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# BUSITEMA UNIVERSITY

FACULTY OF AGRICULTURE AND ANIMAL SCIENCE  
DEPARTMENT OF AGRIBUSINESS AND EXTENSION  
BACHELOR OF AGRIBUSINESS

INCOME TAX ADMINISTRATION AND PROFITABILITY OF SMALL  
SCALE BUSINESS ENTERPRISES IN SOROTI CITY

A CASE STUDY OF SOROTI WEST DIVISION IN SOROTI CITY

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EBETU SIMON BU/UP/2017/252

SUPERVISED BY :



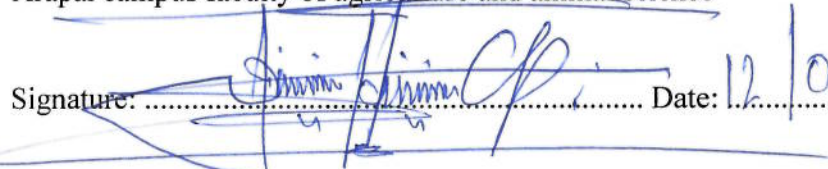
A RESEARCH REPORT SUBMITTED TO BUSITEMA UNIVERSITY IN  
PARTIAL FULFILLMENT FOR THE A WARD OF BACHELOR OF  
AGRIBUSINESS

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i

DECLARATION

I EBETU SIMON declare that this is my own original work and it has never been submitted to any institution/University for the award of a degree in agribusiness in Busitema University Arapai campus faculty of agriculture and animal science

Signature:  Date: 12/02/2021

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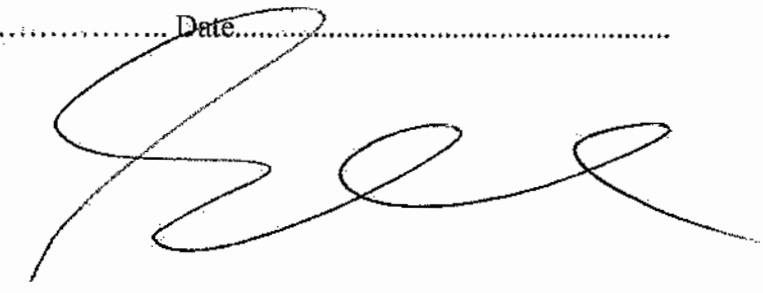


## Approval

This report Titled "Income tax administration and profitability of small scale business enterprises: *A case study of Soroti City in Western Division*" has been submitted by EBETU SIMON for examination with my approval as the University Supervisor, and it's now ready for presentation for the award of a Bachelor Degree of Agribusiness of Busitema University.

Signed: ..... Date: .....

(Supervisor)

A large, stylized handwritten signature in black ink, written over the dotted line for the signature. The signature is cursive and appears to be 'E. Simon'.

## DEDICATION

I dedicate this research proposal to my dear late mother Aigo Dinna, My family members, Mr. Ousi Dirk vanderlinden and all my beloved friends, elders who have supported and guided me to fulfill my dreams.

Thank you for your courageous words and your prayers, which sharpened me on how to live a focused life.

A handwritten signature in black ink, consisting of a large, stylized letter 'S' with a loop at the top and a long, sweeping tail that curves to the left.

## ACKNOWLEDGMENT

I am indebted to all people that contributed in one way or another to this proposal. I wish to express my sincere appreciation to my dear late mother Aigo Dinna, my dear friends, my wife, family members, Mr. Ousi Dirk Vandenlinden and Apedu John Michael for their endless moral and financial support they have given to enable me to this level of education and to make the writing of this research proposal a success. May the life of my late mother rest in the hands of our Lord Jesus Christ and others live to blow more candles.

May the Almighty God Bless the efforts of your hands, families, work places and all that you do for the betterment of many generations to come.

## Contents

DECLARATION .....	ii
Approval.....	iii
DEDICATION .....	iv
ACKNOWLEDGMENT.....	v
Contents.....	vi
List of Acronyms.....	viii
Abstract.....	ix
CHAPTER ONE.....	1
1.1 BACKGROUND OF THE STUDY .....	1
1.2 STATEMENT OF THE PROBLEM .....	4
1.3 PURPOSE OF THE STUDY .....	4
1.4 OBJECTIVES OF THE STUDY .....	4
1.5 RESEARCH QUESTIONS.....	4
1.6 SCOPE OF THE STUDY .....	5
1.7 SIGNIFICANCE OF THE STUDY.....	5
REVIEW ON CHAPTER ONE .....	5
CHAPTER TWO.....	6
LITERATURE REVIEW .....	6
2.1 INTRODUCTION .....	6
2.1.0 DEFINITION OF TERMS.....	6
2.2.0 INCOME TAX ADMINISTRATION IN SOROTI CITY .....	8
2.3.0 PROFITABILITY OF SMALL SCALE BUSINESSES .....	14
REVIEW ON LITERATURE SOURCES.....	16
CHAPTER THREE.....	17
METHODOLOGY .....	17
3.0 INTRODUCTION.....	17
3.1 RESEARCH DESIGN .....	17
3.2 SURVEY POPULATION.....	17
3.3 SAMPLE SIZE.....	17

3.4 SAMPLING DESIGN AND PROCEDURE .....	17
3.5 DATA SOURCES .....	18
3.6 DATA COLLECTION INSTRUMENTS AND METHODS.....	18
3.7.0 DATA PROCESSING AND ANALYSIS .....	19
3.8.0 LIMITATIONS OF THE STUDY .....	19
REVIEW ON METHODOLOGY AND METHODS .....	19
CHAPTER FOUR .....	20
PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS .....	20
4.0 Introduction .....	20
4.2 General findings .....	20
Objective review: <i>(To establish how income tax administration is administered and imposed on small-scale business enterprises in Soroti City)</i> .....	30
4.3 How income tax administration is administered among small-scale businesses in Soroti City.....	30
4.3.2 Income tax returns and computations.....	33
4.3.3 Range of tax paid annually.....	34
4.4 Profitability of small-scale businesses in Soroti City .....	35
4.5 Relationship between income tax administration and the profitability of small-scale businesses in Soroti City .....	40
REVIEW ON CHAPTER FOUR.....	43
CHAPTER FIVE .....	44
SUMMARY, RECOMMENDATIONS AND CONCLUSION .....	44
5.0 Introduction .....	44
5.1 Summary of Findings .....	44
5.2 CONCLUSION .....	46
5.3 RECOMMENDATIONS .....	46
5.4 AREAS FOR FURTHER RESEARCH.....	47
REFERENCES .....	48
APPENDIX 1 .....	49
RESEARCH QUESTIONNAIRE.....	49

### **List of Acronyms**

URA	Soroti City revenue authority
SSB'S	Small-scale businesses
PBIT	Profit before interest and tax
PAIT	Profit after interest and tax
MoFPED	Ministry of finance, planning and economic development
USSIA	Soroti City small scale industries association
%	Percentage



## Abstract

Income tax administration plays a pertinent role regarding revenue collection as well as profitability of any business entity. In an effort for the government to increase its tax base, the tax burden for many firms increases. However, the tax administration system is poor as at times, the tax liability computation is based on estimates, records of many small business firms are incomplete, and some miss out completely leading to tax over charge. In return, this directly affects the profitability of the enterprise and may threaten its survival because taxes are paid out of profits.

The purpose of the study is to establish the effect of income tax administration on the profitability of small-scale business enterprises in Soroti City.

The study applied both qualitative and quantitative research designs where interviews and Questionnaires were used. Data was collected from both primary and secondary sources. Data was processed and analyzed using formal tables, pie charts, graphs, narrative text, and correlation to find out the relationship between income tax administration and profitability of small scale businesses. A total of 50 respondents were considered out of the entire population in the Town Council.

The findings revealed that income tax administration is poor and this was shown in the findings that indicated that the business community is not adequately sensitized, tax rates are at times high and they are based on estimates. Tax rates do not take in to account the circumstances in which small businesses operate, that has negatively affected the profitability of the small scale businesses leading to low capital employed, high expenses incurred, low sales made and the average amount of taxes paid annually being so high.

In conclusion, therefore, URA needs to carry out an extensive survey-based analysis of small firms' profit margins to determine presumptive tax rates, which will not affect the small business earners.

The researcher therefore, recommended that, URA; should supply tax assessment forms in time, intensify on the sensitization campaigns of the taxpayers, employ competent staff, educate the business community about its different tax rates and introduce a scheme that allows taxpayers to pay the tax obligation in installment to better the profitability of small-scale businesses. There is therefore need for more research on firms' management techniques, the role of bookkeeping and profitability of small and mid-size enterprise.

12

## CHAPTER ONE

### 1.1 BACKGROUND OF THE STUDY

Income tax was introduced in Soroti City in 1939 as part of the common income tax regime that which was replaced with the east African tax management act which was also applicable to Kenya, and Tanzania.

In 1958, the act was repealed and replaced with the east African management act No 10, which was later in 1970 replaced with a more comprehensive east African income tax (management) act.

This act governed the basic structure of income tax while national laws, which are for Soroti City it was the income tax act of 1970, governed the rates of tax exemptions and personal allowances. As the relationship amongst the east African states collapsed in 1977, the three east African states had to introduce their own laws. In Soroti City, the first income tax law was the income tax decree No 1 of 1944 which remained the country's income tax law till 1997 when the income tax act (ITA) was enacted.

The ITA adopted a model of income tax laws developed by the fiscal affairs department of the international monetary fund, which was published as act No 11 of 1997, in acts supplements No 8 to the Soroti City gazette, No 81, dated 31 December 1997. Until an updated version was published in 2000 as CAP 340 of, the statute and this version incorporated all amendments to 2000.

Income tax is therefore defined as; a tax imposed on a person's taxable income at specific rates.

A person includes an individual, company, partnership, trustee, government and sub divisions of government.

Income tax is charged on every person who has chargeable income for every year of income. Chargeable income is derived from three main types of income, namely; business, employment and property.

In addition, a tax is referred to as a *non quid pro quo*, implying that a tax is paid by assesses without corresponding returns in form of social goods and services from the government. Justice Holmes described tax as the price for civilization. Ismail Kintu (2011).

A tax is a financial charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state Tumuhimbise M (2000). A tax is a compulsory levy imposed upon the tax assesses who may be individuals, groups of individuals or legal entities. It is