

## THE EXTENT TO WHICH TAX COMPLIANCE INFLUENCES THE PERFORMANCE OF SMES IN CENTRAL EQUATORIAL: A CROSS SECTIONAL STUDY.

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### ABSTRACT.

#### Background:

This study aims to establish the extent to which tax compliance influences the performance of SMEs in Central Equatorial.

#### Methodology:

The study adopted the descriptive study design based on the quantitative and qualitative approaches. The study population of 5,573 registered SMEs in the Central Equatorial will be used to select a sample size of 291 SMEs using simple random sampling. Data was collected using the self-administered questionnaire and interview guide. The Statistical Package for Social Sciences (SPSS), was used to analyze quantitative data while qualitative data shall be analyzed using thematic analysis.

#### Results:

78.5% were males while the females constituted 21.5%. The study determined the extent to which tax compliance influences the performance of SMEs in Nakawa Division, Kampala. The study findings revealed that tax compliance significantly affects the performance of SMEs in the Nakawa division since the p-value (.000) is less than the significance level. The correlation coefficient is (0.595) which implies that there was a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs which confirms the hypothesis stated above.

#### Conclusion:

“The simplified system of taxation, tax planning, and functional expertise, interpretation of tax laws and regulations play a fundamental role in enhancing the performance of SMEs.” This implies that strengthening the system of taxation through a simplified system of taxation can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs

#### Recommendation:

Uganda’s, primary consideration should be given to strengthening the system of taxation through having a simplified system of taxation that can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs.

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**Keywords:** *Extent, Tax Compliance, Performance, SMEs, Central Equatorial.*

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### BACKGROUND OF THE STUDY.

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, 2002).

SMEs account for about 90% of the private sector production which has greatly supported the economy in Uganda. The SMEs have supported the economy by creating new jobs, and income generation among others.

However, SMEs are facing challenges ranging from limited size and resources which have affected their operations. This is currently being mitigated through; “the provision of Business Development Services (BDS) to build capacity and enhance their performance in areas of business planning, technology, communications and other services. Despite efforts by the government of South Sudan to enhance the growth and performance of SMEs, taxation remains a major obstacle to the growth of SMEs in South Sudan since it has continuously affected the performance of SMEs. In addition, most SMEs in South Sudan do not survive past their second year of existence after inauguration which shows poor performance in the SME sector (Ministry of Finance 2017). The deficiencies in the performance of SMEs associated with the poor tax policies in South Sudan may affect the ability of these enterprises to mobilize the required financial and non-financial resources. In addition, the poor performance of SMEs if not immediately addressed may affect the economic growth and development of South Sudan since these enterprises contribute to 70% of the “private sector production” in the economy. This, therefore will prompt the researcher to examine the extent to which tax compliance influences the performance of SMEs in Central Equatorial.

## **METHODOLOGY.**

### **Research Design.**

“A research design is a strategy for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems” (Cooper and Schindler, 2003). The descriptive design was adopted, which aimed to examine

“the effect of taxation on the performance of small and medium scale enterprises in Uganda.” The descriptive research design refers to the systematic process of gathering descriptions of existing phenomena to describe or explain what is going on (Ololube, 2009).

A descriptive research design was adopted for the study since it focuses on the people as well as their attributes which enable the investigator to understand and examine the influence of taxation on SME performance. This was achieved using a survey questionnaire, observation schedule, and document analysis.

In addition, the descriptive design empowered the respondents to reply to questions administered through interviews or questionnaires and describe the responses given. Thus, it was used to assess the thoughts, opinions, and feelings of the respondents (Zechmeister & Jeanne, 2011).

### **Study Population.**

The study population concentrated on SME owners within the Nakawa Division, Kampala. The study area was limited to the Nakawa division since the majority of the SMEs are established in urban areas. Nakawa division has a population of 318,447 people with 17,573 registered SMEs (Ntayi, Mutebi, Kamanyi, & Byangwa, 2013).

### **Sample size and selection.**

“A sample size refers to the number of subjects in a sample (symbolized by n) or a subset of a population” (Creswell, 2013). Based on the “Krejcie and Morgan (1970) sampling table”, the researcher selected a sample size of 377 SME respondents from a population of 17,573 registered SMEs with the help of convenient sampling (Chuan, 2006)

**Table 1: Population, sample size, and techniques.**

SME Category	Population	Sample size	Sampling Techniques
Retail and wholesale Trade	7451	160	Simple random sampling
Hotel and Restaurant	2345	50	
Computer and Electronics Repairs	1074	23	
Entertainment joints and bars	2570	55	
Metal fabrication	1405	30	
Manufacturing	1557	33	
Food Processing	1171	25	
<b>Total</b>	<b>17573</b>	<b>377</b>	

*Source: Study population accessed from Ntayi et al., (2013) and sample size determined using the Krejcie & Morgan model (1970)*

### Sampling Techniques and Procedures.

The study employed both “probability and non-probability sampling techniques. “The author used the probability sample since the research is focused on the entire SME population. Employees employed in the SME sector in the Nakawa division were eligible to participate in the research that was conducted by the author.

“The probability sampling approach involves selecting a sample in such a way that all the elements in the population have the same chances of being selected” (Amin, 2005). The simple random sampling technique was also used such that all population elements are accorded a proportionate likelihood of being nominated within the sample.

In the non-probability approach, the items in the population do not have a well-defined chance of being selected (Amin, 2005). Purposive sampling was used whereby the researcher used his own decision and experience to determine which SMEs have in-depth information to take part in the study. Thus, the selection of the respondents was based on the researcher's understanding of the respondent's possession of the required information. Therefore, purposive sampling was conducted for the owners and top management staff within the SMEs.

### Data Collection Methods.

Both quantitative and qualitative methods of data collection were employed during the study. The

questionnaire survey method was used to pool quantitative statistics, while the interview and documentary review method was employed to gather qualitative information. The researcher chose a data collection method that better suited the intended purposes.

### Questionnaire Survey Method.

The questionnaire survey method is a set of questions used to obtain information from a large group of people in a given study (Amin, 2005). The questionnaire is an effective method of data collection due to the following advantages: it is standardized since the same wording is used each time it's administered; it ensures confidentiality through the use of a coding system. Thus, it can cover embarrassing, socially undesirable, or illegal topics; it is cheaper to administer among others (Barker et al., 2002). The method was used to collect data from middle-level staff and other lower-level staff within the SMEs because they are directly involved in the operations of the SMEs.

### Interview Method.

“An interview is a data-collection technique that involves oral questioning of respondents, either individually or as a group” (Chaleunvong, 2009). The responses to the interview questions were written down and also recorded on tape during the interview.

In-depth interviews were used to obtain data from key informants such as the proprietors and top management

staff who were purposively selected because of the information they held. Interviews are of great advantage since they can enable the researcher to establish rapport with the respondent which enables the interviewer to: “ask follow-up questions, to clarify the respondent’s meaning, probe for material that the respondent does not mention spontaneously and get beyond superficial responses; ensure that the respondent answers all the questions; give more complicated instructions and check that they are understood; vary the order of the questions” among others (Barker, et al., 2002). The interviews were structured comprising a set of issues on tax compliance, tax rates, and tax incentives. This interview method was used to gather information from the SME proprietors, and other top management staff in these enterprises since these people have in-depth information concerning taxation policies and how they are influencing the performance of SMEs.

**Data Collection Instruments.**

**Questionnaires.**

Self-administered questionnaires (SAQ) were employed to gather data from the study elements in a structured manner. SAQs with one open-ended question per section were designed for SME employees to give additional or express their mind while the rest were close-ended and aimed at testing perception using “a five-point Likert scale measuring from Strongly Disagree as response 1, Disagree as response 2, Not sure as response 3 Agree as

response 4 and Strongly Agree as response 5” for easy measurements of variables (Jackson, 2009).

**Interview Guide.**

An interview refers to a data collection technique that involves face-to-face, telephone, or focus group discussions between the researcher and the interviewee(s) (Creswell, 2013). The guide involved unstructured and generally open-ended questions that allowed probing for in-depth information from participants. This guide enabled the gathering of facts from the SME proprietors, and other top management officers in these enterprises since these people have in-depth information concerning taxation policies and the performance of SMEs.

**Validity and Reliability.**

**Validity.**

“Validity refers to whether one can draw meaningful and useful inferences from scores on particular instruments” (Creswell, 2013). The questionnaires were verified, and modifications were made based on my UMI supervisors’ recommendations for validity and relevancy to the study. In addition, expert judgment which is effective for survey tools was used (Gay & Airasian, 2003). Pre-testing of the instrument is necessary to reduce ambiguity and ensure proper editing, wording, and good measurement (Sekaran, 2004). The research instrument is valid when the CVI computed is above 0.7.

**Table 2: The validity of the questionnaires.**

CVI	=	$\frac{\text{Number of Questions Declared Valid in the Questionnaires}}{\text{Total Number of Questions}}$
CVI	=	$\frac{47}{49}$
CVI	=	0.959

Since the CVI was 0.959, which is above the 0.7 recommended by Amin (2005), it was inferred that the instrument was relevant in measuring the influence of taxation on the performance of SMEs. The validity of qualitative instruments was established by expert judgment and also UMI supervisors’ recommendations for validity and relevancy to the study.

**Reliability of the instruments.**

“Reliability refers to whether scores to items on an instrument are internally consistent (i.e., are the item responses consistent across constructs?), stable over time (test-retest correlations), and whether there was

consistency in test administration and scoring” (Creswell, 2013).

The consistency and trustworthiness of the qualitative instruments were upheld by the researcher by checking the tools to ensure that they were free from errors that may have been made in transcription (Gibbs, 2007).

An internal consistency method was used where a single pre-test cluster was assessed. This method tells us the extent to which the aspects of the questionnaire are interrelated. This was done with the aid of the “Cronbach Co-Efficient Alpha,” which evaluated the dependability of the quantitative research tool. The Alpha varies; “from 0 to 1 and a value of 0.6 or less generally indicates

unsatisfactory internal consistency or reliability” (Malhotra, 2010), while Cooper & Schindler (2003) indicated that a coefficient of 0.7 shows a consistent research tool. The Cronbach’s coefficient alpha ( $\alpha$ ) was computed as follows:

$$\alpha = \frac{k}{(k-1)} \frac{1 - \sum \sigma^2 k}{\sigma^2}$$

Where  $\sum \sigma^2 k$  = “the sum of variances of the k parts (usual items) of the test.”  $\alpha$  = Cronbach’s coefficient alpha.  $k$  = Standard deviation of the test.

**Table 3: Reliability Statistics using Cronbach's alpha formula.**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.934	0.937	49

*Source: Primary data*

Table 3 includes results for all questionnaire items and indicates that the reliability coefficient (alpha score) for the questions was greater than 0.7. Therefore, the questionnaires collected reliable data for this study. Alpha was preferred because the questions had choices to be made, to which different weights were attached. A reliability coefficient of 0.937 was considered acceptable since it was greater than the target value of 0.7.

For the qualitative instruments, the researcher ensured reliability by checking the instruments to make sure that they were free from errors that may have been made in transcription.

### Data Collection Procedures.

An introductory letter from Team University was obtained after defending the research proposal to enable the researcher to collect data from the field. Upon establishing the validity and reliability of the instruments to be used, the researcher gathered raw information from the field. Data collection, processing, and analysis were undertaken by the researcher himself.

### Data Analysis.

“This is the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the hypotheses” (Sekaran, 2004).

Initially, data was entered into the MS Excel computer program for cleaning. The data was also imported to SPSS version 23 statistical software for investigation. Quantitative data analysis entailed descriptive statistics and inferential statistics. Descriptive statistics involved analysis using frequencies, percentages, mean, charts, and standard deviation. The Analysis of central tendency and dispersion is based on; “a 5-point Likert scale ranging from strong agree to strong disagree.” Similarly, inferential statistics were done based on Pearson’s correlation coefficient and linear regression analysis.

Quantitative data was analyzed by reporting of summary results in numerical terms and was presented using a percentage distribution technique but maintaining a specified degree of confidence (Creswell, 2013). While Qualitative data was analyzed in the form of texts and themes, impressions were examined and presented using descriptive methods for in-depth analysis to be generated from the views of the respondents and to allow the reader to make their opinions freely (Bryman & Bell, 2003). In addition, qualitative data is flexible, and “needs more checking and auditing at all steps of the analysis as well as careful archiving of each step of the analysis for later checking.” Conversely, qualitative research offers an overall approach that provides “the backbone for the analysis” (Strauss & Corbin, 1998).

Closed-ended questions were recorded and then the answers to each question were checked by the respondent as deemed suitable. This was done to all the

questionnaires, after which the mean, standard deviation, and percentages were computed from the responses given.

Thematic analysis was done for the open-ended questions whereby the participants' responses were organized in themes based on the study objectives (Free body, 2003).

Individual interviews were used to produce data in the form of notes to develop a summary of the findings. The summaries were done by capturing the participants' responses in their own words for all the questions that were asked (Free body, 2003).

### Measurement of variables.

Weiner (2007) defines "measurement as a systematic, replicable process by which objects or events are quantified and or classified concerning a particular dimension. "The proposed variables were measured using both the categorical and continuous level of measurements, where the categorical measurements were used because they provide for categories and numbers are assigned to categories. These were based on a Likert scale of five items namely: "Strongly Agree (5), Agree (4), Not Sure (3), Disagree (2), and Strongly Disagree (1)" for easy measurements of variables as supported by Van Selst (2012). With the nature of the sample population and the choice of sampling methods, the categorical scale was the most appropriate for institutional processes, staff attributes, and ICT. On the other hand, a continuous scale

was used on respondents' demographic information, for instance, age, as it is simple and less manipulative.

### Ethical Considerations.

Ethics in this proposal mean being open, accountable, avoiding conflict of interest, being responsible, honest, objective, careful, maintaining privacy, disseminating the research findings to the respondents, avoiding duplication, not being deceitful, and seeking the consent and permission of the respondents. The researcher also maintained a high level of confidentiality by coding questionnaires rather than using respondents' names and using the findings only for the study (Robert & Sari, 1998). The "research design, the study population, sample size, sample techniques and procedures, data collection methods and instruments are determinants of good validity and reliability, data analysis, measurement of variables if ethical considerations "were considered.

According to the anti-plagiarism requirements, the researcher acknowledged all sources of literature used in the study, by referencing or citation. A final copy of the dissertation was run on the Turnitin software, and a similarity index of 12% was obtained, which was within the acceptable score of 15% and below.

### RESULTS.

#### Response rate.

**Table 4: Response rate.**

Research instrument	Targeted number	Conducted	Percentage
Questionnaires	377	369	97.9
Interviews	10	8	80
Total	387	377	97.4

Source: Primary data

Table 4 displays that from the 377 questionnaires distributed, 369 filled questionnaires were returned giving a percentage response rate of 97.9%. In addition, out of the 10 planned interviews, 8 interviews were conducted giving a percentage response rate of 80%. The overall response rate was 97.4%. This response rate was above the recommended two-thirds (67%) response rate (Amin, 2005; Mugenda & Mugenda, 1999). This indicates that the

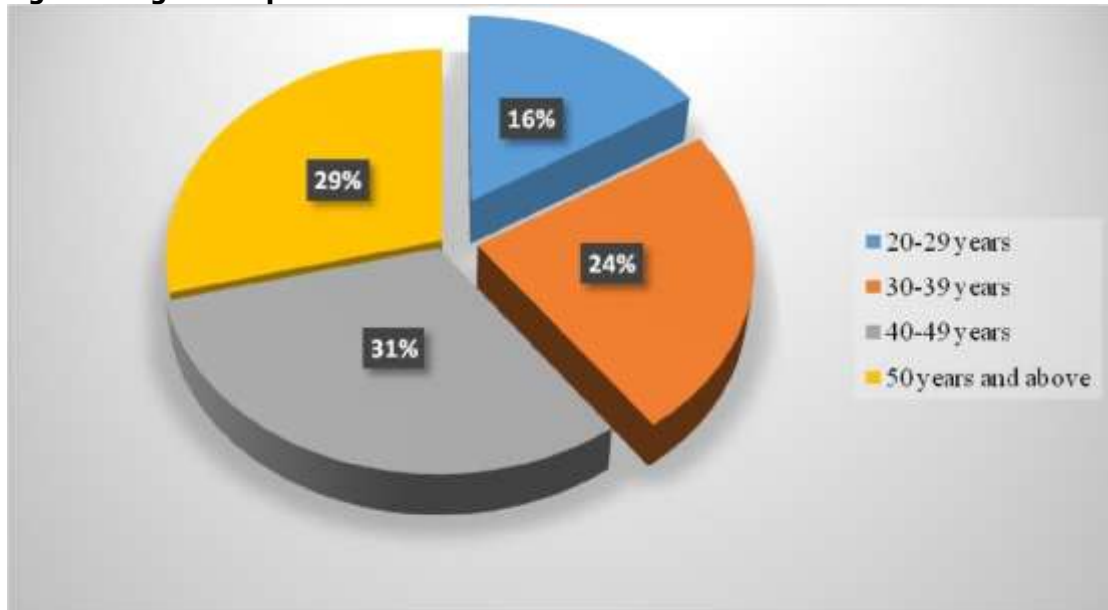
researcher was able to obtain enough data for a comprehensive report.

### Background characteristics.

#### Age of respondents.



**Figure 1: Age of respondents.**



Source: Primary data

Figure 1 indicates that a bigger proportion of respondents (31%) were aged between 40-49 years. These were followed by respondents 50 years and above with (29%) while those aged 30-39 years were 24% and lastly, those aged 20-29 years constituted 16%. The above statistics indicate that all respondents were mature and able to provide reliable data.

### Sex of respondents.

The sex of the respondents was assessed which enabled the researcher to have a proportionate representation of both the females and males.

**Table 5: Gender of respondents.**

Gender	Frequency	Percentage
Male	296	78.5
Female	81	21.5
Total	373	100

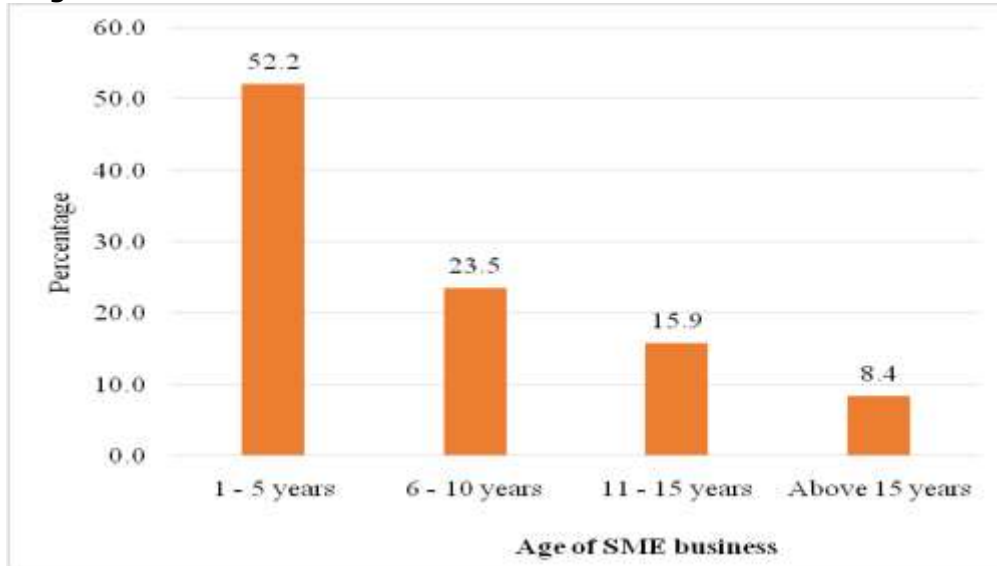
Source: Primary data

Table 5 indicates that a bigger percentage of respondents 78.5% were males while the females constituted 21.5% of the total responses. This means that the males dominate the SME sector and the findings were obtained from gender-balanced respondents with representation from both the males and females.

### Age of the SME business.

The study examined “how long SME businesses have been in existence. “This enabled the researcher to understand the duration of operation for the SMEs and in-depth information on how taxation influences the performance of SMEs in Nakawa division, KAMPALA.

**Figure 2: Age of SME business.**



Source: Primary data

Figure 2 highlights that over 50% of the SMEs studied have been in operation for 1-5 years. These trailed businesses that have been in existence for 6-10 years with 23.5% and those with 11-15 years accounted for 15.9%. Very few SME businesses (8.4%) have been in existence for over 15 years. The findings revealed that most of the SMEs studied have been in operation for a long period and therefore were more knowledgeable about how taxation affects the performance of “small and medium enterprises” in Nakawa. Therefore, the respondents provided reliable data for the study.

**The legal status of the business.**

**Table 6: Legal status of SME business.**

Status	Frequency	Percentage
Sole proprietor	266	70.6
Partnership	70	18.6
Limited Company	41	10.9
Total	377	100.0

Source: Primary data

Table 6 shows that a bigger proportion of the SME owners registered their businesses as a sole proprietorship and these accounted for (freq. 266, 70.6%). These were trailed by businesses registered as a partnership (freq. 70, 18.6%) while businesses registered as a limited company accounted for (freq. 41, 10.9%).

**Table 7: Nature of the business.**

Nature of business	Frequency	Percentage
Trade	194	51.5
Service	107	28.4
Manufacturing	76	20.2
Total	377	100.0

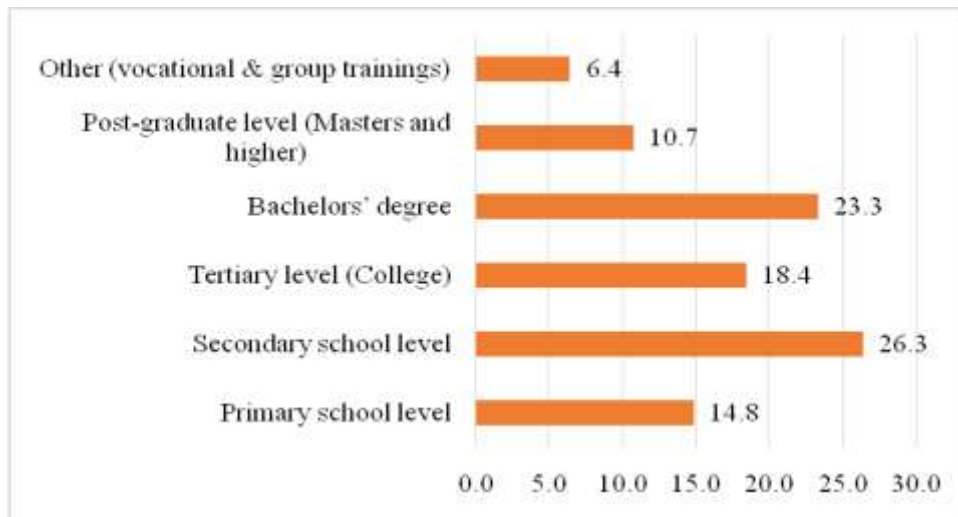


Source: Primary data

Table 7 pointed out that a bigger proportion of SMEs studied was engaged in trade, and these accounted for (freq. 194, 51.5%) of the total responses while businesses engaged in service constituted (freq. 107, 28.4%), and very few businesses (freq. 76, 20.2%) were engaged in manufacturing. This implies that the study was well distributed among the SMEs in the Nakawa division and thus provided reliable findings.

### The education level of respondents.

Figure 3: Education level of respondents (%)



Source: Primary data

Results in Fig. 3 showed that a bigger percentage of respondents had a secondary school level of education and these accounted for 26.3% of the total responses. These were followed by those with a bachelor's degree (23.3%), 18.4% with a tertiary level of education (college), and 14.8% with a primary school level. Respondents with a postgraduate level (Masters and higher qualifications) constituted 10.4%, and very few respondents (6.4%) had other qualifications. This indicates that all the respondents were educated and able to understand and interpret research questions to provide valid and reliable data.

### To examine the effect of tax compliance influences the performance of SMEs in Nakawa division.

During the study, a set of statements regarding tax compliance were presented to respondents to establish their opinion on the performance of SMEs in the Nakawa division, Kampala. A Likert scale of "Strongly Agree (SA) = 5, Agree (A) = 4, Not Sure (NS) = 3, Disagree (D) = 2, and Strongly Disagree (SD) = 1" quantified the responses.

**Table 8: Responses on tax compliance.**

Item	Mean	Std. Deviation
<b>Simplified system of taxation</b>		
I understand the Ugandan tax system	2.32	.766
I can compute the income tax liability of our business with ease	2.31	.684
I always attend taxation seminars and workshops on behalf of the business to update myself on the tax system	4.31	.667
Payment of levies is straightforward forward hence the business does not hire professional consultancy services	2.35	.950
<b>Interpretation of tax laws and regulations</b>		
I am aware of most tax laws and guidelines about the taxation of incomes for SMEs	4.44	.641
I understand the tax laws and regulations in Uganda	2.24	.711
I can interpret tax laws and compute tax liabilities	2.45	.710
I always file tax returns with URA on a timely basis as required by law	4.34	.856
<b>Tax planning and functional expertise</b>		
I know how to treat the expenses incurred by income tax in Uganda.	4.19	.856
I always advise management on income tax planning issues	4.02	.857
I am sure of the incomes /turnover on which we pay income taxes as a firm	4.15	.766
I am always part of the team that carries out the budgeting process of my employer, especially on income tax matters	4.24	.643

Source: Primary data

Table 8, highlights that the majority of the respondents within the SME sector cannot understand the Ugandan tax system as indicated by the average score of 2.32 (SD = 0.766). This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements.

Most of the respondents revealed that they could not compute the income tax liability of their businesses with ease. This is confirmed by the mean score of 2.31 (SD = 0.684) which shows that the majority of the respondents need assistance to understand how much to pay and when to pay according to the size and capital of their businesses.

A bigger proportion of the respondents agreed that they always attend taxation seminars and workshops on behalf of their business to update themselves with the tax system as noted by the mean 4.31 (SD = 0.667). The above findings were supported by a respondent during face-to-face interviews who reported that;

*“URA through the umbrella body KACITA engages the traders to ease the provision of taxpayer services, which include tax advice and intensive taxpayer education*

*(seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. For example, we can learn how to avoid making mistakes that could result in avoidable penalties. This is because taxes are costly to businesses; therefore, managing penalties would significantly reduce business costs.”*

This means that the traders and other employees within the SME sector have attended taxation seminars and workshops which has improved their knowledge of tax policies and also enabled them to avoid tax penalties associated with tax evasion. This has reduced the tax compliance costs for the SMEs and thus boosted their performance.

The payment of levies is not straightforward forward hence the business has to hire professional consultancy services. This was confirmed by the majority of the respondents (mean = 2.35; SD = 0.950) who revealed that they usually hire someone to file their tax returns for them.

In addition, most of the respondents agreed (mean = 4.44; SD = 0.641) that they are aware of most tax laws and

guidelines about taxation of incomes for SMEs. This means that the majority of the respondents can comprehend their tax acquiescence as noted by tax authorities. The above findings were supported by a respondent who said;

*“Recently, Uganda Manufacturers Association (UMA) conducted a seminar on Tax Legislation, Tax Compliance, and the impact of company tax practices on business performance where I was able to know the rights and obligations of my business regarding tax, know the various taxes to which my business may be subjected, application of tax planning techniques without evading tax and breaking the law, and learning the best techniques of tax computation.”*

This implies that the respondents have received tax education through seminars which have improved their awareness concerning tax laws, tax planning, and compliance for small and medium businesses. This has also enabled them to know the rights and obligations of their businesses regarding taxes.

The study findings revealed that members of the small and medium enterprises could not understand the tax laws and regulations in Uganda which is represented by the mean score of 2.24 and a standard deviation of 0.711. Furthermore, most of the respondents disagreed (mean = 2.45; SD = 0.710) that they could interpret tax laws and compute tax liabilities. This shows that the majority of the respondents do not have sufficient tax knowledge regarding when to pay taxes and in what proportions.

On whether the small and medium enterprises always file tax returns with URA on a timely basis as required by law, the majority of the respondents (mean = 4.34; SD = 0.856) agreed that they always file their tax returns on time. The study findings further revealed that most of the respondents know how to treat the expenses incurred about income tax in Uganda which was confirmed by a high average score of 4.19 and a standard deviation of 0.856.

On average, most of the respondents in the SME sector agreed (mean = 4.02; SD = 0.857) that they always advise management on income tax planning issues. The majority of the respondents noted that they are sure of the incomes/turnover on which they pay income taxes as a firm which is represented by the mean score of 4.15 and relatively low standard deviation of 0.766.

The findings also show that the majority of the respondents with an average score of 4.24 (SD = .643) agreed that they are always part of the team that carries out the budgeting process of their employers, especially on income tax matters.

### Correlation results of tax compliance and the performance of SMEs.

Pearson correlation coefficient established the extent to which tax compliance influences the performance of SMEs in Nakawa Division, Kampala, and the results are shown in Table 9.

**Table 9: Correlation matrix for tax compliance and the performance of SMEs.**

		Tax compliance	Performance of SMEs
Tax compliance	Pearson Correlation	1	.595**
	Sig. (2-tailed)		.000
	N	377	377
Performance of SMEs	Pearson Correlation	.595**	1
	Sig. (2-tailed)	.000	
	N	377	377

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

Source: Primary data

The study findings in Table 9 show that tax compliance significantly affects the performance of SMEs in the Nakawa division since the p-value (.000) is less than the significance level. The correlation coefficient is (0.595) which implies that there is a moderate positive relationship between tax compliance and the performance of SMEs. Therefore, according to the results, tax compliance has a statistically significant moderate positive effect on the performance of SMEs.

Thus, the hypothesis: *“Tax compliance significantly affects the performance of SMEs in Nakawa Division, Kampala.”* is accepted. So, to enhance the performance of

SMEs in Uganda, the government needs to ensure that there is a proper mechanism to ease tax compliance through having a simplified system of taxation, proper tax planning, and functional expertise as well as ease with the interpretation of tax laws and regulations.

Results from the quantitative findings indicated that tax compliance significantly influences the performance of SMEs which coincided with the qualitative results which indicated that members within the SME sector have been able to enhance their knowledge on taxation where URA through the umbrella body KACITA has engaged the traders to ease provision of taxpayer services, by

delivering tax advice and intensive taxpayer education (seminars/ workshops) on the rights and obligations of taxpayers in the designated blocks are among the benefits to taxpayers. This has benefitted the traders by equipping them with practical knowledge of tax compliance and best practices.

In summary, the study found that tax compliance contributes to the performance of SMEs in the Nakawa division, Kampala.

## **DISCUSSION.**

During the study, a simplified system of taxation was examined as a factor of tax compliance, and the findings highlighted that a bigger proportion of the respondents within the SME sector cannot understand the Ugandan tax system. This means that these respondents cannot interpret what the various tax laws stipulate and the other tax compliance requirements. This is corroborated by Bozdoğanoglu, (2016) who asserts that on top of the direct costs incurred by taxpayers especially the SMEs towards meeting their tax compliance costs, they face an extra tax burden associated with 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 (Bozdoğanoglu, 2016).

On the interpretation of tax laws and regulation as one of the indicators of tax compliance, the study findings highlighted that members of small and medium enterprises cannot comprehend the tax laws. Furthermore, the findings showed that most of the respondents could not interpret tax laws and compute tax liabilities. This shows that a bigger percentage of respondents lack sufficient tax knowledge regarding when to pay taxes and in what proportions. This is supported by Boadi, Opoku, Firm, & Wy, (2016) who highlighted that tax compliance costs among SMEs in developing countries, are high due to the narrow resource envelope of these small and medium enterprises to fully meet their tax obligations; in addition to the limited expertise in taxation to observe the complex tax laws. This is supported by Pope & Abdul-Jabbar, (2008) who pointed out that small and medium enterprises are facing tax burdens due to the nature and size of these enterprises which has inhibited the financial and non-financial performance aspects of SMEs.

In addition, the findings indicated that the payment of levies is not straightforward hence the business has to hire professional consultancy services to file their

tax returns for them. The findings also highlighted that most of the respondents could not calculate the income tax charge of their businesses easily. This implies that these respondents need assistance to understand how much to pay and when to pay according to the size and capital of their businesses. This is supported by Oberholzer, (2008) who observed 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.

## **CONCLUSION.**

According to study findings, it was concluded that; “the simplified system of taxation, tax planning, and functional expertise, interpretation of tax laws and regulations play a fundamental role in enhancing the performance of SMEs.” This implies that strengthening the system of taxation through a simplified system of taxation can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. Therefore, a streamlined tax administration strategy is important in enhancing the performance of SMEs.

## **RECOMMENDATION.**

During the study, it was found that to promote the performance of SMEs in Nakawa Division, Kampala. Uganda’s, primary consideration should be given to strengthening the system of taxation through having a simplified system of taxation that can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. This will contribute to lowering the presence and magnitude associated with these fixed costs of operation for SMEs as well as putting in place a simplified tax structure that will accommodate all tax payers including the SME sector.

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### LIST OF ABBREVIATIONS.

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BDS:	Business Development Services
EAC-CMA:	East African Community Customs Management Act
DV:	Dependent Variable
FSD:	Financial Sector Deepening
FY:	Financial Year
IMF:	International Monetary Fund
IV:	Independent Variable
KACITA:	Kampala City Traders Association
MFPED:	Ministry of Finance, Planning, and Economic Development
OECD:	Organization for Economic Cooperation Development
RPED:	Regional Program on Enterprise Development
SEATINI:	Southern and Eastern African Trade Information and Negotiations Institute
SMEs:	Small and Medium Enterprises
UIA:	Uganda Investment Authority
URA:	Uganda Revenue Authority
UMA:	Uganda Manufacturers Association
UMI:	Uganda Management Institute

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The author had no conflict of interest.

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