Tax Administration and Entrepreneurial Performance: A Study of SMEs in Uganda

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Abstract

Using the 2013 World Bank Enterprise Survey Data for Uganda, this paper employs the logit and quintile estimation technique to explain the relationship between tax administration and entrepreneurial performance among SMEs in Uganda. The study also employed interviews to obtain expert opinion about tax administration and also explain the results of logit models. Our results indicate that tax rate positively and significantly affect entrepreneurial performance, while tax administration has no effect on entrepreneurial performance. Other key factors that promote entrepreneurial performance include access to credit, firm age, male ownership, training and participation in exporting. Our results suggest that efforts to incentivize and set a conducive tax rate, ease of access to financing and training need to be strengthened for higher entrepreneurial performance among SMEs in Uganda.

Keywords: tax administration, SME performance, Uganda

1. Introduction

1.1 Problem Introduction

Tax administration is vital for economic performance in both government revenue collection and business performance (Godin & Hindriks, 2015; Kangave, Nakato, Waiswa & Zzimbe, 2016). Tax administration in Uganda has gradually improved from manual forms to electronic system where tax payers need to access tax information at their convenience and consult on tax matters 24 hours using the toll free line. Furthermore, URA opened up a number of fora for tax education and sensitization for instance; URA launched 'Ask URA' mobile application with Mobile Telephone Network Company (MTN), URA conducts workshops and seminars to vendors and landlords (Uganda Revenue Authority Annual Report, 2015/2016). The efforts are in the spirit of improving tax compliance with minimum cost to the tax payer. It can be argued that once the compliance cost in terms of efforts, time and monetary losses to SMEs are minimized, the resources saved may be utilized by SMEs for market penetration hence increased sales or financing working capital or any other SME activity.

Despite the fact that URA has endeavored to administratively simplify the tax system, the cost of compliance is still a problem to SMEs. Some SME entrepreneurs are illiterate, therefore, they need to hire tax consultants to help them file returns and interpret trade laws and regulations especially for custom purposes. Besides hiring tax consultants, the internet supply in Uganda is not reliable, or in other cases the cost of internet adds extra burden to SME operators. Furthermore, despite the numerous complaints made by traders about delayed administrative feedback (Kato, 2017) especially in clearing imports at various customs points, URA has not yet established a proper solution. In addition, taxes such as Value Added Tax (VAT) require filing monthly returns, this alone may be cumbersome to SMEs because of the costs of filing returns and the implications if the tax payer defaults. Therefore, there is high compliance encumbrance which tends to divert SMEs resources from entrepreneurial performance. It has not yet been established in Uganda's context whether the wasted time (delayed feedback and delay in understanding customs regulations and procedures) and money while endeavoring to comply for tax can impact on SME innovations, working capital, sales volume and market share. In other words, it is not yet clear whether tax administration can be an obstacle to SMEs' performance in Uganda, and to what extent it can be. However, in South Africa's construction industry, a study by Matarirano, Chiloane-Tsoke and Makina (2019)

established that, while internal tax compliance costs (such as; employing extra personnel to handle filing of returns, time and procedure to understanding the compliance procedure and issuing of invoices) are positive and significantly related to firm performance, the external tax compliance costs (such as; hiring professional accounting firms, clearing agents and buying internet services) are negative and significantly related to firm performance. And, whereas the Matarirano et al; (2019) study was about the construction sector, the World Bank Enterprise survey (2013) where secondary data was obtained for analysis was not limited in scope. The survey considered both manufacturing and service sector firms in Uganda.

This study set out to investigate the relationship between tax administration (as an obstacle or not obstacle) and tax rates on firm performance taking into consideration other firm and entrepreneurial characteristics and the business environment. The firm performance measures were discussed by Yu (2013) and Bosma, Van Praag and Wit (2002). The same measures were tested in Uganda's informal economy by Kintu (2017).

Despite the improvements made by URA to ensure convenient and cost effective tax administration, there are still aspects of delayed decision making by revenue officers and bureaucratic tendencies (Kato, 2017). These tax administrative challenges may affect performance of SMEs in terms of time wastage or cash flow stagnation in case a decision requires monetary compensation or release of trader's goods for the market. This may impact on entrepreneurial performance. Moreover, there is relative research paucity about tax administration and entrepreneurial performance in Uganda's SME sector. The study by Dabla-Norris, Misch, Cleary, and Khwaja (2017) was not country specific.

The objective of this study was to establish the effect of tax administration and selected firm and owners' characteristics on firm performance in Uganda using the World Bank Enterprise Survey data. From the reviewed studies, it implies that there is need to understand the importance of tax compliance cost on SMEs' performance. This has policy implication regarding tax administration and tax rates for firm performance. In addition, the study contributes to literature since there is literature dearth about tax administration and tax rates on firm performance in Uganda.

Section 1.2 reviews the selected literature. The data and empirical strategy are described in section 2. Section 3 presents empirical findings and section 4 discusses the study findings, while section 5 presents the concluding remarks.

1.2 Literature

Uganda has structured business licensing to facilitate business start-ups. The Uganda Investment Authority was formed to ensure that all investors operate legally within Uganda. Furthermore, different sectors have unique laws governing licensing in those sectors. For instance, financial institutions are governed by the Financial Institutions Act (2004) with its subsequent amendments. In the same way, the mining sector is regulated by the Uganda Mining Act (2003). In addition, to facilitate an easy registration of patents and business undertakings, Uganda Registration Services Bureau (URBS) was formed by an Act of parliament in 1998. The URBS is responsible for civil registration, business registration, patents, intellectual property rights and other activities as required by law.

Besides registration, taxation and customs laws and regulations are in place. For instance, the Value Added Tax Act (1996) streamlines the operations of VAT domestically and at customs, the East African Customs Management Act (2004) together with the East African Customs Management (Amendment) Bill (2015) streamline the operations of customs activities at all East African border points. In addition, the Common External Tariff (CET) was established to guide on all duties for commodities imported from outside the East African Community. It is imperative to know that today, under the Tax Payer Registration Expansion Program (TREP), Small and Medium Size Enterprises (SMEs) are required to register for both business licensing and tax at one point. This implies that all SMEs leave the registration point with both the business operational license and the Tax Identification Number (TIN).

It is argued that, World over, formality is not a major goal for SMEs. They focus on expanding sales. Whereas tax and local authorities want SMEs to be registered and formalize their operations in order to collect tax revenue, SMEs want to remain informal to avoid paying taxes. It has been observed in Lima that obtaining a trading license does not guarantee increase in firm revenue (Alcazar, Andrade & Jaramillo, 2010). Therefore, SMEs find no urgency in formalization. Moreover, obtaining a license involves costs in terms of monetary payments to local authorities and wasted time. Furthermore, trade is hampered by inconsistent collection of duties which influences traders to issue bribes to customs officials (United States Country Commercial Guides, 2017). Although the government of Uganda through Uganda Investment Authority (UIA) introduced one-stop-center for registering businesses, the business registration period is an average of twenty six days (World

Bank, 2016). This is still a long period of time. The United Nations Doing Business report (2017) indicates that the efficiency and quality of regulatory framework in Sub-Saharan Africa is still low at 56.5% and 36.7% on the Distance to Frontier (DTF) score. Therefore, the tax administrative system may be bypassed with irregular payments to favor some business operators at expense of others.

In addition, another conundrum originates from unrealistic tax rates. The high tax rates may also induce irregular payments because people feel that to survive in business, pay irregularly at below the rates. Furthermore, it can be argued that the tax rates imposed can hinder firm performance, for instance, the excise duty imposed on items can increase the selling price of an item, which may reduce the sales volume. The empirical findings of Gatsi, Gadzo and Kportorgbi, (2013) among Ghanaian manufacturing firms indicate that whenever tax burden increases, the firm's financial performance declines. Thus, whenever tax rates especially under the indirect tax regimes increase, there is expected reduction in firm clientele and sales hence more pressure on firm cash flows. Furthermore, in Malaysia, the Goods and Services Tax (GST) have slowed down the sales of the shipbuilding and ship repairing business (Sim, 2019).

Whereas tax/duty collection and business registration has been made easy through online platforms (online filing of returns and online business registration), business community is complaining about bribery and irregular payments (World Economic Forum, 2017). Moreover, public servants are corrupt (Enterprise Survey Uganda, 2013), this is coupled with bureaucratic hurdles which hamper efficiency (Investment Climate Statement, 2017; United States Commercial Guides, 2017).

It is based on the bribery, bureaucratic, high tax rates and inefficient ways of operation that the authors envisage that tax administration, tax rates and business licensing can hinder firm performance. Furthermore, delays in obtaining information wastes traders productive time, slows decision making in business hence low productivity and performance. For instance, innovation time is wasted, cash is used for bribes instead of funding the firm's liquid requirements.

Uganda like any other East African state has structured the customs procedures following the East African customs protocol. Before the protocol, each member state was following her own customs procedures. However, today, the common customs laws to all East African customs points were introduced. Laws such as; the East African Customs Management Act (2004) together with the East African Customs Management (Amendment) Bill (2015) regulate customs business at all East African border points. In addition, the Uganda National Bureau of Standard regulations (2015) are provided to guide the inspection of imports and exports to ensure compliance with international standards and to confirm the quality of imports. The Uganda National Bureau of Standards introduced a Pre-Export Verification of Conformity (PVoC) following the World Trade Organisation's notification requirements and the Technical Barriers to Trade (TBT) article 5. The PVoC requires that all goods imported to Uganda are inspected for quality in the country of Origin. However, the clearance requirement challenges traders since they buy and import merchandise from open market rather than manufacturers (Musoke, 2012).

Furthermore, to ensure that customs regulations are implemented in a proper and efficient manner, new technology such as single customs territory has been introduced. The single customs territory enables traders to comply with customs procedures, and pay customs taxes at one entry point within a maximum of two days (World Bank, 2017; Nakaweesi, 2018). In addition, United Nations Doing Business report (2017) indicates that URA introduced one-stop center at Malaba in effort to expedite customs clearing processes. On top of these initiatives is the ASYCUDA World, the technology which is an enabler of efficient customs clearance process. Although the regulatory framework and technology has facilitated the reduction in hindrances at customs entry points, for instance, reduced time for customs processes and reduced time for client contact with the customs officers, the systems can only operate on internet. It is not prudent to assume that every place in Uganda has stable internet.

Important to state, most people in business community are not conversant with the customs regulations. They survive at the mercy of clearing agents who sometimes may not offer satisfactory advice, hence tax disputes between URA and the tax payer. It is also important to understand that although Uganda has a clear mechanism to address tax disputes between tax payers and URA provided in the Tax Procedure Code Act (2014), Uganda's commercial court is perceived to favor politically connected firms where such firms induce bribes to judges to delay cases or rule in their favor (United States Country Commercial Guides, 2017). In addition, the World Economic Forum (2016) indicates that border administration in Uganda is not transparent, has a lot of irregular payments and the clearance process is inefficient. Moreover, the main problem facing tax authorities in African countries in tax administration is corruption (Dube, 2014).

The operations at customs guided by the customs regulations have led to significant improvement in efficiency at customs entry and exit points. Bogachkova, Usachyova and Usachyov (2019) argue that, a well simplified system of tax reporting of entrepreneurs improves SMEs business activities. However, there numerous challenges such as; the inadequate awareness of the regulations by business community, yet, tax awareness is positive and significantly related to tax compliance (Omondi & Theuri, 2019). Unstable internet services, delays caused by customs officers and delays caused by disputes between URA and tax payers. The delays and impromptu bribes affect business performance. It can be argued that if time is lost at customs point, importers' sales will drop. It can further be argued that bribes, extra charges and time wastage during the appeal procedure can be a hindrance to firm sales, profitability or working capital.

2. Methodology and Data

2.1 Methodology

To establish the effect of tax administration and tax rates on SMEs' performance, the logit model was estimated. After obtaining results of the logit model, interviews were conducted to explain specifically; how tax administration affect the sales of a firm? How tax rates affect the sales of a firm? And how importers perceive the customs procedures at Uganda boarders? This is sequential explanatory research approach. The mixed methods ensure triangulation of methodologies (Johnson & Onwuegbuzie, 2004).

Besides tax administration, other factors which can affect performance are; operating expenses such as rent, salaries, financial charges and utilities. The effect of tax administration on selected firm and industrial characteristics on SMEs' performance are examined by estimating the following model:

$$Perm_i = \alpha_0 + \alpha_1 Taxad_i + \alpha_2 Firm_i + \alpha_3 Industry_i + \alpha_4 Owner_i + \varepsilon_i \tag{1}$$

From Equation 1, $Perm_i$ denotes firm performance. For this study, firm performance is measured by working capital, cumulative employment and sales volume. Taxad denotes tax administration, which is binary and is coded as '1' if tax administration has no effect and '0' if otherwise. *Firm* denotes firm characteristics which include firm size and firm age. Industrial factors include; firm location and type of business. *Owner* denotes whether firm owner is male or female and ε is the normally distributed error term.

For qualitative interviews, purposive sampling was employed to select the customs officers and customs agents who are engaged in customs business. SME managers were included because they import goods and services. The interviews intended to explain the results obtained from the quantitative logit modelling. The sample size is twenty respondents and this is considered adequate (Creswell, 2013). The customs boarder points considered for the study are: Busia and Malaba in Eastern Uganda and Mutukula in Southern Uganda. The choice of these entry points is for their being busy with clearing imports.

Before conducting interviews, interviewees' consent was sought and each interview took a maximum of twenty minutes. The interviewers also assured the respondents that they were not under any threat.

Whereas the quantitative data was obtained from World Bank Enterprise survey for Uganda (2013) thus requiring no validity and reliability tests, an interview guide was subjected to peer review and debriefing, ensuring adequate sample size, transparency and credibility in handling data. Finally analysis for qualitative interviews was conducted through coding and creating themes.

2.2 Data Description

This study uses the 2013 WBES data for Uganda which was collected between January and August 2013. The survey employed stratified random sampling technique so as to: 1) get rid of biased estimates for the entire population; 2) get rid of biased estimates for different subdivisions of the population with a given degree of informed precision; 3) ensure that different sectors are well represented in the final sample; and 4) benefit from the precision associated with population estimates in stratified sampling as opposed to simple random sampling among others. The survey was based on a sampling frame obtained from Uganda Bureau of Statistics. In terms of stratification, the survey employed three levels of stratification that is region, size and industry. Specifically, in terms of the region, the survey was undertaken in Jinja (central Eastern Uganda), Kampala (City found in central Uganda), Lira (Northern Uganda), Mbale (Eastern Uganda), Mbarara (Western Uganda) and Wakiso (Central Uganda). In terms of size, the survey covered small, medium and large enterprises. Small enterprises comprised of firms with 5 to 19 employees, medium enterprises compromised of firms with 20 to 99 employees while large firms had 100+ employees. The data was collected from only formal (registered) companies with 5 or more employees.

With regard to our study, we have a sample of 698 SMEs of which, 324 SMEs were surveyed in the manufacturing sector which included food, textiles, garments, tobacco, leather, wood, paper, publishing, printing, and recorded media, refined petroleum products, chemicals, plastics and rubber, non-metallic mineral products, basic metals, fabricated metal products, machinery and equipment, electronics, precision instruments, transport machines, furniture and recycling.

The key study variables used in the empirical analysis include firm age. Unlike other study Pervan, Pervan and Curak (2017) in Croatia food industry indicates that firm age has a significant negative relationship with firm performance. This study only examined the linear effect of age on firm performance. Furthermore, Coad, Daunnfeldt and Halvarsson (2017) established that new firms strive to grow in sales level, however, after some few years, growth loses momentum. However, the current study takes into account the nonlinear effect of age on firm performance.

Also, the study employs firm size following Perez-Quiros and Timmerman (2000) who contend that small firms have a lower return on stocks during recession compared to large firms. This implies that small firms face more liquidity problems compared to large firms. Furthermore, Capenter and Petersen (2002) in the study of 'is the growth of small firms constrained by internal financing?' concluded that the growth of small firms is constrained by internal financing. Implying that whenever small firms have constraints in liquidity, sales, market share, and assets level can be low.

In addition, this study employs firm location to examine firm performance following Holmes (1999) who argues that firms that locate in places of high population growth experience increased local production. He concluded that as population increases, a set of goods expand. Firms tend to locate where tax rates are lower compared to places of higher tax rates. This is basically because some tax rates affect business cash flows for instance excise duty. Fossen and Steiner (2014) established that the variation in elasticity of local business tax among Germany municipalities is -0.45.

Gender of the owner is also used to examine firm performance following Coleman (2007). Women owned firms find it difficult to secure external capital which humpers their business growth compared to men (Coleman, 2007). De Mel, McKenzie and Woodruff (2009) established that men invest both the small and large grants while women only invest large grants. Men can earn more return by 6.5-14% while women do not get a return (De Mel et al., 2009).

3. Results

Table 1 provides the summary statistics for the key selected study variables. Firm performance is measured as a firm's total annual sales in the fiscal year prior to the survey divided by the number of permanent full time employees at the firm in the fiscal year prior to the survey. The mean sales is UGX 6,330 million. The minimum and maximum firm sales is UGX 400,000 and UGX 9, 7000 million respectively. Firm age defines the number of years a firm has been in existence. The mean age of the firms is 15 years to suggest that on average many of the firms are mid-aged. The youngest and oldest firm is 2 and 87 years old respectively. On average 31 percent of firms are managed by female managers. Export measures a firm's export status and it takes a value of '1' if a firm exports otherwise '0'. One average 8 percent of firms engage in exports. Use of website and emails for business were coded as '1' and '0' otherwise. On average 18 percent of firms have own websites and 39 percent use email for business. On average 88 percent of firms are domestically owned, 4 percent are jointly owned, while 8 percent are foreign owned.

Table 1. Summary statistics for the study variable

Variable	N	Mean	Sd	Cv	Min	Max
Firm sales	460	6.33E+09	5.1E+10	8.06	400000	9.75E+11
Female owner	689	0.31	0.46	1.48	0	1
Years of experience	670	13.37	8.21	0.61	1	41
Firm age	646	15.17	9.9	0.65	2	87
Exporter	698	0.08	0.27	3.36	0	1
Domestic ownership	695	0.88	0.33	0.38	0	1
Joint ownership	695	0.04	0.2	4.88	0	1
Foreign ownership	695	0.08	0.28	3.32	0	1
Access to credit	606	0.61	0.49	0.8	0	1
Medium firm	698	0.33	0.47	1.43	0	1
Use website	692	0.21	0.41	1.96	0	1
Use email	691	0.39	0.49	1.25	0	1
Tax rate	693	0.61	0.49	0.8	0	1
Tax admin	696	0.56	0.5	0.88	0	1
Customs	686	0.46	0.5	1.08	0	1
Training	693	0.7	0.46	0.66	0	1
Ltd company	679	0.08	0.27	3.44	0	1
Sole proprietor	679	0.68	0.47	0.68	0	1
Partnership	679	0.24	0.43	1.78	0	1
Licensed business	696	0.49	0.5	1.01	0	1
Registered at startup	666	0.6	0.49	0.81	0	1
Working capital	662	5.91	13.82	2.34	0	100

Source: Authors' tabulation from WBES (2013)

Table 2 presents the mean difference analysis for the study variables to explore the difference between male and female owned firms. It can be observed that age, access to credit and source of financing are key factors that differentiate between male and female owned firms.

Table 2. Summary statistics for differences between male and female firm owners

Variables	G1(0)	Mean1	G2(Yes)	Mean2	Mean Diff
			99%***, 95%**, 90%*CI		
Firm sales	301	8.200e+09	154	2.700e+09	5.500e+09
Male owner	457	13.02	207	14.13	-1.102
Years of experience	434	14.51	203	16.37	-1.867**
Firm age	473	0.0820	216	0.0740	0.00800
Domestic ownership	471	0.877	216	0.894	-0.0170
Joint ownership	471	0.0280	216	0.0560	-0.028*
Foreign ownership	471	0.0960	216	0.0510	0.045**
Access to credit	413	0.579	187	0.679	-0.100**
Medium firm	473	0.334	216	0.306	0.0280
Use website	469	0.179	215	0.251	-0.072**
Use email	469	0.341	213	0.484	-0.142***
Tax rate	469	0.597	215	0.651	-0.0540
Tax admin	472	0.544	215	0.614	-0.069*
Customs	464	0.459	213	0.460	-0.00100
Training	471	0.724	213	0.667	0.0570
Ltd company	461	0.0560	212	0.118	-0.062***
Sole proprietor	461	0.748	212	0.557	0.192***
Partnership	461	0.195	212	0.325	-0.130***
Licensed business	472	0.479	216	0.528	-0.0490
Registered at startup	450	0.609	207	0.580	0.0290
Working capital	453	5.113	204	7.838	-2.726**

Source: Authors' tabulation from WBES (2013)

3.1 Empirical Results

From Table 3 while this article provides better understanding of the effect of tax administration taking into account tax rate on SME performance in Uganda (Model 1 and 2), for the 25th percentile (low performance firms) and 75th percentile. Note, that the 50th percentile results are equivalent to the OLS results (Model 1). Therefore, the effect of tax administration on firm performance is examined taking into account firm and business

environment characteristics. The use of quintile analysis in this article is to enable us to understand whether the relationship between tax administration and firm performance is uniform across different quintiles; as the sales of firms varies significant despite being the same size.

Table 3. Estimated impact of tax administration on firm performance

Variables	Model 1 OLS (0.5)	Model 2 0.25	Model 3 0.75
		99%***, 95%**, 90%*CI	
Tax administration not an obstacle	0.201	0.094	-0.311
	(0.180)	(0.531)	(0.102)
Tax rate not an obstacle	0.016*	0.028*	0.507***
	(0.077)	(0.054)	(0.008)
Male owner	0.094	0.039	0.208
	(0.555)	(0.806)	(0.289)
Firm age	0.033	0.153***	0.103***
	(0.293)	(0.000)	(0.008)
Firm age squared	-0.037	-0.456***	-0.185*
	(0.657)	(0.000)	(0.081)
Exporter	0.759**	1.054***	0.389
	(0.011)	(0.001)	(0.293)
Firm ownership (RC: Domestic)			
Both domestic and foreign	0.292	0.315	-0.143
	(0.455)	(0.413)	(0.765)
Foreign ownership	1.576***	1.034***	0.705*
	(0.000)	(0.001)	(0.060)
Access to credit	0.165	0.044	0.498***
	(0.274)	(0.768)	(0.007)
Medium firms	0.972***	0.480***	0.378*
	(0.000)	(0.004)	(0.069)
Firm uses website	0.666***	1.248***	1.172***
	(0.003)	(0.000)	(0.000)
Firm uses email	0.492***	0.533***	0.600***
	(0.009)	(0.004)	(0.009)
Customs	0.095	0.212	-0.128
	(0.525)	(0.153)	(0.486)
Training	-0.441***	-0.358**	-0.412**
	(0.007)	(0.026)	(0.039)
Firm legal status (RC: LTD Company)			
Sole proprietor	-1.030***	-0.704***	-1.583***
	(0.000)	(0.006)	(0.000)
Partnership	-0.086	-0.238	-0.111
	(0.752)	(0.376)	(0.740)
Business licensed	-0.185	-0.291**	-0.211
	(0.215)	(0.048)	(0.248)
Constant	18.20***	16.40***	19.32***
	(0.000)	(0.000)	(0.000)
Observations	369	367	367
R-squared	0.180	0.139	0.208

Besides the quantitative modeling, qualitative interviews were conducted and data analysed for the purpose of explaining the quantitative results in table 3. The response rate was 95% and obtained from customs officers, customs agents and business community. The data was carefully edited, cleaned and well coded.

4. Discussion of Findings

The descriptive statistics from Table 1 indicate that on average, 18% of firms use websites and 39% of firms use emails. This implies that all other firms find difficulties in communicating with URA since URA commonly uses emails in effecting communication with the tax payers. Besides, firms which do not use emails and websites find it difficult to access relevant information on URA website. The findings further imply that many firms in Uganda may not be having internet connection. This negatively affects the timely delivery of information from URA.

In addition, from Table 3 model 1, tax administration is positive and insignificantly related to firm performance in the 0.25 and 0.5 quintiles. This is to say, tax administration procedures are not much of an obstacle to firm sales. However, in the 0.75 quintile, the relationship between tax administration and firm performance is

negative and insignificant. Implying that tax administration procedures mildly obstruct firm sales as level of sales increases. The findings concur with, Akinboade (2014) who established that bribes to tax regulators negatively impact on business trading volumes. Furthermore, the study findings concur with Dabla-Norris et. al, (2017) who established that a sturdier tax administration has a positive effect on productivity of small and young firms. Also, the corruption which is in African tax administration bodies cited by Dube (2014) does not affect firm performance. Although Uganda Revenue Authority (URA) has a research unit, some traders are of a view that the research component is lacking thus impacting on tax administration component of the revenue authority. For instance, respondent 4 operating a motor spare shop asserts, 'tax officials do not conduct enough research before a decision is made. So they end up making a lot of mistakes that impact on our sales. Sales revenue differ among importers because of difference in tax rates charged to them'.

Despite the fact that URA has improved the tax administration system by providing information on its website and printing tax education materials, some business people still believe that the system is not transparent enough. For instance; respondent 6, operating a hardware store asserts, 'tax policies and tax rates especially on consumables are not clear, so we charged taxes we don't understand as traders, we push the burden to consumers which affects our sales'. The responses from interviewees 7,9,10 and 11 concur with interviewee 6 that tax administration procedures are not effective enough. Also, tax administration procedures frequently change, so traders are always not comfortable with the system.

The study findings indicate that tax rates are positive and significantly related to firm performance. This implies that tax rates are not an obstacle to firm performance. The effect is much higher at 0.75 quintile. The higher the level of sales, the lesser the tax rates become an obstacle. This is to concur with Mawejje and Sebudde (2018) who did not find significant relationship between taxation and firm performance.

To concur with results in table 3, it was observed that a firm that sells goods where government regulations or policy mandates everyone to consume its products, the firm's sales may not be affected by increase in tax rates or sales can be directly proportional to tax rates. This is adduced by respondent 7, a firm transacting in motor cycle spares and 14 who avows, "If tax on imports increase, prices on the final product will increase. However, for firms importing helmets, their sales may not be affected by increase in tax rates or sales may increase since its government policy that everyone riding must wear helmets'.

Contrary to the findings in table 3 above, respondent 5, an importer of new clothes, respondent 8, selling computers and office equipment, respondent 11 who transacts second hand clothes and respondent 12 who transacts in mobile telephone accessories, observe, 'higher tax rates increases prices and leads to reduction in business sales. This is because, consumers have less amount to spend'. But, the difference in argument is created by government interference in some of the sectors.

Furthermore, the study's findings are in agreement with Alcazar et. al, (2010) who assert that business licensing does not guarantee increased revenue. At the lowest level of sales, the 0.25 quintile, business licensing significantly reduces firm sales. This is an indicator that firms may choose to remain informal, after all, an authority's license does not translate in more revenue. Results also indicate that the relationship between customs and trade regulations and firm sales is insignificant. Implying that customs and trade regulations are not much of an obstacle to firms' performance in Uganda.

The responses obtained indicate, however, that importers do not fully understand the customs procedures and regulations. For instance, respondents 16 and 18 said, 'customs officers are not transparent, they do not easily define taxes payable by importers at entry point'. Some importers have bad experience with customs officers for instance, respondent 12 avows that customs officers are too arrogant to give important information about customs procedures. The negative remarks are made despite the fact that respondent 1, a customs agent and respondent 19, a customs officer at Malaba emphasise that they explain the procedures to importers. Illiteracy was also pointed out by respondent 5 as a factor which hinders business community to understand the customs procedures. Eventually, a simple process becomes a time wasting event. The experience at customs point indicates the weakness in tax awareness process. It must be understood that a good tax awareness system improves tax compliance (Omondi & Theuri, 2019).

The study findings imply that, the time wastage, costs for delayed decisions and tax compliance costs as a result of inefficiencies in Uganda's tax administration does not entirely affect firm sales. Although the quality of tax regulatory framework in Sub-Saharan Africa is below the Distance to Frontier Score (Nations Doing Business report, 2017), findings indicate that this position does not entirely affect firm sales. This position is similar to that of Matarirano et al; (2019) in South Africa who established that internal tax compliance costs are positive and significantly related to firm performance.

Furthermore, the results in table 3 indicate a significant positive relationship between tax rates and firm sales. The study findings differ from that of Gatsi, et, al; (2013), who established that when tax burden increases, the firm's financial performance declines. The bureaucratic huddles are cited in Uganda's tax administration system (Investment Climate Statement, 2017; United States Commercial guides, 2017), however, this does not inversely affect firm sales. The study findings also show that the inability for tax payers to understand customs and trade regulations is not an obstacle to firm sales.

5. Conclusion

This article examine the impact of tax administration on SMEs performance in Uganda taking into account the entrepreneur's characteristics and business environment using data drawn from World Bank Enterprise Survey for Uganda (2013). The qualitative interviews were conducted for the purpose of explaining the numeric from the logit model. The analysis employs both descriptive and estimation of quintile regression model. The results reveal that tax administration is not an obstacle to SME performance but the results are insignificant. Tax rates are not an obstacle to SMEs performance and the results are significant. Also, access to credit is significant in the 0.75 quintile, training has a significant inverse relationship with SMEs performance, male ownership is insignificant at all levels and age of the firm significantly increases SMEs' performance at the .25 and .75 quintiles. Other household and business environmental factors that are associated with low SME performance include legal status of the firm and domestic ownership. The study findings suggest that other factors perhaps significantly contribute to the poor performance of SMEs in Uganda but not necessarily tax rates and tax administration procedures.

The findings suggest that efforts for financial access interventions, such as promoting credit guarantee for SMEs with formal financial institutions, can have a substantial impact on SME performance. Of course, not every SME can apply for credit due to unfavorable business environment and entrepreneurs' objectives. Such constraints should be taken into account when formulating policy, targeting financial access interventions in both rural and urban areas where there is difference in access to formal financial institutions. In addition, there is need for raising awareness of the advantages of tax administration on SMEs and the benefits of staying away from informal business practices, particularly the young SMEs which always operate with no formal business licenses should be encouraged to register their businesses. Behavioral change interventions are nevertheless no substantial panacea and should be complemented by promotion and providing tax training to the entrepreneurs in the country. In the meantime, policy effort should concentrate on promoting tax compliance behavioral strategies and promoting business licensing, with the extreme case of eliminating informal businesses that are hard to tax. Thus, the combination of strategies targeting tax administration and access to credit are a promising path for policy makers.

6. Study Contribution

Whereas Dabla-Norris, Misch, Cleary, and Khwaja (2017) employed difference in difference in case of small firms and difference in difference in case of young firms, this study used logit and quintile estimation techniques to arrive at results. By way of literature, the higher the level of sales, the lesser an obstacle tax rates become to SMEs.

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