the table 7.2.

# Table 7.2: Tax administrators improve tax payer’s convenience in tax assessment

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.5 | 20.5 |
|   | Disagree | 12 | 13.6 | 34.1 |
|   | Not Sure | 6 | 6.8 | 40.9 |
|   | Agree | 24 | 27.3 | 68.2 |
|   | Strongly Agree | 28 | 31.8 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 7.2 indicate that the majority 59.1% of the respondents were in agreement that tax administrators improve tax payers’ convenience in tax assessment. Under the tax-assessment system, SMEs are responsible for filing income tax and benefit returns by the deadline, paying the correct amount of tax, giving the tax authorities the necessary information to assess their returns and issue correct benefits. However, 6.8% were not sure and 34.1% of the respondents were in disagreement. This means that most businesses are forced to pay lump sum amount in a short period which interrupts their operations. Therefore, tax assessment should usually be conducted by a government assessor who uses the assessed value of these SMES to calculate the amount of tax due on it, this will help them to enhance their financial performance.

# Tax authority provides greater assistance by creating favorable conditions

The study asked whether tax authority provides greater assistance to tax payers by creating favorable conditions for tax compliance. Their responses were 14(15.9%) strongly disagreed, 16(18.2%) disagreed, 6(6.8%) were not sure, 42(47.7%) agreed and 10(11.4%) strongly agreed as summarised in the table 7.3.

# Table 7.3: Tax authority provides greater assistance by creating favorable conditions

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 16 | 18.2 | 34.1 |
|   | Not Sure | 6 | 6.8 | 40.9 |
|   | Agree | 42 | 47.7 | 88.6 |
|   | Strongly Agree | 10 | 11.4 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Results in table 7.3 reflect that the majority 59.1% of the respondents were in agreement that tax authority provides greater assistance to tax payers (Uganda Aromatics Limited and Rabonge Essential Oil Project Limited) by creating favorable conditions for tax compliance. They further discovered that tax authorities encourage compliance include a service oriented attitude that educates and assists taxpayers in meeting their obligations, effective audit programmes and consistent use of penalties as strong deterrents to non-compliance, and transparent administration of the tax laws that is viewed as honest and fair. Still, 6.8% of the respondents were not sure and 34.1% were in disagreement. Therefore, tax administrations should attempt to collect adequate revenue while keeping tax administration and compliance costs low and treating taxpayers fairly.

# Tax administrators sensitize SME owners on different taxes imposed on them

On the question whether tax administrators sensitize SME owners on different taxes imposed on them, their responses were 12(13.6%) strongly disagreed, 12(13.6%) disagreed, 8(9.1%) were not sure, 40(45.5%) agreed and 16(18.2%0 strongly agreed as reflected in the table 7.4.

# Table 7.4: Tax administrators sensitize SME owners on different taxes

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 12 | 13.6 | 27.2 |
|  | Not Sure | 8 | 9.1 | 36.3 |
|   | Agree | 40 | 45.5 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 7.4 indicate that 63.7% of the respondents were in agreement that tax administrators sensitize SME owners on different taxes imposed on them. This means that tax authorities like URA and others continuously sensitize Uganda Aromatics Limited and Rabonge Essential Oil Project Limited on various modes of taxes, such as income tax, VAT, Withholding tax, PAYE, among others and on how to pay them. They further revealed that tax authorities always encourage them to comply with all implemented tax rules and regulations as required to avoid tax penalties results from evading taxes. Though, 9.1% were not sure and 27.2% of the respondents were in disagreement. This indicates that sometime tax administrators delay to sensitize these enterprises on some new implemented taxes imposed on their businesses, this has affected their financial performances.

# Tax authority has ever given assistance as regards tax awareness

Tax awareness is the willingness to fulfill the obligation. Respondents were asked whether tax authority has ever given assistance as regards tax awareness, their responses were 14(15.9%) strongly disagreed, 10(11.4%) disagreed, 36(40.9%) agreed and 28(31.8%) strongly agreed as revealed in the table 7.5.

# Table 7.5: Tax authority has ever given assistance as regards tax awareness.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 10 | 11.4 | 27.3 |
|   | Agree | 36 | 40.9 | 68.2 |
|   | Strongly Agree | 28 | 31.8 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Research findings in table 7.5 present that the majority 72.7% of the respondents were in agreement that tax authority has ever given assistance as regards tax awareness to Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. This means that tax authorities have helped these enterprises to recognize, respect, and obey tax provisions and desire to fulfill all tax obligations. Though, 27.3% of the respondents were in disagreement. This indicates that sometime tax authorities do not provide assistance regarding tax awareness. Therefore, tax authorities should simplify the taxation process through improved tax education and improved tax awareness campaigns, this will help to change SMEs’ attitude (morals/ethics) towards the tax system, hence, comply with tax laws and regulations, hence improving their financial performance.

# Process of carrying out tax audits, tax debt collection, handling appeals

The study asked whether there is proper process of carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers. Their responses were 18(20.5%) strongly disagreed, 12(13.6%) disagreed, 16(18.2%), 22(25%) agreed and 20(22.7%) strongly agreed as indicated in the table 7.6.

# Table 7.6: Process of carrying out tax audits, tax debt collection, handling appeals

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.5 | 20.5 |
|   | Disagree | 12 | 13.6 | 34.1 |
|  | Not Sure  | 16 | 18.2 | 52.3 |
|   | Agree | 22 | 25.0 | 77.3 |
|   | Strongly Agree | 20 | 22.7 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 7.6 reveal that 47.7% of the respondents were in agreement that there is proper process of carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers. This implies that there is an effective process where tax authorities such as URA conducts an official examination/review these enterprises’ accounts and financial information to ensure they are being reported accurately, correctly and in completeness according to the tax laws. Nonetheless, 13.6% were not sure and 34.1% of the respondents were in disagreement. This indicates that sometime tax administrators fail to carryout proper tax audits, tax debt collection, handling complaints of taxpayers.

# Weaknesses in tax administration are mainly caused by lack of relevant information

The study asked whether the weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer. Their responses were 10(11.4%) strongly disagreed, 14(15.9%) disagreed, 10(11.4%) were not sure, 40(45.4%) agreed and 14(15.9%) strongly agreed as shown in the table 7.7.

# Table 7.7: Weaknesses in tax administration are caused by lack of information

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.4 | 11.4 |
|   | Disagree | 14 | 15.9 | 27.3 |
|  | Not Sure  | 10 | 11.4 | 38.7 |
|   | Agree | 40 | 45.4 | 84.1 |
|   | Strongly Agree | 14 | 15.9 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Table 7.7 presents that that 61.3% of the respondents were in agreement that the weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer. This indicates that these enterprises deliberately do not provide necessary information required by the tax authorities, this has resulted into regulating or imposing a lot of taxes to them, thus affecting their financial performance. Though 11.4% were not sure and 27.3% of the respondents were in disagreement. This means that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited provide accurate and correct information to the tax authorities, with a sense of preventing high imposition of taxes to them and other forms of tax evasion penalties.

# Tax authorities help taxpayers to file taxes by providing information needed

Respondents were asked whether tax authorities focus on helping taxpayers to file taxes by providing information needed, their responses were 20(22.7%) strongly disagreed, 12(13.6%) disagreed, 6(6.8%) were not sure, 22(25%) agreed and 28(31.8%) strongly agreed.

# Table 7.8: Authorities help taxpayers to file taxes by providing information needed

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 20 | 22.7 | 22.7 |
|   | Disagree | 12 | 13.6 | 36.3 |
|   | Not Sure | 6 | 6.8 | 43.1 |
|   | Agree | 22 | 25.0 | 68.2 |
|   | Strongly Agree | 28 | 31.8 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

According to findings in table 7.8, the majority 56.8% of the respondents were in agreement that tax authorities focus on helping taxpayers to file taxes by providing information needed. This indicates that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited reports accurately, correctly and in completeness all of tax obligations according to the tax laws to Uganda Revenue Authority and other tax authorities in a prescribed format within a specified period. However, 6.8% were not sure and 36.3% of the respondents were in disagreement. This means that these enterprises sometime fail to file tax returns as required by the tax authorities. Therefore, timely submission of tax returns enables enterprises to avoid penalties and other legal consequences; submission of accurate information improves risk rating levels with URA and other tax authorities, this will enable them to improve their financial performance.

#

# Tax administrators sensitize tax payers about the consequences of tax evasion

Tax evasion occurs when a person or company escapes paying taxes by concealing the true state of their affairs to tax authorities. The study asked whether tax administrators sensitize tax payers about the consequences of tax evasion. Their responses were 42(47.7%) strongly disagreed, 10(11.4%) disagreed, 6(6.8%) were not sure, 14(15.9%) agreed and 16(18.2%) strongly agreed as shown in the table 7.9.

# Table 7.9: Tax administrators sensitize tax payers about the effects of tax evasion

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 15.9 | 15.9 |
|   | Disagree | 10 | 11.4 | 27.3 |
|   | Not Sure | 6 | 6.8 | 34.1 |
|   | Agree | 42 | 47.7 | 81.8 |
|   | Strongly Agree | 16 | 18.2 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Research findings in table 7.9 indicate that 65.9% of the respondents were in agreement that tax administrators sensitize tax payers (Uganda Aromatics Limited and Rabonge Essential Oil Project Limited) about the consequences of tax evasion. This is a clear indication that these enterprises know the effects of evading taxes. Though, 6.8% were not sure and 27.3% of the respondents were in disagreement. Therefore, failure to comply with tax law can result in significant financial penalties and even prison time. This means these enterprises need to take responsibility and have procedures in place to protect them; this enables them to ensure effective financial performance.

# Generalization of tax administration based on financial performance is problematic

Respondents were asked whether the generalization of tax administration based on financial performance is problematic to taxpayers. Their responses were, 30(34.1%) strongly disagreed, 18(20.5%) disagreed, 8(9.1%) were not sure, 20(22.7%) agreed and 12(13.6%) strongly agreed as presented in the table 7.10.

# Table 7.10: Generalization of tax administration based on financial performance

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 30 | 34.1 | 34.1 |
|   | Disagree | 18 | 20.5 | 54.6 |
|  | Not Sure | 8 | 9.1 | 63.7 |
|   | Agree | 20 | 22.7 | 86.4 |
|   | Strongly Agree | 12 | 13.6 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Study findings in table 7.10 indicate that 54.1% of the respondents were in disagreement that the generalization of tax administration based on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. This means that tax authorities regulate taxes after thorough assessment of business performance in terms of finance and management, this criteria is used to be acquainted with how much the enterprise have to pay. However, 9.1% were not sure and 36.3% of the respondents were in agreement. This has hindered the operations of these enterprises, it was discovered that tax authorities impose various taxes basing on their income earned, production quantity, properties, among others, and this has heavily affected the performance of these selected enterprises.

# Financial Performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

This chapter presents the findings on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. Survey results are discussed using both descriptive methods such as statistical tables with frequencies and percentages.

# The profits of the enterprise are growing at a satisfactory rate.

On the question whether the profits of the enterprise are growing at a satisfactory rate, their responses were 16(18.2%) strongly disagreed, 6(13.6%) disagreed, 10(11.4%) were not sure, 26(40.9%) agreed and 14(16%) strongly agreed as reflected in the table 7.11.

# Table 7.11: The profits of the enterprise are growing at a satisfactory rate.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.2 | 18.2 |
|   | Disagree | 6 | 13.6 | 31.8 |
|   | Not Sure | 10 | 11.4 | 43.2 |
|   | Agree | 26 | 40.9 | 84.0 |
|   | Strongly Agree | 14 | 16.0 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Findings in table 7.11 reveal that 56.9% of the respondents were in agreement that the profits of the Uganda Aromatics Limited and Rabonge Essential Oil Project Limited are growing at a satisfactory rate. This means that there is improved process whereby these enterprises undergo to ensure the best output and price levels are achieved in order to maximise their returns. They further revealed that Influential factors such as sale price, production cost and output levels are adjusted by these enterprises as a way of realising its profit goals. Though, 11.4% were not sure and 31.8% of the respondents were in disagreement. This indicates that a lot of taxes imposed on them affect their profitability.

# Taxes have reduced the return on investments.

Return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments. When respondents were asked whether taxes have reduced the return on investments of Rabonge Essential Oil Project Limited and Aromatics Uganda Limited, their responses were 12(13.6%) strongly disagreed, 10(11.4%) disagreed, 8(9.1%) were not sure, 18(20.5%) agreed and 40(45.5%) strongly agreed as indicated in the table 7.12.

# Table 7.12: Taxes have reduced the return on investments.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 10 | 11.4 | 25.0 |
|   | Not Sure | 8 | 9.1 | 34.1 |
|   | Agree | 18 | 20.5 | 54.5 |
|   | Strongly Agree | 40 | 45.5 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

Result of findings in table 7.12 indicates that 66% of the respondents were in agreement that taxes have reduced the return on investments of Rabonge Essential Oil Project Limited and Aromatics Uganda Limited. This means that due to high taxes imposed on SMEs in the country, taxes reduce investable income of these enterprises. However, 9.1% were not sure and 25% of the respondents were in disagreement. This means that there are other factors affecting return on investments of these enterprises and these include; the quality of the products, time of production, time of delivery, among others.

# Taxes have inhibited the growth of the business entity.

The study asked whether taxes have inhibited the growth of the business entity. Their responses were 10(11.4%) strongly disagreed, 16(18.2%) disagreed, 14(15.9%) were not sure, 26(29.5%) agreed and 22(25%) strongly agreed as presented in the table 7.13.

# Table 7.13: Taxes have inhibited the growth of the business entity.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.4 | 11.4 |
|   | Disagree | 16 | 18.2 | 29.6 |
|   | Not Sure | 14 | 15.9 | 45.5 |
|   | Agree | 26 | 29.5 | 75.0 |
|   | Strongly Agree | 22 | 25.0 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data (2021)**

According to findings in table 7.13, the majority 54.5% of the respondents were in agreement that taxes have inhibited the growth of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited. This means that effective tax compliance of these enterprises have generated significant positive cash flows or earnings, this has enabled them to ensure efficient financial performance However, 15.9% were not sure and 29.6% of the respondents were in disagreement. This means that even though these enterprises have experienced stable growth in recent years, it was discovered that, these enterprises are still paying a lot of taxes; this has affected their financial and business performance. Therefore, the government of Uganda should reduce on taxed imposed on SMEs in the country, to enable them boost their financial performance.

# Sales revenue of the enterprise is growing at a satisfactory rate

Sales revenue is the money a company earns from selling its goods and services to customers. Respondents were asked whether sales revenue of the enterprise is growing at a satisfactory rate. Their responses were 12(13.6%) strongly disagreed, 14(15.9%) disagreed, 12(13.6%) were not sure, 22(25%) agreed and 28(31.8%) strongly agreed as shown in the table 7.14.

# Table 7.14: Sales revenue of the enterprise is growing at a satisfactory rate

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.6 | 13.6 |
|   | Disagree | 14 | 15.9 | 29.5 |
|   | Not Sure | 12 | 13.6 | 43.1 |
|   | Agree | 22 | 25.0 | 68.2 |
|   | Strongly Agree | 28 | 31.8 | 100.0 |
|   | Total | 88 | 100.0 |   |

**Source: Field Data, (2021)**

Findings in table 7.15 presents that 56.8% of the respondents were in agreement that sales revenue of the enterprise is growing at a satisfactory rate. This implies that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited earns highly from selling their goods and services to customers in Uganda and abroad, this has helped these organizations to boost financial performance. Though 13.6% of the respondents were not sure with the statement and 29.5% of the respondents were in disagreement. They further revealed that due to a lot of taxes paid; these enterprises sometime witness low sales of goods, this has affected their financial performance.

# TESTING HYPOTHESIS THREE (3)

The hypothesis was tested in order to establish whether tax administration criteria improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited or not, Pearson Correlation, model summary and regression analysis were used.

# Correlations between Tax Administration and Financial Performance

Results of the correlation analysis indicates that there is a significant and positive relationship between tax administration and financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, the result of correlations (r=0.788, P<0.000) indicates that there is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability. Tax authority provides greater assistance to tax payers by creating favorable conditions for tax compliance. This has influenced improved financial performance in both enterprises.

# Table 7.16: Correlations between Tax Administration and Financial Performance

|  |  |  |
| --- | --- | --- |
|  | Tax Administration | Financial Performance |
| Tax Administration | Pearson Correlation | 1 | .788\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 88 | 88 |
| Financial Performance | Pearson Correlation | .788\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 88 | 88 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The model summary shows the summary of the regression analysis as shown in the regression model. Below are the findings in the table 7.17:

# Table 7.17: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .788a | .621 | .620 | . 12580 |
| a. Predictors: (Constant), Tax Administration. |

In order to explain the percentage of variation in the dependent variable (financial performance) as explained by the independent variable. From the results of the analysis, the findings show that the independent variables (Tax Administration) contributed to 78.8% of the variation in financial performance as explained by adjusted R Square of 62% which shows that the model is a good prediction.

# Analysis of Variance (ANOVA)

The study conducted an Analysis of Variance, in order to test the impact of tax administration on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. The findings were as in the table 7.18:

# Table 7.18: ANOVAa

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 82.342 | 1 | 82.342 | 53.523 | .001a |
| Residual | 3.024 | 87 | .027 |  |  |
| Total | 85.366 | 88 |  |  |  |
| a. Predictors: (Constant), Tax Administration  |
| b. Dependent Variable: Financial Performance |

The results of the findings above revealed that the level of significance was .001(a) this implies that the regression model is significant in predicting the relationship between tax administration and financial performance in Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. By the help of an F-test table, the tabulated value for (F=53.523) meaning that the model was statistically significant.

# Coefficients

This table shows the level of significance on the variables, it also provides the standardized and unstandardized coefficients are shown in the table 7.19.

# Table 7.19: Coefficients

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
| --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | .112 | .026 |  | 4.244 | .000 |
| Tax Administration | .893 | .069 | .796 | 4.426 | .005 |
| a. Dependent Variable: Financial Performance |
|  |

From table 7.19, the researcher sought to establish the extent to which tax administration impact on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. From the above regression model holding all the other factors constant, financial performance is measured by the efficiency and effective tax administration. The results of the multiple regression model shows that there is a positive relationship between the variables. This implies that a single unit increase in any of the independent variables results into a corresponding increase in financial performance of both enterprises.

The regression analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the corresponding probability value obtained and α=0.05. If the probability value was less than α, then the predictor variable was significant but from the above analysis.

# MULTIPLE REGRESSION ANALYSIS

The hypothesis was tested to know whether there is a relationship between taxation policies and financial performance of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited. The hypothesis was tested with a multiple regression analysis;

The multiple regression model with all the three independents variables produced R²=0.787, F = 827.203, p<.0.005. As can be seen in table 7.20 below, tax compliance [β=.694, t-statistic=.4.060, p=0.088]; tax awareness and knowledge [β=.754, t-statistic =1.313, p=0.194] indicating that these SMEs are aware and have knowledge on tax obligations. Tax administration [β=1.146, t-statistic = 9.754, p=0.005] indicating that tax administrators sensitize these enterprises on different taxes imposed on them, this has enabled them to improve their financial performance.

# Table 7.20: Multiple Regression Model

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
| --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | .306 | .093 |  | 3.296 | .002 |
| Tax Compliance  | .485 | .191 | .694 | 4.060 | .088 |
| Tax Awareness and Knowledge | .534 | .193 | .754 | 1.313 | .194 |
| Tax Administration | 1.192 | .122 | 1.146 |  9.754 | .000 |
| R=.889a, R Square=.790, Adjusted R Square=. 787, F= 827.203 |
| a. Dependent Variable: Financial Performance |

# Correlations between taxation policies and financial performance

Results of the correlation analysis revealed that there is a significant and positive relationship between taxation policies and financial performance of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited. It was revealed that tax compliance (r=0.869, P<0.005), this revealed that these SMEs comply with taxes implemented by tax authorities in the country. It was also indicated that tax awareness and tax knowledge (r=0.872, P<0.005), this means that awareness of taxpayers (SMEs) is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations. Tax administration (r=0.888, P<0.005) indicates that there is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability.

# Table 7.21: Correlations between Taxation Policies and Financial Performance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Tax Compliance | Tax Awareness and Knowledge | Tax Administration | Financial Performance |
| Tax Compliance  | Pearson Correlation | 1 | .895\*\* | .886\*\* | .869\*\* |
| Sig. (2-tailed) |  | .000 | .000 | .000 |
| N | 88 | 88 | 88 | 88 |
| Tax Awareness and Knowledge  | Pearson Correlation | .895\*\* | 1 | .885\*\* | .872\*\* |
| Sig. (2-tailed) | .000 |  | .000 | .000 |
| N | 88 | 88 | 88 | 88 |
| Tax Administration  | Pearson Correlation | .886\*\* | .885\*\* | 1 | .888\*\* |
| Sig. (2-tailed) | .000 | .000 |  | .000 |
| N | 88 | 88 | 88 | 88 |
| Financial Performance | Pearson Correlation | .869\*\* | .872\*\* | .888\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 |  |
| N | 88 | 88 | 88 | 88 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

#

# CHAPTER EIGHT

# HARMONIZATION TOWARDS TAXATION POLICIES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA

# Introduction

This chapter presents the ways and means to improve taxation policies and financial performance of small and medium enterprises in Uganda.

# Taxation Policies

Tax refers to an obligatory tariff levied by a government institution or tax enforcing body on individual earnings, spending, or other assets whereby the person paying the tax does not receive any specific returns (Gitaru, 2017). In a different perspective, tax is considered as a monetary burden to the contributor, either as a person or an organization.

Taxation refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2010). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2012).

Atawodi and Ojeka (2012) explained that, tax policy to employ depends on the use of one or both two groups of instruments. The first, being the use of special tax preferences and the other incentives to support start-up and growth of small companies. These incentives comprise of the lowering of corporate income tax rates, special tax exemptions or tax holidays and relieves for small businesses. The underlying reason for all these is to effectively raise revenue through measures that suit a country’s circumstances and administrative capacity.

# Tax Compliance

From James and Alley’s (2004) perspective, the simplest form of tax compliance definition is frequently stated in relation to the degree to which individuals who pay tax comply with the tax code. Compliance deals with honoring of all tax obligations under the tax laws. Theoretically, this may be characterized by considering three distinctive types of compliance include compliance with payment policies, compliance with submission guidelines, and compliance with reporting guidelines (Brown & Mazur, 2013).

Tax compliance relates to individual and organizations paying their taxes willingly (Kirchler, 2007). In the Ghanaian perspective, tax compliance is a situation whereby individual and organizations who are supposed to pay tax willingly do so in accordance with the tax regulations, provide yearly true earnings, and pay the actual tax amount within the stipulated time frame (Internal Revenue Service, 2010). This includes registering the company for tax purposes or making available the required information to the tax authorities thereby declaring their tax paying status, accordingly filing tax returns (if necessary), and subsequently paying their taxes within the stipulated time limit (Ming, Normala & Meera, 2005).

On their part, Atwoki and Ojeba (2012) opined that most Ugandan SMEs prefer operating within non-formal segment due to the price of compliance which is considered high and many tax payers simply pay because they are under pressure from the tax administrators. According to Abrie and Doussy (2016), compliance with tax rules is also an obstacle and puts a high financial drain on SMEs.

Taxpayer compliance can be influenced by various factors including the existence of government policies and programs, awareness of taxpayers in paying taxes, knowledge and understanding of tax regulations, tax sanctions, and tax services (Listyowati, et al., 2018). Furthermore, taxpayer compliance can also be influenced by tax administration systems, information and accounting systems, tax law enforcement systems, tax audits, and tax rates, education levels, income levels, and perceptions of taxpayers towards tax sanctions.

Tax compliance tends to be a more significant aspect of tax policy. This is due to most of the old problems that still exist and new considerations that are developing such as self-assessment, the emergence of the global economy, and electronic commerce (Mardiasmo, 2016). Furthermore, people are reluctant to pay taxes because of intellectual and moral development of the community, taxation systems that are difficult for the public to understand, and control systems cannot be implemented properly.

Policy on small businesses is being reviewed to make it more appropriate. However, more still needs to be done in this area so that the right policies are formulated that can move the sector forward. Policies that are small business focused need to be formulated in all areas of business and the economy (Doussy (2016). There is need for deliberate policies aimed at small business promotion.

In simple terms, tax compliance means that all statutory tax obligations are fulfilled freely and completely. In order to adhere to tax laws, it is important to hold high the principle of honesty, have adequate knowledge and expertise necessary to utilize that knowledge, meet deadlines, making available authentic and satisfactory records needed for tax earnings and further necessary documentations (Singh & Bhupalan, 2011). Many tax administrators grabble with the issue of achieving tax compliance since it is difficult to convince taxpayers to become tax obedience (James & Alley, 2004). SMEs in Ghana are mainly in the non-formal sector of the economy, which makes it difficult to raise taxes. Therefore, most of these SMEs manage to avoid honoring their tax obligations. The few SMEs that comply with the tax regulations are also over burden with huge taxes, which adversely affects the company’s growth. Terkper (2007) believes a nation's major concern is to expand the tax network, as the situation gives cause for concern when few citizens are taxed.

**Levels of Tax Compliance among Taxpayers**

# Willingness to pay

Taxpayer’s willingness to pay depends on the expected benefit in terms of service provision (Kaweesa, 2004 and Ayoki et al 2005). This implies that for taxpayers to voluntarily pay the tax dues their expected benefit from the government must be in line with the actual tax liability. An inefficient tax administration weakens the willingness of the taxpayers to comply and creates room for political manipulation and in the process government loses revenue (Bird, 2012).

The willingness of the taxpayers to comply with the tax laws depends on the perception they have towards the funds collected from them and how it is put to use. Taxpayers become compliant with tax authorities when the government provides adequate returns to them from the taxes collected.

According to Torgler (2015) if taxpayers trust the government dealings, the legal system and public officials, they will be more willing to be honest in payment of taxes due. Wenzel (2014) argues that the willingness to pay taxes is borne by one’s behaviors and perception of the tax administrative system put in place. Therefore, taxpayers become compliant when the government provides adequate returns to them from taxes collected.

**Timely Payment**

Tax compliance also demands that taxpayers should be in position to settle their tax dues as and when they fall due (Kasimbazi, 2013). This may depend on the existing policies in place. The due settlement may be done on a daily, monthly, semi-annually or on an annual basis depending on the arrangement of taxpayer and the tax collector. According to Income Tax Act (ITA) 2011 of the amended sec 93 (5), states that a taxpayer is required to furnish a return of income for the year of income upon which tax liability assessment is made.

**Levels of Penalties and Disputes**

The taxpayer’s attitude towards tax payment is always negative (Taylor, 2011). Thus there is need to influence taxpayers into voluntary tax compliance. Penalty rate is the rate at which the tax administrators punish taxpayers who have defaulted in submitting returns and paying the taxes due, or involved in tax fraud. Taxpayer behavior is influenced by a high probability of fraud detection and punishment.

In Uganda, enforcement of tax compliance is done using several methods like tax education through public sensitization seminars, payment of fines, and in extreme non compliance armed personnel (Anti smuggling unit and special protection service), Ayoki (2015). However, this has not reduced non tax compliance among taxpayers.

Uganda Revenue Authority has a tax tribunal department in which all tax complaints are channeled. This department also handles issues pertaining to fines and tax arbitrations (Kaweesa, 2014).

# Tax Awareness and Knowledge

Based on Palil et al. (2013) argument, the concept of tax awareness refers to tax knowledge and tax education amongst taxpayers where tax knowledge improves individual’s awareness and level of ethics towards perfect tax compliance. Furthermore, tax education enables individuals to understand more about tax system. Hastuti (2014) defined tax awareness as “self-awareness of taxpayers individually to take responsible to calculate, pay and report their own tax”. Savitri (2015) stated that taxpayers’ awareness could be explained as a case when taxpayers are knowledgeable of how to calculate tax and how to pay their tax liability.

Taxpayer awareness is understandable if the taxation regulation has been known, acknowledged, respected and followed. If the tax regulation is still not comply, that shows taxpayer's awareness is still low. The low awareness of taxpayer is suspected to be caused by the minimum knowledge and understanding of tax regulations (Yayuk et al., 2017). Knowledge recognition and obedience to relevant tax law and regulation leads to tax awareness (Adhiambo & Theuri, 2019). Education and other mode of assistance to increase awareness may impact tax compliance or might not have any change. Tax awareness will arise through education and tax knowledge for mutual benefits of government and taxpayers in order to improve taxpayers view and implemented of tax law by authority.

Awareness taxpayer in paying taxes on time will affect the high and low on tax compliance. Consciousness is the state knows, understands the circumstances and feels. Therefore, doing the tax awareness is to understand the attitude taxpayer or an individual taxpayer to understand the meaning, function and purpose of the payment of taxes. Knowledge of tax rules is important to cultivate a submissive behavior, however, because the taxpayer must comply if they do not know the tax laws, then how taxpayers can submit tax returns on time if they do not know when the time to maturity in the submission of tax returns (Palil et al. (2013).

Setyonugroho and Sardjono (2012) summaries some indicators of awareness in paying taxes. There are three main indicators of awareness related to the payment of taxes, which are: (1) the awareness that taxes are main source in supporting the country's development. By knowing this, the taxpayers are willing to pay taxes because they will affected indirectly (2) The awareness that the delay in payment of taxes and the tax loss can cause unfavorable financial condition to the country. Taxpayers are willing to pay taxes because they understand that the delay in payment of taxes and the decline of the tax collection will impact on the reduced financial resources that could lead to the delays in development of the country. (3) The awareness that taxes are set by law and can be enforced by the authority. The awareness of enforcement will mobilize the taxpayers to meet their tax obligations by paying tax.

Savitri (2015) mentioned that a better knowing of taxation will drive to better tax compliance. Further, to maximize tax collection required raising tax awareness for taxpayers to pay their tax payable. The results suggest that tax awareness works to promote tax compliance. Sumartaya & Hafidiah (2014) tested the correlation between taxpayers' awareness and tax morale towards tax evasion. Results showed that tax awareness and tax morale have a significant influence on the level of tax noncompliance (e.g tax evasion). Kamil (2015) has provided evidence about awareness of taxpayers, knowledge, services of tax authorities and tax penalties on tax compliance.

Tax knowledge is information possessed by taxpayers regarding matters relating to taxation. Knowing how to recapitulate gross income each month, pay income tax, and report taxes are activities that can measure how much tax knowledge is possessed by taxpayers. If taxpayers do not have taxation information, it will affect taxpayer compliance (Mardiasmo, 2016).

Kamil (2015) reported that tax knowledge and awareness may impact taxpayer's willingness to be more compliant to pay their tax due. According to Mahmood (2012), tax knowledge could be one of influence factors that might affect the behavior of taxpayers towards tax compliance. Furthermore, instilling the concepts of tax knowledge to taxpayers can promote compliance operation.

Jatmiko (2016) argued that knowledge of taxation is the reasoning and meaning of arrest on tax laws. The people should have a knowledge and understanding of tax regulations, due to meet tax obligations, taxpayers need to know about taxes in advance. Without their knowledge and understanding of the tax rules, the public may not want to pay taxes. With their understanding of tax good, the public will better understand the importance of paying taxes, and what benefits can be felt directly and indirectly. With the knowledge and understanding of tax rules, the people will be open-minded, that taxes are purely used for the needs of the nation and its people. With this understanding of the tax, the level of corruption and fraud that may occur can be minimized. Simultaneously, the level of compliance of taxpayers to pay taxes will increase

# Tax Administration

The most common definition is that the tax administration is effective when it achieves a high level of voluntary tax compliance and efficient when the tax administration's costs are low in relation to the collected revenue (Tanzi and Pellechio, 2015).

According to Bird (2014), tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to Olman (2017), tax administration refers to a structure/procedure of identification of potential tax payer, collection and laws governing taxation.

RoyBahl (2012) says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

The fundamental role of the tax administration is to render quality taxpayer services and to encourage voluntary compliance of tax laws, and also to detect and penalise non-compliance (Olman (2017). The extent of success of the Tax Administration in its role should be reflected through a higher level of tax compliance and a lower level of tax evasion.

It is appreciated that an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations (Matthijs and Victor, 2016). While there is controversy regarding how taxes should be administered (Alan, 2007), it is widely appreciated that if the tax administration is seen as being honest, fair, informative, and helpful, and acts as a service institution, treating taxpayers as partners and not “inferiors in a hierarchical relationship”, taxpayers would have a stronger tendency to pay taxes honestly and hence a high level of compliance (Peter and Ofiafoh, 2013).

# Financial Performance

Kitinisa (2014) describes performance of small scale business as the ability to attain it’s goals by using resources in an efficient and effective manner, the goals of the organisation include; survival, profit making and expansion.

Pandey (2014) looks at financial analysis as a measure of the organisation/business performance. The assessment of financial performance of business entities has a well established methodology that includes computation and interpretation of univariate and multivariate models. Univariate predictions of performance are single ratios calculated for efficiency (Makerere Business Journal, 2016).

Financial performance is the major outcome of organizational effectiveness. Though such performance standards are considered vital, but not sufficient to determine the overall effectiveness. Accounting- based considers profitability in terms of Return on Sales (ROS), Return on Assets (ROA) and Return on Equity (ROE) to measure financial performance. Organizational effectiveness measures tend more towards stakeholders than shareholders. There are two perspectives with indicators in respect to quality such as product quality, worker satisfaction, overall quality and those indicators linked with social responsibility like environmental and community responsibility.

Performance is used to indicate firm's success, conditions, and compliance. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished (Harash, 2014). It is the process of measuring the results of a firm's policies and operations in monetary terms; which is then used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Measurement of financial performance include an analysis of the firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance.

Therefore, financial performance is the measurement of business entities activities, operations and policies in monetary term. It can also be explained as the modality of measuring how effective businesses use it resources from the beginning of the business in generating revenue (Harash, 2014). It also describes as the basis of comparison among firms in the same line of businesses or other businesses that are in different sector of the economy activities in aggregate.

# CHAPTER NINE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter presents the summary of findings, conclusions and recommendations that have been drawn from the discussion of findings presented in chapters four through to eight respectively.

# Summary of Findings

The study focused on the taxation policies and financial performance, focusing on Uganda Aromatics Limited and Rabonge Essential Oil Project Limited, A cross-sectional and descriptive research design were used and both qualitative and quantitative techniques were used. The findings from the study were as follows:

**Findings on Demographic Characteristics of the Respondents**

Findings on bio-data of the respondents 70.5% of the respondents were male, 31.8% were between 31-35 years, this means that respondents were grown-ups and able to give reliable information on the effect of taxation policies on financial performance of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited, 29.5% had acquired certificates, 29.5% had acquired diplomas. This means that the respondents were able to read and understand the questions in the questionnaire and give appropriate answers on the study; 9.1% were administrative and managerial staff, 9.1% were from finance and accounts, 28.4% were from marketing department, 5.7% were supervisors, 5.7% were machine operators and 42% were indirect and direct farmers. The respondents were able to present suitable information on topic under study and 31.8% have spent 4-7 years with these enterprises. This reveals that most of the respondents had experience in SME operations therefore their information was reliable to the study.

**Findings on whether Uganda Aromatics Limited and Rabonge Essential Oil Project Limited complies with all taxation policies to ensure effective financial performance.**

Study findings on first objective indicated that 72.8% of the respondents were in agreement that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited complies with the implemented national taxation policies and procedures to ensure effective financial performance; 68.2% had similar opinions that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited receives government trainings on tax compliance, 54.5% agreed that owners of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited clearly and easily understand the tax laws and regulations governing SMEs in Uganda; 61.3% agreed that tax payer file tax returns declare all taxable income accurately and disbursing all payable taxes within the stipulated period and 61.3% have similar opinions that tax registration procedure obligations are easy for Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

The study findings on the first objective further revealed that 77.3% generally agreed that taxpayer compliance is influenced by tax rates, income levels, and perceptions of taxpayers towards tax sanctions; 52.3% accepted that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited incurs tax compliance costs for example consultancy costs, labor costs, legal costs; 63.7% agreed that taxpayer compliance is influenced by tax administration systems, tax law enforcement systems and tax audits; 54.5% believed that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited fulfills its tax obligations to avoid sanctions and 61.4% also agreed that difficult importation and exportation tax procedures have led to dismal financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**Findings on whether taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.**

Findings on second objective presented that 61.3% agreed that shareholders are aware of most tax laws and guidelines about taxation of incomes for SMEs; 65.9% agreed that there is poor/lack of understanding the rationale of taxes and knowledge of different taxes imposed on Aromatics Uganda Limited and Rabonge Essential Oil Project Limited; 66% had similar opinions that awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations; 56.7% agreed that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited are aware of the consequences of failing to pay taxes on time and 75% generally believed that taxpayer knowledge is measured through knowledge and understanding of the rights, obligations and responsibilities of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited.

The study further found out that 63.6% generally agreed that lack of awareness of taxation policies and procedures affects the free operation of Aromatics Uganda Limited and Rabonge Essential Oil Project Limited and consequently financial performance; 56.8% agreed that Aromatics Uganda Limited and Rabonge Essential Oil Project Limited involve in tax planning by implementing various strategies in order to minimize tax paid for given period; 54.5% agreed that tax authorities make information about taxes always ready available to Aromatics Uganda Limited and Rabonge Essential Oil Project Limited and make sure that these enterprises ensure compliance with the existing tax laws and 63.6% have similar opinions that the enterprises are able to correctly calculate the tax amount payable basing on the available information.

**Findings on whether tax administration improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.**

Study findings on the third objective indicated that 72.8% of the respondents agreed that there is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability; 59.1% agreed that tax administrators improve tax payers’ convenience in tax assessment; 59.1% accepted that tax authority provides greater assistance to tax payers (Uganda Aromatics Limited and Rabonge Essential Oil Project Limited) by creating favorable conditions for tax compliance; 63.7% have similar opinions that tax administrators sensitize SME owners on different taxes imposed on them; 72.7% declared that tax authority has ever given assistance as regards tax awareness to Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

Findings on third objective further revealed that 47.7% of the respondents were in agreement that there is proper process of carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers; 61.3% agreed that the weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer; 56.8% have similar opinions that tax authorities focus on helping taxpayers to file taxes by providing information needed; 65.9% generally agreed that tax administrators sensitize tax payers (Uganda Aromatics Limited and Rabonge Essential Oil Project Limited) about the consequences of tax evasion and 54.1% disagreed that the generalization of tax administration based on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**Findings on Financial Performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited**

Findings on dependent variable revealed that 56.9% of the respondents agreed that the profits of the Uganda Aromatics Limited and Rabonge Essential Oil Project Limited are growing at a satisfactory rate; 66% believed that taxes have reduced the return on investments of both enterprises; 54.5% agreed that taxes have inhibited the growth of both enterprises; 56.8% had same opinions that sales revenue of the enterprise is growing at a satisfactory rate.

# Conclusions

Conclusions were drawn from the above findings.

**Uganda Aromatics Limited and Rabonge Essential Oil Project Limited complies with all taxation policies to ensure effective financial performance.**

The study concluded that Uganda Aromatics Limited and Rabonge Essential Oil Project Limited complies with the implemented national taxation policies and procedures to ensure effective financial performance; both enterprises receives government trainings on tax compliance, owners of these enterprises clearly and easily understand the tax laws and regulations governing SMEs in Uganda; tax payer file tax returns declare all taxable income accurately and disbursing all payable taxes within the stipulated period and tax registration procedure obligations are easy for both enterprises. It was also revealed that taxpayer compliance is influenced by tax rates, income levels, and perceptions of taxpayers towards tax sanctions; both SMEs incurs tax compliance costs for example consultancy costs, labor costs, legal costs. taxpayer compliance is influenced by tax administration systems, tax law enforcement systems and tax audits; and both enterprises fulfills its tax obligations to avoid sanctions and difficult importation and exportation tax procedures have led to dismal financial performance of these enterprises.

**Taxation awareness and knowledge enhance financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.**

The study concluded that shareholders are aware of most tax laws and guidelines about taxation of incomes for SMEs; poor/lack of understanding the rationale of taxes and knowledge of different taxes imposed on Aromatics Uganda Limited and Rabonge Essential Oil Project Limited; awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations; both SMEs are aware of the consequences of failing to pay taxes on time; taxpayer knowledge is measured through knowledge and understanding of the rights, obligations and responsibilities. Lack of awareness of taxation policies and procedures affects the free operation of these enterprises and consequently financial performance; both enterprises involve in tax planning by implementing various strategies in order to minimize tax paid for given period; tax authorities make information about taxes always ready available to SMEs and make sure that these enterprises ensure compliance with the existing tax laws and the enterprises are able to correctly calculate the tax amount payable basing on the available information.

**Findings on whether tax administration improve financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.**

Study concluded that proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability; tax administrators improve tax payers’ convenience in tax assessment; tax authority provides greater assistance to tax payers by creating favorable conditions for tax compliance; tax administrators sensitize SME owners on different taxes imposed on them; tax authority has ever given assistance as regards tax awareness to Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

The study further concluded that proper process of carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers; weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer; that tax authorities focus on helping taxpayers to file taxes by providing information needed; tax administrators sensitize both enterprises about the consequences of tax evasion and the generalization of tax administration based on financial performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited.

**Findings on Financial Performance of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited**

Finally, the study concluded that the profits of the Uganda Aromatics Limited and Rabonge Essential Oil Project Limited are growing at a satisfactory rate; taxes have reduced the return on investments of Rabonge Essential Oil Project Limited and Aromatics Uganda Limited; taxes have inhibited the growth of these enterprises and sales revenue of these enterprises is growing at a satisfactory rate.

# Recommendations

The study recommends that the taxation authorities need to subject SMEs to taxes that resonate with their (SMEs) ability to pay. This is because blanket subjection of SMEs to all manner of taxes may hamper their performance.

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 their financial performance.

Further, the study recommends the need to create elaborate taxation awareness among SMEs through education, seminars, trainings, and workshops. This recommendation is based on the fact that awareness creation should help the SMEs to understand the need to comply with taxation measures so that they do not appear to be at loggerheads with the tax implementing authorities. Through such education forums, the SMEs should be able to air their views in as far as their desire on the taxation adjustments they require is concerned.

The study recommends that the URA should reach out and educate the business community about its different tax rates and mode of payment. The study revealed that the biggest problem with the tax paid is in fact that the SMEs community does not understand how the tax is arrived at as well as how it is paid but not because it is too high.

The study recommends that government and tax administrators should adopt innovative and technological systems of dealing with tax payers. The systems should be capable of reducing bureaucracies and corruption related issues in tax processes including payment taxes as well as employing more electronic means of creating awareness and tax knowledge to enhance tax compliance.

The study also recommends that Uganda Revenue Authority should institute reward package system that should see SMEs who regularly honor their tax obligation over certain period being awarded to serve as an encouragement for other tax payers to emulate.

The study recommends that SMEs in Uganda should be encouraged by the Government with reduced taxes and lower interest rate in order to enhance their growth and good returns to the owners. Also, the bottlenecks attach to sourcing for fund should be reduce to the barest minimum in order to encourage genuine SMEs to access various facility at a reduce interest rate of single digit. Tax services office is suggested to provide intensive counseling to taxpayers to raise awareness of the taxpayer to comply in paying their tax obligations, in an effort to increase tax revenue.

# Areas for the Further Research

The purpose of this study was to assess the effect of taxation policies on financial performance of small and medium enterprises in Uganda, using Uganda Aromatics Limited and Rabonge Essential Oil Project Limited. A future research should be conducted with the intention of assessing the contribution of adoption of digital taxation systems on the financial performance of SMEs in Uganda, focusing on SMEs in urban areas.

# REFERENCES

Abertbach D. and Christensen T, (2017) the challenges of modernizing tax administration in putting customers first in coercive public organizations, public policy and administration. vol 22, issue 2, 155 -182.

Abrie, W., & Doussy, E. (2016). Tax compliance obstacles encountered by small and medium enterprises in South Africa. Meditari Accountancy Research, 14(1), 1-13.

Adams, C. (2010) For Good and Evil; The impact of Taxes on the Course of Civilization, U.S, Madison Publishers.

Alabede, P., Roberts, L.H., Hite, P.A., and Bradley, C.F. (2011). Understanding attitudes toward progressive taxation. Public Opinion Quarterly, 58, 165-190.

**Ali - Mustapha (2015) determinants of the behaviour of citizens in regard to compliance with tax in Uganda. Business Journal on tax compliance, Kampala-Uganda.**

Alfred, A. (2007). Relationship between tax compliance internationally and selected determinants of tax morale. Journal of International Accounting, Auditing and Taxation, 13, 135-143.

Alm, J., McClelland, G. H., & Schulze, W. D. (2016). Why do people pay taxes? Journal of public Economics, 48(1), 21-38.

Amin, M.E. (2005). Social Science Research: Conception Methodology and Analysis. Kampala: Makerere University Printery.

Arum, H.P., & Zulaikha. (2012). The influence of taxpayer awareness, fiscus services, and tax sanctions on the compliance of individual taxpayers conducting business activities and free work (Study in the Cilacap KPP Area). Diponegoro Journal of Accounting, 1(1), 1-8.

Atawodi T., and Ojeka E., (2012). The impact of the taxation in the overall performance of registered small-scale industries in Rivers State, Nigeria. *Journal of Economic Behavior & Organization*, *6*(1), 141-142.

Antwi R.B., and Hamza, S (2015). Tax payers' knowledge and tax compliance behavior in Ethiopia: A study of Tigray State. International Journal of Management and Commerce Innovations, 3(2), 1090-1102.

Atwoki E. and Ojeba T. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in north central Uganda. International journal of business and management, 7(12).

Balunywa, W., Namatovu, R., Kyejjusa, S. & Dawa, S. (2010). Global Entrepreneurship Monitor (GEM) Uganda Report, 2010.

Berhan C. and Jenkins, A., Siat, . C., & Toly, A. (2015). Factors affecting taxpayer compliance in meeting tax paying obligations in Surabaya. Tax & Accounting Review, 1(1), 41-48

Bird, R. M.,and De Jamtsher M.C (Eds). (2012). Improving tax administration in developing Countries. Washington D.C: International Monetary Fund, Publication Service.

Bolnick, B. (2014). Effectiveness and Economic Impact of Tax Incentives in the SADC Region. Arlington, Virginia: Nathan Associates Inc.

Bozdoğanoğlu, B. (2016). Factors That Effect Taxation of Small and Medium Sized Enterprises (SMEs), 4(2), 2–6

Brown, C., and Mazur, C. (2013). Tax reform and incentives: A case study from the United Kingdom. In C. Sandford (ed.), Key Issues in Tax Reform. Bath: Fiscal Publications.

Chandler B. McClellan (2013) The Consequences of Poor Tax Administration: Collections, Financial performance, and Corruption, Economics Dissertations, Scholar Works, Georgia State University.

Chang, J., and Jin, V.U. (2013). The effects of friendly persuasion and gender on tax compliance behavior. Journal of Business Ethics, 47, 133–45.

Chigbu, E. E., Akujuobi, Eze L. & Abimobowei A. (2012). An Empirical Study on the Casuality between Economic Growth and Taxation in Nigeria. Current Research Journal of Economic Theory, 4(2): 29-38.

Collier, P. (2010). Principles of resource taxation for low-income countries. In P. Daniel, M. Keen, & C. McPherson (Eds.), *The taxation of petroleum and minerals: Principles, problems and practice* (pp. 75-86). London, UK: Routledge.

Creswell, J., & Clark, V. (2013). Designing and conducting mixed methods research (Vol. 3).

Daft, R. L. (2007). Organization theory and design, South-Western Pub.

Dharma, S., & Suardana, A. (2014). Why do people pay taxes? Prospect theory versus expected utility theory. *Journal of Economic Behavior & Organization*, *64*(1), 171-192.

Dhami, S., and Al-Nowaihi, A. (2007). Why do people pay taxes? An explanation based on loss aversion and overweighting of low probabilities. Discussion papers in economics No 03/18, Department of Economics, University of Leicester.

Doerrenberg, R. and Peichl, E., (2013). Tax Awareness And Tax Education: A Perception Of Potential Taxpayers. International Journal of Business, Economics and Law, Vol. 5, Issue 1.

Gitaru, K. (2017). The Impact of System Automation on Revenue Collection in Kenya Revenue Authority. (A Case Study of Simba).

Gunadi (2013). Comprehensive Guide to Income Tax. Jakarta: Bee Media Indonesia

Gupta, A, Lahiri, R., and Mookherjee, D. (2005). Income tax compliance in India; An empirical analysis. World Development, 23(12), 2,051-2,064.

HaberR., and Reichel, S. (2015). Tax Awareness And Tax Education: A Perception Of Potential Taxpayers”. International Journal of Business, Economics and Law, Vol. 5, Issue 1 (Dec.).

Harahap , Abdul Asri . (2014). The New Paradigm of Taxation Indonesia , Publisher BPFE , Yogyakarta .

Harash, E. Suhail, A.T and Jabbar. A., (2014). The influence of financial on performance of small and medium enterprises (SMES). International, journal of engineering and innovative technology,4(3)(2014)161-167.

Hilton, Mahar, and Selto, (2006). Effect of Awareness and Perceptions about Sanctions , and Desire Paying Taxes on Taxpayer Compliance". Journal of Accounting, Business Management and Public Sector. Vol. 5. 1 . It 34-50 .

Horodnic, I. A. (2018). Tax morale and institutional theory: A systematic review. *International Journal of Sociology and Social Policy*, *38*(9), 868-886.

Jackson. B.R., and Milliron, V.C. (2009). Tax compliance research: Findings, problems, and prospects. Journal of Accounting Literature, 5, 125-65.

Jaime, S., and Seth .T., (2011). Self assessment and UK tax system, paper presented at Conference on Current Issues in Tax Administration, Sydney, 11-12 April.

James, S., & Alley, C. (2004). Tax compliance cost, University of Exeter Business School Streatham. Taylor and Francis Journals, 9(3), 281-289.

James, S., & Alley, C. (2012). Tax compliance, self-Assessment and Tax Administration. Journal of Finance and Management in Public Services, 2(2), 27-42.

Jatmiko, A.N. (2016). Effect of Taxpayer Attitudes on the Implementation of Taxpayer Compliance. Thesis. Semarang: Postgraduate Masters Degree in Accounting in Diponegoro University.

Jenkins, S., (2007). Self assessment and UK tax system, paper presented at Conference on Current Issues in Tax Administration, Sydney, 11-12 April.

Juan H., and Juan, D. (2012). Implementing strategically aligned performance measurement in small firms. *International Journal of Production Economics*, *106*(2), 393-408.

Kamil, N. (2015). The Effect of Taxpayer Awareness, Knowledge, Tax Penalties and Tax Authorities Services on the Tax Compliance:(Survey on the Individual Taxpayer at Jabodetabek & Bandung). Research Journal of Finance and Accounting, 6(2), 104-111.

Kaplan Publishing UK, (2008). Professional Accountant (PA). The Complete Text.

Kasato G., (2018) tax policy and the growth of SMEs in Mbarara Municipality. Research Thesis Submitted to Kampala International University, Kampala, Uganda.

Kasimbazi, J. Twesige, J., & Gasheja, T. (2013). The effect of taxation on the growth of SMEs in Nyarugenge, Rwanda. *Management Research Review, 4*(2), 116-121.

Kasipillai, J. (2010). A Practical Guide to Malaysian Taxation-Current Year Assessment. Kuala Lumpur: McGraw-Hill.

Kaweesa, J., (2014). Income Tax Compliance among SMEs in Uganda : Tax payers’ Proficiencies Perspective, 4(11), 133–143.

Kirchler, E. (2007). The economic psychology of tax behaviour. Cambridge University Press.

Kothari, C. (2004). Research Methodology; Methods and Techniques. New Delhi, India: New Age International (P) Ltd.

Listyowati, Samrotun, Y., & Suhendro. (2018). Factors affecting taxpayer compliance in paying taxes. Airlangga Accounting and Business Research Journal, 3(1), 372-395.

Loo, E.C. (2009). The influence of the introduction on self assessment on compliance behaviour of individual taxpayers in Malaysia. PhD thesis. University of Sydney.

Matthijs K., and Victor, G. (2016). The impact of tax professionals upon the compliance behavior of Australian individual taxpayers. Revenue Law Journal, 22(1), 2.

Mangkoesoebroto, G. (2010). Public Economy. Third Edition. Yogyakarta: BPFE.

Mannasseh T., (2010), introduction of taxation in Uganda, (Income Tax). Makerere University Business School.

Mardiasmo. H., (2016). Taxation. Revised Edition 2016. Yogyakarta: Andi.

Mària, J. F., & Murillo, D. (2013). The promotion of CSR in SMES by support organizations. A case study in the Democratic Republic of the Congo. *Ramon Llull Journal of Applied Ethics*, 143-172.

Marti, L. O. (2010). Taxpayers’ attitudes and tax compliance behaviour in Kenya. African Journal of Business & Management, 1,112-122.

Margaretha M.S and Supartika, S.E., (2016). Sustainability of positive relationship between environmental performance and profitability of SMEs. *Journal of Enterprising Communities, People and Places in the Global Economy*, *3*(5), 77-78.

Maseko, N., & Manyani, O. (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). *Journal of Accounting and Taxation*, *3*(8), 158-161.

Masurel, N.K and Smith, P.E. (2010). Influence of perception on tax sanctions and taxpayer awareness on the compliance of personal taxpayer reporting at the East Denpasar Pratama tax service office. Scientific Journal of Business Accounting, 6(1), 16-27

McKerchar, M. (2015). The effects of complexity on unintentional non-compliance for personal taxpayers in Australia. Australian Tax Forum, 17(1), 3-26.

Ming Ling, L., Normala, S. O., & Meera, A. K. (2005). Towards electronic tax filing: Technology readiness and responses of Malaysian tax practitioners. Tax Nasional, 16-23.

Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and the cost of capital: A correction. *The American Economic Review, 53*(3), 433-443.

Molero, C., and Pujol, K. (2012). Designing a tax administration reform strategy: Experiences and guidelines. Working paper, International Monetary Funds, Washington DC.

Mulooki K., and Mugisha, C. (2012), Taxation and Investment in Uganda Structure and Trends, A presentation to the business forum in London, UK for investment opportunities in Uganda, May, 2004

Munoz, R., (2013). Personal Income Taxes and the F Financial performance of Small Firms; Working Paper No. 79.

Nurkhin, A., Novanty, I., Muhsin, M., & Sumiadji, S. (2018). The influence of tax understanding, tax awareness and tax amnesty toward taxpayer compliance. Journal of Finance and Banking, 22(2), 240-255.

Nurmantu, S. (2010). Introduction to Taxation Science, (Issue 3). Jakarta: Granite.

Oberholzer R., (2008) Attitude of South African Taxpayers towards taxation: a pilot study, Accountancy Business and the Public Interest, Vol. 7, No.1, 2008.

Oladipupo, A.O., & Obazee, U. (2016). Tax knowledge, penalties and tax compliance in Small and Medium scale enterprises in Nigeria. iBusiness, 2(1), 1-9.

Odongo, J., (2014) - Lending Terms and Financial Performance Of Small Medium Enterprises In Uganda: Case of Soroti District. Research Journal of Finance and Accounting,5 (2) 2014 [www.iiste.org](http://www.iiste.org).

Okoye, J., Akenbor, S., and Obara, E. (2012). The association of tax education and tax compliance: A case of UUM accounting students (Doctoral dissertation, Universiti Utara Malaysia.

Palil, M. R., Rusyidi, M. A., & Ahmad, W. F. (2013). The perception of tax payers on tax knowledge and tax education with level of tax compliance: A study of the influences of religiosity. ASEAN Journal of Economics, Management and Accounting, 1(1), 118-129.

Pied, John Phillip (2013), the challenges of modernizing tax administration in putting customers first in coercive public organizations, public policy and administration. vol 22, issue 2, 155 -182.

Pope, J. and Abdul-Jabbar, H. (2008) Tax Compliance Costs of Small and Medium Enterprises in Malaysia Policy Implications.

Rahayu, S.K. (2010). Indonesian Taxation: Formal Concepts and Aspects. Yogyakarta: GrahaIlmu.

Rahayu, N. (2017). The influence of tax knowledge, firmness of tax sanctions and tax amnesty on taxpayer compliance. Dwantara Accounting, 1(1), 15-30.

Rooks, G., Szirmai, A. & Sserwanga, A. (2009). The Interplay of Human and Social Capital in Entrepreneurship in Developing Countries. The Case of Uganda. Research Paper No. 76 2009/09. United Nations University World Institute for Development Economics Research.

Sandmo, A. (2005). The theory of tax evasion: A retrospective view. National Tax Journal, 58(4): 643–63.

Santi , Anisa Nirmala . (2012). Analysis of Effect of Taxation Awareness, Rational Attitudes, Environment, Penalties Sanctions, and The Tax Authorities Attitudes on Taxpayer Compliance. Thesis Strata-1. Faculty of Economics and Business, University of Diponegoro, Semarang.

Santos, J. B., & Brito, L. A. (2016). Toward a subjective measurement model for firm performance. *Brazilian Administration Review*, *9*(6), 95-117.

Sari, V. A., & Fidiana (2017). The effects of tax amnesty, taxation knowledge, and fiscus services on taxpayer's discipline. Journal of Science and Accounting Research, 6(2), 744-759.

Saunders, M., Lewis, P., and Thornhill, A. (2009). Research Methods for Business Students. 4th ed. Harlow : FT Prentice Hall.

Savitri, E., & Musfialdy. (2015). The effect of taxpayer awareness, tax socialization, tax penalties, compliance cost at taxpayer compliance with service quality as mediating variable. Procedia - Social and Behavioral Sciences, 2(19), 682-687.

SEATINI-UGANDA. (2012). Tax Exemptions: Implications on socio-economic development, 1–40.

Sekaran, U. (2004). Research Methods for Business a skill building Approach. USA: Hernitage Publishing Service.

Setyonugroho, D., and Sardjono, A., (2012). The Influence of Taxpayer's Awareness And Tax Morale Toward Tax Evasion" International Journal of Business, Economics and Law, Vol. 5, Issue 1.

Singh, V., & Bhupalan, R. (2011). The Malaysian self-assessment system of taxation: Issues and challenges. Tax Nasional, 3(1), 12-17

Singh, V. (2013). Malaysian Tax Administration. 6th ed. Kuala Lumpur: Longman.

Smith, M. H., & Smith, D. (2010). Implementing strategically aligned performance measurement in small firms. *International Journal of Production Economics*, *106*(2), 393-408.

Sulaiman M., and Yusoff, A.J (2010). A taxonomy of a tax compliance literature: Further findings, problems and prospects. Australian Tax Forum, 16, 137-320.

Sumartaya F. & Hafidiah O. (2014). The Effect of Tax Transparency and Trust on Taxpayers' Voluntary Compliance. GSTF Business Review (GBR), 2(3), 4.

Suryadi, (2016). Causal model of awareness, service, taxpayer compliance, and its effect on tax revenue performance. Journal of Public Finance, 4(1), 105-121.

Taslim. E., (2007). Tax Knowledge. Jakarta: Generasis.

Tanzi, V. Pellechio M. (2015). Inflationary expectations, economic activity, taxes, and interest rates. The American Economic Review, 70 (1), 12-21.

Terkper, S. (2007). African Tax Reform. In African Development Bank Workshop.

Tomusange D., (2016) Tax policy and the growth of SMEs in Uganda, Taking SMEs in Rubaga Division. Research thesis submitted to Uganda Christian University, Mukono.

Torgler, B., and Schaltegger, F. (2005). What shapes attitudes toward paying taxes? Evidence from multicultural European countries. Social Science Quarterly, 88(2), 443-465.

Tusubira, F. N., & Nkote, I. N. (2013). Income Tax Compliance among SMEs in Uganda : Tax payers ’ Proficiencies Perspective, 4(11), 133–143.

Wannenburg, E., Roth, J.A, Scholz, J.T., and Witte, A.D. (2009). Taxpayer Compliance: An Agenda for Research. Philadelphia: University of Pennsylvania Press.

Watson, J., & Robinson, S. (2013). Adjusting for risk in comparing the performances of male-and female-controlled SMEs. *Journal of Business Venturing*, *18*(6), 773-788.

Waweru, M. G. (2014). Tax administration in Kenya; Problems and Prospects.AGM of FKE.

Wei, F., & Wen, J. F. (2019). *The optimal turnover threshold and tax rate for SMEs.* Retrieved fromhttps://[www.uvic.ca/socialsciences/economics/assets/](http://www.uvic.ca/socialsciences/economics/assets/)docs/seminars/jean\_francois\_wen\_paper.pdf*.*

Wenzel, M. (2014). An analysis of norm processes in tax compliance. Journal of Economic Psychology, 25(2), 213-228.

#

**APPENDICES**

**APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE**

I am Anthony Guloba, undertaking a research on “**Taxation Policies and Financial Performance of Small and Medium Enterprises in Uganda: a Case of Uganda Aromatics Limited and Rabonge Essential Oil Project Limited”** as a requirement for a Master’s Degree in Business Administration of Nkumba University. I humbly request you, to participate in this study by filling in this questionnaire. All the answers that you will provide shall be treated with the confidentiality they deserve, and will be used for only academic purposes.

Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided. *Please Tick* ***(√)*** *the box that corresponds to your answer.*

**Section A. Demographic Characteristics of the Respondents**

**1. Gender**

|  |  |
| --- | --- |
| Male | Female  |
|  |  |

**2. Age**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Less than 20yrs  | 21-25 years  | 26 - 30 Years  | 31- 35 yrs | 36 - 40 yrs  | Above 41 yrs  |
|  |  |  |  |  |  |

**3. Highest Level of Education attained**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Certificate | Diploma | Degree | Masters  | Others  |
|  |  |  |  |  |

**4. Designation of Staff**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Administrator / Manager  | Finance and Accounts | Marketer  | Machine Operators | Farmers | Supervision |
|  |  |  |  |  |  |

**5. How long have you worked with this organization**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  Less than 1 Year  | 1 -3 Years  | 4-7 Years  | 8-10 Years  | Over 10 years  |
|  |  |  |  |  |

 **SECTION B: UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED COMPLY WITH ALL TAXATION POLICIES TO ENSURE EFFECTIVE FINANCIAL PERFORMANCE.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | The enterprise complies with the implemented national taxation policies and procedures to ensure effective financial performance. |  |  |  |  |  |
| **2.** | The enterprise receives government trainings on tax compliance. |  |  |  |  |  |
| **3.** | Enterprise owners clearly and easily understand the tax laws and regulations governing SMEs in Uganda. |  |  |  |  |  |
| **4.** | Tax payer file tax returns declare all taxable income accurately, and disbursing all payable taxes within the stipulated period. |  |  |  |  |  |
| **5.** | Tax registration procedure obligations are easy for the essential oil producers. |  |  |  |  |  |
| **6.** | Taxpayer compliance is influenced by tax rates, income levels, and perceptions of taxpayers towards tax sanctions. |  |  |  |  |  |
| **7.** | Enterprise incurs tax compliance costs for example consultancy costs, labor costs, legal costs. |  |  |  |  |  |
| **8.** | Taxpayer compliance is influenced by tax administration systems, tax law enforcement systems and tax audits. |  |  |  |  |  |
| **9.** | The enterprise fulfills its tax obligations to avoid sanctions. |  |  |  |  |  |
| **10.** | Difficult importation and exportation tax procedures have led to dismal financial performance. |  |  |  |  |  |

 **SECTION C: TAXATION AWARENESS AND KNOWLEDGE ENHANCE FINANCIAL PERFORMANCE OF UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | Shareholders of the firm are aware of most tax laws and guidelines about taxation of incomes for SMEs. |  |  |  |  |  |
| **2.** | There is poor/lack of understanding the rationale of taxes and knowledge of different taxes imposed on the business entity. |  |  |  |  |  |
| **3.** | Awareness of taxpayers is often associated with willingness and compliance in carrying out taxation rights and obligations in accordance with applicable regulations. |  |  |  |  |  |
| **4.** | The enterprise is aware the consequences of failing to pay taxes on time. |  |  |  |  |  |
| **5.** | Taxpayer knowledge is measured through knowledge and understanding of the rights, obligations and responsibilities of the taxpayer. |  |  |  |  |  |
| **6.** | Lack of awareness of taxation policies and procedures verily affects the free operation of the enterprise and consequently financial performance. |  |  |  |  |  |
| **7.** | Enterprise involve in tax planning by implementing various strategies in order to minimize tax paid for given period. |  |  |  |  |  |
| **8.** | Information about taxes is always readily available to the tax payer. |  |  |  |  |  |
| **9.** | The enterprise is able to correctly calculate the tax amount payable basing on the available information. |  |  |  |  |  |

 **SECTION D: TAX ADMINISTRATION CRITERIA IMPROVE FINANCIAL PERFORMANCE OF UGANDA AROMATICS LIMITED AND RABONGE ESSENTIAL OIL PROJECT LIMITED.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | There is proper process of identifying the tax payer, assessing the tax payable, collecting taxes and enforcing tax liability. |  |  |  |  |  |
| **2.** | Tax administrators have improved tax payers convenience in tax assessment. |  |  |  |  |  |
| **3.** | Tax authority provides greater assistance to tax payers by creating favorable conditions for tax compliance. |  |  |  |  |  |
| **4.** | Tax administrators sensitize SME owners on different taxes imposed on them. |  |  |  |  |  |
| **5.** | Tax authority has ever given assistance as regards tax awareness. |  |  |  |  |  |
| **6.** | There is proper process of carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers. |  |  |  |  |  |
| **7.** | The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer. |  |  |  |  |  |
| **8.** | Tax authorities focus on helping taxpayers to file taxes by providing information needed. |  |  |  |  |  |
| **9.** | Tax administrators sensitize tax payers about the consequences of evading taxes. |  |  |  |  |  |
| **10.** | The generalization of tax administration based on financial performance is problematic to taxpayers. |  |  |  |  |  |

 **SECTION E: FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | The profits of the enterprise are growing at a satisfactory rate. |  |  |  |  |  |
| **2.** | Taxes have reduced the return on investments. |  |  |  |  |  |
| **3.** | Taxes have inhibited the growth of the business entity. |  |  |  |  |  |
| **4.** | sales revenue of the enterprise is growing at a satisfactory rate |  |  |  |  |  |

#

# APPENDIX II: INTERVIEW GUIDE

1. Do you understand the term tax compliance, tax knowledge, tax awareness and tax administration?
2. Does the double taxation among SMEs led to the poor financial performance of your organization?
3. The taxation policies are not designed to bolster the growth and performance of SMEs.
4. What are the problems that may have been encountered while complying with tax obligations?
5. What are the challenges of taxation affecting SMEs financial performance in Uganda?