

TAX ALLOWANCES AND GROWTH OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN UGANDA A CASE OF SELECTED SMES IN NTUNGAMO MUNICIPALITY-NTUNGAMO DISTRICT. A CROSS-SECTIONAL STUDY.

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ABSTRACT.

Background:

The study assessed the effect of Tax allowances on the growth of Small and Medium-Sized Enterprises (SMEs).

Methodology:

The study adopted descriptive and cross-sectional research designs based on both quantitative and qualitative approaches. A sample size of 118 respondents was used from a study population of 170. The questionnaire was the main instrument of data collection. The analysis of coefficients of variations which aimed at establishing the extent of influences of the independent variables;

Results:

It was established that there is a strong positive relationship between tax allowance and the growth of SMEs of $r = .735^{**}$ meaning that when tax allowances increase, the growth of SMEs improves. When tax allowances are reduced, the growth of SMEs will also be reduced. The adjusted coefficient of determination (Adj R Squared) of 0.535 implied that a tax allowance explains the growth of SMEs by 53.5%. Hence tax allowance has a positive effect on the growth of SMEs.

Conclusion:

The study concludes that Tax allowances play a vital role in ensuring that small and medium enterprises thrive because the central government has made available tax allowances for pioneer companies, and the government also grants several general and industry-specific incentives.

Recommendation:

The study recommends that the Government should promote the growth of small and medium enterprises by creating the necessary enabling frameworks to relax the burden of regulating measures and ensure that their efforts are geared towards granting tax incentives to micro, small, and medium enterprises.

Keywords: Tax Allowances, Growth, Small and Medium-Sized Enterprises

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INTRODUCTION.

Tax allowances are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates, or deferral of tax liability. According to Fletcher (2013), tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reductions in tax rates, and indirect tax incentives.

Tax allowances are designed to attract new investment into the country and to expand existing ones in priori industries which is based on the country's development plan capable of stimulating industrial growth (2013).

Tax incentives encompass all the measures adopted by the government to motivate taxpayers to respond favorably to their tax obligations. According to Kuewumi 1996, It includes adjustments to tax policy aimed at lessening the effects of taxation on an industry, a group of persons, or the provision of certain services.

According to Phillips (1996), tax incentives as a deliberate reduction in tax liability granted by the government to encourage particular economic units (e.g. according to Dickson E et al 2013 corporate bodies to act in some desirable ways (e.g. invest more, produce more, employ more, export more, save more, conserve less, pollute less, and so on(Dickson E et al 2013).

According to Saif, N et al (2019), SMEs play a vital role in the economic development of a country. Studies have indicated that SMEs contribute more than 50% of the Gross Domestic Product (GDP) in many developing countries. More still, SMEs are the largest employers where more than 90% of the working force is employed by SMEs. In a bid to stimulate the growth of SMEs, several countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards Dickson E et al 2013.

According to Mintz and Chen (2011), Tax allowances for investors are the more common approach, particularly in advanced markets. For instance, Poland adopted the policy of encouraging investment in shares of SMEs by removing so-called “back-end” taxes, which are the taxes applied to profits made when selling security (Daniel T et al. 2019).

The World Bank Doing Business Report (2013) ranked Uganda 32 out of 189 countries, which is a significant jump up by 22 positions from the previous year. It excels in registering property and starting a business by entering the top 10 worldwide. In Uganda, it takes only 12 days to register property and two days to start a business, which is far less than the regional averages and even the averages of OECD countries.

According to Daniel T et al. 2019, several reforms have contributed to improving the business environment. For example, in recent years Ntungamo municipality has reduced the time required to obtain a registration certificate for starting a business.

Purpose of the study.

The general objective of the study was to examine the effect of tax allowances on the growth of selected Small and Medium Enterprises (SMEs) in Ntungamo Municipality in Ntungamo district.

Objectives of the study.

To examine the effect of investment tax allowance on the growth of SMEs in Ntungamo Municipality.

RESEARCH METHODOLOGY.

This study adopted descriptive and cross-sectional research designs based on both quantitative approaches. The SMEs included food stalls, wholesale shops, and Restaurants. The study population was 170 in small and medium enterprises in Ntungamo Municipality. From a population of 170, a sample size of 118 respondents was targeted and distributed as follows; business owners were 66 and employees were 73.

Questionnaires were used by the researcher in the collection of data because of their efficiency and convenience in the collection of qualitative and quantitative data to make triangulation feasible.

Data Quality Control.

Validity.

The researcher made use of expert judgment to confirm the validity of the instruments. The relevance of each item in the research instruments to the research objectives was evaluated. In particular, the reviewers rated each item as either relevant or not relevant. Validity was determined using Content Validity Index (C.V.I), where; C.V.I = Items rated relevant by both judges divided by the total number of items in the questionnaire as shown below.

$$CVI = \frac{\text{No. of items rated relevant}}{\text{Total no. of items}}$$

$$CVI = \frac{32}{36} \quad CVI = 0.889$$

Giving the result 88.9% from the two experts the average score was 88.9% which made the questionnaire content valid which was above the score of 72%.

Reliability.

To ensure the reliability of quantitative data, the Cronbach's Alpha Reliability Coefficient for Likert-Type Scales test was performed. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees.

Table 1: Shows the reliability statistics.

Variables	Number of items	Cronbach's alpha
Tax allowances	9	0.767
Tax holidays	8	0.468
Corporate tax incentives	7	0.599
Growth of SMEs	8	0.736
Overall score	32	0.876

The Cronbach's alpha value of 0.876 was above 0.7 implying that the data under analysis was reliable.

This section provides statistics of percentages, mean, and standard deviation obtained from responses to the various questions answered by respondents on the effect of tax allowance on the growth of SMEs in Uganda as extracted from SPSS version 20.0 and presented in Table 2.

RESEARCH FINDINGS.

Table 2: Showing the Grouped data on Tax allowances.

Opinions	Mean	Std. Deviation
We have got taxes claimed in respect of capital assets which are used in the business to trade	3.67	1.238
Tax allowances are always repayment of the cost of assets by the government to the traders	3.10	1.394
The higher the rates of capital allowance, the lower the tax and capital allowance by the government	3.20	1.366
We have got tax allowances granted at the initial stage of the business	3.49	1.444
We have got tax allowances granted only once in the life of an asset to the business	4.13	1.051
We usually get a tax allowance granted for each year of assessment when an asset is in use.	2.85	1.345
We are provided with tax allowance in respect of productive machinery only	3.36	1.363
We always get an allowance given on the full value of the asset before the deduction of the initial allowance.	3.51	1.242
The tax is granted when the ownership of the asset must not be in dispute.	2.72	1.345
Average scores	3.34	1.309

Source: Primary data, 2020

The relationship between tax allowances and the growth of SMEs.

The correlation between tax allowances and the growth of SMEs is carried out using the Pearson correlation. The results are presented in Table 3.

Table 3: showing the relationship between tax allowance and growth of SMEs

		Tax allowances	Growth of SMEs
Tax allowances	Pearson Correlation	1	.735**
	Sig. (2-tailed)		.000
	N	108	108
Growth of SMEs	Pearson Correlation	.735**	1
	Sig. (2-tailed)	.000	
	N	108	108

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

From the Pearson correlation results, it was established that there is a strong positive relationship between tax allowance and the growth of SMEs of $r = .735^{**}$ meaning that when tax allowances increase, the growth of SMEs improves. When tax allowances are reduced, the growth

of SMEs will also be reduced. It was also noted that the p-value results show that tax allowances have a significant relationship with the growth of SMEs. In terms of tax allowances, there is a significant relationship with is p-value of 0.000.

Table 4: Shows the Regression results for tax allowance and growth of SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.735 ^a	.540	.535	.44090

a. Predictors: (Constant), Tax allowances

The correlation coefficient $R = .735^a$ indicates that the dependent variable and independent variables have a strong positive degree of correlation. The (R-squared) coefficient of determination value of about 0.540 indicates variation in the growth of SMEs was explained

by a unit increase in tax allowances. The adjusted coefficient of determination (Adj R Squared) was 0.535. This still implied that a tax allowance explains the growth of SMEs by 53.5%. Hence tax allowance has a positive effect on the growth of SMEs.

Table 5: shows the ANOVA of tax allowance and growth of SMEs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.150	1	24.150	124.232	.000 ^a
	Residual	20.605	106	.194		
	Total	44.755	107			

a. Predictors: (Constant), Tax allowances

Table 5: shows the ANOVA of tax allowance and growth of SMEs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.150	1	24.150	124.232	.000 ^a
	Residual	20.605	106	.194		
	Total	44.755	107			

b. Dependent Variable: Growth of SMEs

The computed F-value is 124.232 while the table value of F at the alpha of 0.01 significance level is 21.875. This shows that tax allowance predicts the growth of SMEs (Sig = 0.000, F-value = 124.232). F-value of 124.232 is statistically significant (P-value of $0.000 \leq$

0.01). This further signifies that tax allowance significantly predicts growth within SMEs therefore; there is a relationship between tax allowances and the growth of SMEs.

Table 6: Shows the Coefficients of tax allowance and growth of SMEs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.377	.188		7.327	.000
	Tax allowances	.611	.055	.735	11.146	.000

a. Dependent Variable: Growth of SMEs

Source: Primary data, 2020

A Beta coefficient value of 0.735 which implies that a unit improvement in the growth of SMEs by is causes an improvement in the financial sustainability of SMEs within the Kawempe division by 0.735 results from tax allowances implemented by the government. Further, the t-value of 11.146 which is greater than 1.96 implied that tax allowances are statistically significant in predicting the growth of SMEs.

Tax allowances are meant to encourage and stimulate the economic activities of Small and medium enterprises (SMEs), (Daniel T et al, 2019). They are fiscal policies designed by the Government to revive, rehabilitate, and stabilize individuals and SME businesses. The tax allowances are also used by the government to channel some specific economic activities towards the vital sectors of the economy where they are not felt or non-existent.

DISCUSSION.

It is important to state that the small and medium enterprises sector is potentially the fastest and largest growing sector in any economy for them to thrive in any economy; it has become pertinent for the government to create an enabling environment by offering allowances in the form of taxes. One area through which the government has achieved this is through the use of tax allowances. According to the Samphina Academy 2023, the response of the respondent having been analyzed revealed that their work experience and qualification allows us to rely much on the information derived from them.

According to Lawal, B et al 2016, the basis of the discussed findings of this research work, the facts have been confirmed that tax incentives are germane to the growth, development, and continued sustenance of small and medium enterprises (Daniel T, et al 2019). According to Charles Chomba,2016, Tax incentive plays a vital role in ensuring that small and medium enterprises thrive because the federal government has made available tax holidays for pioneer companies, the

government also grants several general and industry-specific incentives (Elebiju A, 2021).

CONCLUSION.

The study concludes that Tax allowances play a vital role in ensuring that small and medium enterprises thrive because the central government has made available tax allowances for pioneer companies, and the government also grants several general and industry-specific incentives.

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RECOMMENDATIONS.

The government should address the dire need for start-up funds for SMEs by providing tax allowances for SME funding.

Business people should be enlightened appropriately on the form of business they want to embark upon before venturing into it to make them better equipped by going for entrepreneurial training programs which can make them qualify for tax allowances.

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