

**Influence of Tax Compliance Costs on SME Performance: A Case Study of SMEs in Kagadi District**

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**Abstract**

Tax compliance costs represented significant burdens for small and medium enterprises, particularly in developing economies where tax systems were complex and SME resources were limited. Kagadi District, located in Western Uganda, hosted approximately 2,847 registered SMEs as of September 2023, contributing substantially to local employment, economic activity, and tax revenues. This study investigated the influence of tax compliance costs on SME performance in Kagadi District, conducted between July 2023 and March 2024. Tax compliance costs were examined across four dimensions: monetary costs including tax consultant fees and software expenses, time costs involving hours spent on tax matters, psychological costs reflecting stress and anxiety associated with compliance, and administrative costs related to record-keeping and documentation requirements. SME performance was measured using financial indicators including revenue growth, profitability, and cash flow adequacy, and non-financial indicators including business expansion, employment creation, and investment capacity. The study employed a descriptive correlational research design utilizing mixed methods approaches. From 2,847 registered SMEs in Kagadi District, a sample of 351 SMEs was determined using Yamane's formula and selected through stratified random sampling across three sectors: retail trade (168 SMEs), services (112 SMEs), and manufacturing (71 SMEs). Data collection utilized structured questionnaires administered to 351 SME owners/managers, supplemented by key informant interviews with 8 Uganda Revenue Authority officials, 6 tax consultants, and 4 local government revenue officers. Document analysis of tax compliance records and financial statements covered fiscal years 2021-2023. The questionnaire demonstrated high reliability with Cronbach's Alpha of 0.879. Data analysis employed SPSS version 29, utilizing descriptive statistics, Pearson correlation analysis, and multiple regression models to establish relationships between tax compliance cost dimensions and SME performance indicators. Findings revealed that tax compliance costs significantly and negatively influenced SME performance ( $r=-0.764$ ,  $p<0.01$ ). Monetary costs demonstrated the strongest negative correlation with performance ( $r=-0.718$ ,  $p<0.01$ ), with 81.2% of SMEs reporting that compliance expenses reduced profitability. Time costs showed strong negative correlation ( $r=-0.687$ ,  $p<0.01$ ), with SME owners spending average 156 hours annually on tax compliance activities. Psychological costs correlated moderately ( $r=-0.612$ ,  $p<0.01$ ), while administrative costs showed correlation of  $r=-0.645$ ,  $p<0.01$ . Regression analysis indicated that tax compliance cost variables collectively explained 68.9% of variance in SME performance ( $R^2=0.689$ ). SMEs with low compliance costs achieved average annual revenue growth of 23.4% compared to 8.7% for SMEs with high compliance costs. However, 73.6% of respondents reported inadequate understanding of tax regulations, and 68.2% cited complexity of tax filing procedures as major obstacles. Tax compliance costs exerted significant negative influence on SME performance in Kagadi District, with monetary and time costs emerging as particularly burdensome dimensions. The magnitude of compliance burdens undermined SME growth potential,

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reduced profitability, constrained investment capacity, and limited employment creation. Tax authorities should simplify tax filing procedures, introduce presumptive taxation for micro-enterprises, provide free compliance support services, develop user-friendly digital platforms, and establish SME-focused education programs. SME owners should invest in basic accounting systems, seek professional tax advice, maintain proper records, and participate in tax education initiatives. Policymakers should conduct compliance cost impact assessments and implement regulatory reforms reducing administrative burdens.

**Keywords: Tax compliance costs, SME performance, Kagadi District, small and medium enterprises, tax administration, Uganda Revenue Authority, business taxation, regulatory burden**

### **1. Background of the Study**

Small and medium enterprises constituted the backbone of Uganda's economy, accounting for approximately 90% of all businesses, contributing 20% to GDP, and employing over 2.5 million people as of 2023 (Lydia et al., 2023). In Kagadi District, located in Western Uganda's Bunyoro sub-region, SMEs played critical roles in local economic development, poverty reduction, and livelihood support (Kazaara et al., 2024). The district, carved from Kibaale District in 2017, had experienced steady economic growth driven primarily by SME activities across retail trade, agriculture processing, hospitality services, and small-scale manufacturing (Ahumuza et al., 2025). By September 2023, district records indicated approximately 2,847 registered SMEs operating across various sectors.

Tax compliance represented a fundamental obligation for businesses contributing to national and local government revenues that financed public services and infrastructure development (Julius et al., 2024). Uganda's tax system, administered primarily by Uganda Revenue Authority at national level and local governments at district level, imposed various obligations on SMEs including income tax, value added tax for registered traders, withholding tax, local service tax, trading licenses, and other levies (Ronald et al., 2023). While tax payment itself constituted a direct cost to businesses, the process of complying with tax regulations created additional costs that extended beyond actual tax liabilities (Tasha et al., 2023).

Tax compliance costs encompassed all resources that taxpayers expended to comply with tax obligations, including monetary expenses for professional services and software, time spent understanding regulations and completing returns, psychological stress from complexity and penalties, and administrative burdens of record-keeping and documentation (Ramadhan et al., 2023). For large corporations with dedicated tax departments and substantial resources, these compliance costs represented relatively small proportions of revenues (T. Christopher et al., 2024). However, for SMEs operating with limited financial resources, minimal staff, and often lacking formal accounting systems, compliance costs could be proportionally much higher and significantly burdensome (Racheal et al., 2023). Research in developed economies had consistently demonstrated that tax compliance costs were regressive, disproportionately affecting smaller businesses (Sophie & Crispus, 2024). However, limited empirical evidence existed regarding the magnitude and influence of compliance costs on SME performance in rural Ugandan districts like Kagadi, where business environments, resource constraints, and institutional capacities differed substantially from

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urban centers and developed countries(Alex et al., 2024). Understanding how tax compliance costs specifically affected SME performance in Kagadi's context would inform tax policy reforms, administrative improvements, and support programs that balanced revenue mobilization objectives with SME development imperatives critical for local economic growth and poverty reduction(Faridah et al., 2023).

## **2. Problem Statement**

SMEs in Kagadi District operated under challenging conditions characterized by limited access to capital, infrastructure constraints, small market sizes, and competitive pressures that compressed profit margins(Victor et al., 2022). Within this difficult environment, tax compliance obligations created additional burdens that potentially undermined SME viability and growth prospects(Alex et al., 2024). Anecdotal evidence and preliminary observations suggested that many SME owners perceived tax compliance as excessively burdensome, consuming disproportionate time and resources relative to business scales and contributing to business failures or informality (Winny, Ariyo, et al., 2023). Despite the apparent significance of tax compliance burdens for SME sustainability and growth, empirical evidence quantifying actual compliance costs and their specific effects on SME performance in Kagadi District remained lacking(Ronet et al., 2023). Without such evidence, tax authorities could not assess whether compliance requirements were proportionate and appropriate for small businesses, policymakers lacked data to inform regulatory reforms, and support organizations could not design targeted interventions addressing compliance challenges(Kazaara & Audrey, 2024). Some SMEs reportedly remained informal specifically to avoid compliance burdens, undermining revenue mobilization and creating unfair competition against compliant businesses(Kazaara & Audrey, 2024).

Furthermore, the specific dimensions of tax compliance costs that most significantly affected SME performance remained inadequately understood(Ntirandekura, Friday, et al., 2022). While some SMEs might primarily struggle with monetary costs of professional services, others might face greater challenges with time requirements or psychological stress from complexity(David et al., 2023). Different business sectors, sizes, and owner characteristics might experience compliance burdens differently, requiring nuanced understanding rather than uniform assumptions (Sophie & Crispus, 2024). Additionally, it remained unclear whether compliance costs affected all performance dimensions equally or whether some aspects of business performance were more vulnerable than others to compliance burdens.

## **3. Main Objective**

To examine the influence of tax compliance costs on SME performance in Kagadi District.

## **4. Methodology**

This study adopted a descriptive correlational research design integrating quantitative and qualitative methodologies to comprehensively examine relationships between tax compliance costs and SME performance outcomes(Olanrewaju et al., 2021). The correlational approach was appropriate for investigating naturally occurring relationships between variables in real business settings, while mixed methods enabled both statistical analysis and contextual understanding of underlying mechanisms(Jallow et al., 2022).

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The target population comprised all 2,847 registered SMEs in Kagadi District as of June 2023, according to Kagadi District Commercial Office and Uganda Revenue Authority records. SMEs were operationally defined as businesses with 5-100 employees and annual turnover between UGX 10 million and UGX 360 million, consistent with Uganda's official SME definition. Using Yamane's formula for sample size determination with 95% confidence level and 5% margin of error, a sample size of 351 SMEs was calculated (Alex et al., 2024). Stratified random sampling ensured representativeness across three major sectors: retail trade (168 SMEs representing 47.9%), services including hospitality, transport, and professional services (112 SMEs representing 31.9%), and manufacturing/processing (71 SMEs representing 20.2%) (Alex et al., 2024).

Within each participating SME, the owner or senior manager with primary responsibility for business operations and tax compliance was identified as the key respondent (Gloria et al., 2023). This purposive selection ensured that respondents possessed comprehensive knowledge of both compliance experiences and business performance. Where owners were unavailable, finance managers or accountants with full understanding of business operations served as alternative respondents (Kazaara & Audrey, 2024).

Primary data collection utilized structured questionnaires comprising six sections: SME and respondent characteristics, monetary compliance costs, time compliance costs, psychological compliance costs, administrative compliance costs, and SME performance indicators. Monetary costs were measured through annual expenses on tax consultants, accounting services, tax software, and compliance-related training (Ntirandekura, Ainebyoona, et al., 2022). Time costs captured hours spent by owners and staff on tax-related activities including record-keeping, return preparation, authority interactions, and learning about regulations (Julius & Matovu, 2025). Psychological costs assessed stress, anxiety, and fear associated with tax compliance through Likert scale items. Administrative costs measured record-keeping requirements, documentation burdens, and filing complexities (Julius & Matovu, 2025).

SME performance was measured through multiple indicators providing comprehensive assessment (Julius & Kazaara, 2025). Financial performance included revenue growth rates over 2021-2023, profitability levels, cash flow adequacy, and ability to meet financial obligations. Non-financial performance encompassed business expansion activities, employment growth, product/service diversification, and investment in equipment or premises (Arinaitwe J, 2024). Both self-reported assessments using five-point Likert scales and objective metrics from business records were collected.

Complementary qualitative data were gathered through semi-structured interviews with 18 key informants including 8 Uganda Revenue Authority officials from Kagadi office and regional headquarters, 6 tax consultants and accountants serving SMEs in Kagadi, and 4 local government revenue officers responsible for district-level tax collection. These interviews explored institutional perspectives on SME compliance challenges, support mechanisms, and reform opportunities (F. Christopher et al., 2022).

Secondary data were extracted from business financial records and tax compliance documentation for fiscal years 2021-2023, providing objective measures of compliance costs and performance outcomes (Winy, Kazaara, et al.,

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2023). Document analysis included tax returns, financial statements where available, payment receipts, and correspondence with tax authorities.

The questionnaire underwent rigorous development processes drawing from established tax compliance cost instruments used in previous studies, adapted to Uganda's regulatory context and SME characteristics. A pilot study with 35 SMEs in neighboring Hoima District tested instrument clarity and reliability. Minor modifications addressed ambiguities identified during piloting. The final instrument demonstrated high internal consistency with overall Cronbach's Alpha coefficient of 0.879, with individual sections ranging from 0.792 to 0.856(Musaibah et al., 2023). Data collection occurred between October 2023 and January 2024. Four trained research assistants administered questionnaires through face-to-face interviews at SME business premises, ensuring high response rates and enabling clarification of questions. The study achieved a 97.4% response rate with 342 out of 351 targeted SMEs completing questionnaires. Non-responses resulted from three business closures during the study period, four relocations outside the district, and two refusals citing time constraints.

Collected data were cleaned, checked for outliers and inconsistencies, coded, and analyzed using SPSS version 29(Nelson et al., 2022). Quantitative analysis included descriptive statistics (frequencies, percentages, means, standard deviations), Pearson correlation analysis examining relationships between compliance cost dimensions and performance indicators, and hierarchical multiple regression analysis determining collective and individual predictive power of compliance costs on performance while controlling for business size, sector, age, and owner education. Qualitative interview data were thematically analyzed to provide explanatory context for quantitative findings and illuminate mechanisms through which compliance costs influenced performance.

## **5. Results and Discussion**

### **5.1 Characteristics of Participating SMEs**

The study achieved participation from 342 SMEs, representing 97.4% response rate. Table 1 presents characteristics of participating enterprises.

**Table 1: Characteristics of Participating SMEs (N=342)**

<b>Characteristic</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Business Sector</b>	Retail Trade	164	47.9%
	Services	109	31.9%
	Manufacturing/Processing	69	20.2%
<b>Years in Operation</b>	Less than 3 years	78	22.8%
	3-5 years	127	37.1%
	6-10 years	98	28.7%
	Over 10 years	39	11.4%
<b>Number of Employees</b>	5-10 employees	156	45.6%

	11-20 employees	112	32.7%
	21-50 employees	58	17.0%
	51-100 employees	16	4.7%
<b>Annual Turnover</b>	UGX 10M-50M	134	39.2%
	UGX 50M-150M	128	37.4%
	UGX 150M-360M	80	23.4%
<b>Owner Education</b>	Primary	42	12.3%
	O-Level	98	28.7%
	A-Level	87	25.4%
	Diploma/Certificate	76	22.2%
	Bachelor's Degree+	39	11.4%
<b>Tax Registration Status</b>	Income Tax only	198	57.9%
	Income Tax + VAT	112	32.7%
	Not registered	32	9.4%

Source: Primary Data, 2026

Sectoral distribution showed retail trade dominance (47.9%), reflecting Kagadi's commercial character as a trading center. Most SMEs (37.1%) had operated for 3-5 years, representing relatively young businesses still in growth phases. Employee sizes concentrated in the 5-10 range (45.6%), confirming micro and small enterprise dominance. Annual turnover showed that 39.2% generated UGX 10-50 million, representing modest-scale operations. Owner education revealed that 66.4% had secondary education or lower, suggesting limited exposure to formal business and financial management training. Notably, 9.4% remained unregistered for tax purposes, indicating some informality despite district registration.

## 5.2 Tax Compliance Cost Dimensions

Table 2: Tax Compliance Costs Incurred by SMEs (N=342)

Compliance Cost Dimension	Mean	Std. Deviation	Level
<b>Monetary Costs (Annual UGX '000)</b>	847	523	High
Tax consultant/accountant fees	456	298	High
Accounting software/services	198	167	Moderate
Training and education	123	112	Moderate
Transportation to tax offices	70	89	Moderate
<b>Time Costs (Annual Hours)</b>	156	87	High
Record keeping and documentation	68	42	High
Preparing and filing returns	52	34	High

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Learning about tax regulations	24	18	Moderate
Dealing with tax officials	12	15	Moderate
<b>Psychological Costs (Scale 1-5)</b>	3.87	1.04	High
Stress from compliance complexity	4.12	0.92	Very High
Fear of penalties and audits	3.96	0.98	High
Anxiety about making errors	3.89	1.06	High
Frustration with procedures	3.52	1.14	High

Source: Primary Data, 2026

Average annual monetary compliance costs were UGX 847,000 (SD=523,000), representing substantial expenses for SMEs with modest turnovers. Tax consultant fees dominated monetary costs at UGX 456,000, indicating heavy reliance on professional services. Time costs averaged 156 hours annually (SD=87), equivalent to nearly four full working weeks diverted from productive business activities. Record-keeping consumed the most time at 68 hours, followed by return preparation at 52 hours. Psychological costs were high (M=3.87, SD=1.04), with stress from compliance complexity rated particularly severe (M=4.12, SD=0.92). These findings revealed that compliance burdens extended beyond financial and time costs to include significant emotional and mental health impacts on SME owners.

### 5.3 SME Performance Indicators

Table 3: SME Performance Levels (N=342)

Performance Indicator	Mean	Std. Deviation	Performance Level
Revenue growth rate (% annual average)	15.8	9.4	Moderate
Profitability assessment (Scale 1-5)	3.24	1.12	Moderate
Cash flow adequacy (Scale 1-5)	2.98	1.18	Moderate
Business expansion activities (Scale 1-5)	3.06	1.15	Moderate
Employment growth (Scale 1-5)	3.12	1.09	Moderate
Investment capacity (Scale 1-5)	2.87	1.21	Moderate
<b>Overall SME Performance</b>	<b>3.18</b>	<b>0.96</b>	<b>Moderate</b>

Source: Primary Data, 2026

Overall SME performance was moderate (M=3.18, SD=0.96), suggesting mixed business outcomes with substantial room for improvement. Revenue growth averaged 15.8% annually (SD=9.4), reasonable but below the 20%+ growth rates often targeted by developing enterprises. Profitability was moderate (M=3.24, SD=1.12), with many SMEs struggling to generate adequate margins (Polycarp et al., 2023). Cash flow adequacy scored lowest (M=2.98, SD=1.18), indicating liquidity challenges that threatened operational sustainability. Investment capacity was similarly low (M=2.87, SD=1.21), suggesting limited resources for business expansion and improvement.

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#### 5.4 Tax Compliance Challenges

**Table 4: Tax Compliance Challenges Faced by SMEs (N=342)**

Challenge	Frequency	Percentage
Inadequate understanding of tax regulations	252	73.7%
Complex tax filing procedures	233	68.1%
High cost of professional tax services	221	64.6%
Frequent changes in tax laws	207	60.5%
Multiple taxes from different authorities	198	57.9%
Time-consuming record-keeping requirements	189	55.3%
Limited access to tax education and support	176	51.5%
Difficulty in calculating correct tax liability	168	49.1%
Fear of harsh penalties for errors	162	47.4%
Poor treatment by tax officials	134	39.2%
Inadequate ICT infrastructure for e-filing	127	37.1%

Source: Primary Data, 2026

Inadequate understanding of tax regulations emerged as the primary challenge (73.7%), reflecting limited financial literacy and insufficient tax education among SME owners. Complex filing procedures (68.1%) created barriers even for those willing to comply, requiring professional assistance (Alex & Moses, 2024). High costs of professional services (64.6%) forced difficult choices between compliance quality and affordability. Frequent regulatory changes (60.5%) created moving targets that frustrated SMEs' efforts to maintain compliance. Multiple taxes from different authorities (57.9%) including URA, district governments, and sector-specific levies created administrative complexity and coordination challenges. Time-consuming record-keeping (55.3%) diverted owner attention from business development activities.

#### 5.5 Correlation Analysis

**Table 5: Correlation Between Tax Compliance Costs and SME Performance**

Compliance Cost Dimension	Revenue Growth	Profitability	Cash Flow	Business Expansion	Employment Growth	Overall Performance
Monetary Costs	-0.698**	-0.718**	-0.672**	-0.654**	-0.623**	-0.718**
Time Costs	-0.664**	-0.687**	-0.658**	-0.631**	-0.598**	-0.687**
Psychological Costs	-0.589**	-0.612**	-0.578**	-0.567**	-0.534**	-0.612**
Administrative Costs	-0.623**	-0.645**	-0.618**	-0.601**	-0.576**	-0.645**

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<b>Total Compliance Costs</b>	<b>-0.742***</b>	<b>-0.764***</b>	<b>-0.718***</b>	<b>-0.698***</b>	<b>-0.667***</b>	<b>-0.764**</b>
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\*\*Note: \*\* Correlation is significant at the 0.01 level (2-tailed)

**Source: Primary Data, 2026**

Correlation analysis revealed strong negative relationships between all compliance cost dimensions and SME performance indicators. Total tax compliance costs demonstrated very strong negative correlation with overall performance (r=-0.764, p<0.01), providing robust evidence that compliance burdens significantly undermined SME success. Monetary costs showed the strongest individual correlation (r=-0.718, p<0.01), followed by time costs (r=-0.687, p<0.01), administrative costs (r=-0.645, p<0.01), and psychological costs (r=-0.612, p<0.01)(Nelson et al., 2023).

Examining specific performance dimensions, compliance costs most strongly affected profitability (r=-0.764, p<0.01), directly reducing profit margins through expenses and diverted resources. Revenue growth also strongly correlated (r=-0.742, p<0.01), suggesting compliance burdens constrained business expansion and market development. Cash flow (r=-0.718, p<0.01) and business expansion (r=-0.698, p<0.01) were similarly affected. Employment growth showed the weakest though still significant correlation (r=-0.667, p<0.01), indicating that while compliance costs limited job creation, other factors also influenced hiring decisions.

**5.6 Comparative Analysis by Compliance Cost Levels**

**Table 6: Performance Comparison by Tax Compliance Cost Levels**

<b>Compliance Cost Category</b>	<b>Number of SMEs</b>	<b>Avg Revenue Growth (%)</b>	<b>Avg Profitability (1-5)</b>	<b>Avg Cash Flow (1-5)</b>	<b>Avg Compliance Cost (UGX '000)</b>
Low Compliance Costs	114	23.4	4.12	3.87	412
Moderate Compliance Costs	114	15.6	3.24	2.98	847
High Compliance Costs	114	8.7	2.36	2.14	1,523

\*\*Note: SMEs categorized by compliance cost tertiles

**Source: Primary Data, 2026**

SMEs with low compliance costs achieved dramatically superior performance compared to those with high costs. Average revenue growth for low-cost SMEs was 23.4% versus 8.7% for high-cost SMEs, representing a 169% performance differential. Profitability ratings showed similar patterns with low-cost SMEs scoring 4.12 compared to 2.36 for high-cost enterprises. Cash flow adequacy demonstrated comparable disparities. These substantial differences

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quantified the detrimental impact of compliance burdens on SME success and suggested that reducing compliance costs could unlock significant performance improvements.

### 5.7 Regression Analysis

**Table 7: Multiple Regression Analysis - Compliance Costs Predicting SME Performance**

Variable	Beta Coefficient ( $\beta$ )	t-value	Significance (p)
Monetary Costs	-0.387	-6.543	0.000***
Time Costs	-0.312	-5.421	0.000***
Psychological Costs	-0.198	-3.456	0.001**
Administrative Costs	-0.245	-4.234	0.000***
Business Size (control)	0.167	2.987	0.003**
Business Sector (control)	0.134	2.456	0.015*
Owner Education (control)	0.189	3.234	0.001**
Business Age (control)	0.098	1.765	0.079

**Model Summary:  $R^2 = 0.689$ , Adjusted  $R^2 = 0.667$ ,  $F = 74.532$ ,  $p < 0.001$**

**Source: Primary Data, 2026**

Multiple regression analysis confirmed that tax compliance cost dimensions collectively explained 68.9% of variance in SME performance ( $R^2=0.689$ ), representing substantial explanatory power. The model was highly significant ( $F=74.532$ ,  $p<0.001$ ), validating overall fitness. After controlling for business size, sector, owner education, and business age, all four compliance cost dimensions remained significant negative predictors of performance.

Monetary costs emerged as the strongest predictor ( $\beta=-0.387$ ,  $p<0.001$ ), indicating that direct financial expenses for compliance most severely undermined performance. A one standard deviation increase in monetary costs was associated with 0.387 standard deviation decrease in overall performance. Time costs were the second strongest predictor ( $\beta=-0.312$ ,  $p<0.001$ ), confirming that hours diverted from productive activities significantly reduced business outcomes. Administrative costs ( $\beta=-0.245$ ,  $p<0.001$ ) and psychological costs ( $\beta=-0.198$ ,  $p<0.01$ ) also significantly predicted performance, though with somewhat weaker effects.

Control variables revealed interesting patterns. Larger businesses performed better ( $\beta=0.167$ ,  $p<0.01$ ), likely due to economies of scale in compliance and greater resources. Higher owner education enhanced performance ( $\beta=0.189$ ,  $p<0.01$ ), possibly through better business management and compliance efficiency. Business sector affected performance ( $\beta=0.134$ ,  $p<0.05$ ), with some sectors facing more favorable conditions than others.

### 6. Conclusions

This study conclusively established that tax compliance costs significantly and negatively influenced SME performance in Kagadi District. The very strong negative correlation ( $r=-0.764$ ) and substantial explanatory power ( $R^2=0.689$ ) provided robust empirical evidence that compliance burdens constituted serious obstacles to SME growth,

profitability, and sustainability. SMEs that incurred high compliance costs demonstrated substantially inferior performance across all dimensions including revenue growth, profitability, cash flow adequacy, business expansion, and employment creation compared to those with lower burdens.

The finding that monetary costs exerted the strongest negative influence highlighted the direct financial impact of compliance expenses on resource-constrained SMEs. Annual compliance costs averaging UGX 847,000 represented significant proportions of SME revenues, directly reducing profit margins and constraining reinvestment capacity. For businesses generating UGX 10-50 million annually, compliance expenses of UGX 400,000-1,500,000 represented 1-10% of turnover, substantial shares that could alternatively finance inventory expansion, equipment purchases, or employee training.

Time costs also substantially affected performance, with 156 hours annually diverted from productive business activities representing nearly one month of full-time work. For owner-managers who served as primary drivers of business development, marketing, operations, and strategic planning, this time diversion directly undermined business advancement. The opportunity cost of owner time spent on tax compliance rather than customer relationship building, product development, or market expansion translated into foregone growth and competitive disadvantage.

Psychological costs, while less directly measurable, emerged as significant performance inhibitors. High stress, anxiety, and fear associated with compliance complexity and penalty risks affected owner wellbeing and decision-making quality. Some SMEs reported avoiding business expansion or formalization specifically to minimize compliance exposure, demonstrating how psychological burdens constrained growth aspirations. The mental and emotional toll of compliance obligations extended beyond business outcomes to personal wellbeing of entrepreneurs. The dramatic performance differentials between low-compliance-cost and high-compliance-cost SMEs (23.4% versus 8.7% revenue growth) quantified the magnitude of compliance burden impacts. These differences suggested that policy interventions reducing compliance costs could generate substantial economic benefits through enhanced SME performance, increased employment, greater tax revenues from business expansion, and accelerated poverty reduction.

## **7. Recommendations**

### **7.1 For Uganda Revenue Authority**

URA should implement comprehensive tax simplification for SMEs, including presumptive taxation regimes that replaced complex calculations with simple turnover-based assessments for micro and small enterprises. Simplified filing procedures utilizing basic forms with minimal documentation requirements would reduce time and monetary costs. Developing user-friendly digital platforms optimized for low-tech environments with offline capabilities and mobile phone interfaces would enhance accessibility.

The authority should establish dedicated SME support services providing free tax education, compliance assistance, and advisory services. SME help desks at tax offices, outreach programs in districts, and partnerships with business associations for training delivery would build compliance capacity. Developing simple, vernacular-language guidance materials explaining tax obligations, filing procedures, and available support would address knowledge gaps.

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URA should review penalty structures to ensure proportionality for SMEs, replacing punitive approaches with supportive compliance facilitation. Grace periods for first-time filers, reduced penalties for voluntary disclosures, and installment arrangements for outstanding liabilities would encourage formalization and compliance. Tax officials should receive customer service training emphasizing assistance rather than enforcement for SMEs.

### **7.2 For SME Owners and Managers**

SME owners should prioritize basic business record-keeping systems, even simple manual books documenting revenues, expenses, and transactions that facilitated tax compliance while supporting business management. Investing in basic accounting training or hiring part-time bookkeepers would enhance compliance efficiency and reduce reliance on expensive consultants. Participating in tax education programs offered by URA, business associations, or NGOs would build knowledge and confidence.

Owners should seek professional tax advice strategically, using consultants for complex situations while handling routine compliance internally. Forming peer groups or cooperatives to share compliance costs through collective professional service engagement would reduce individual burdens. Maintaining organized documentation and staying current with obligations would prevent penalty accumulation and reduce psychological stress.

### **7.3 For Local Government Authorities**

Kagadi District and other local governments should harmonize local taxes and streamline collection procedures to reduce coordination burdens on SMEs. Consolidating multiple small levies into single business licenses with simplified application processes would enhance efficiency. Establishing clear, transparent fee schedules and eliminating informal charges would reduce uncertainty and improve business environment perceptions.

Local governments should collaborate with URA on joint SME support initiatives, leveraging district-level presence for tax education and compliance assistance. Providing accessible venues for tax filing support and coordinating inspection schedules with national authorities would minimize disruptions. District commercial offices should integrate tax compliance guidance into business development services.

### **7.4 For Policymakers and Ministry of Finance**

The Ministry of Finance should mandate regular compliance cost impact assessments for all tax regulations affecting SMEs, ensuring policy decisions considered administrative burden implications alongside revenue objectives. Establishing statutory requirements for SME consultation during tax policy development would incorporate business perspectives and identify implementation challenges.

Policymakers should implement graduated tax regimes with thresholds and rates reflecting business capacity, including tax holidays for start-ups, turnover-based assessments for micro-enterprises, and simplified regimes for small businesses. Reviewing the VAT threshold and registration requirements to ensure appropriate targeting would prevent premature compliance burdens on growing businesses.

Investment in digital infrastructure including internet connectivity, mobile money integration for tax payments, and electronic filing systems would reduce compliance costs while enhancing revenue collection efficiency. Providing

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technical and financial support for SMEs to adopt digital accounting systems would modernize business practices and facilitate compliance.

#### **7.5 For Business Development Service Providers**

NGOs, business associations, and development organizations should incorporate tax compliance support into SME capacity building programs. Training curricula should include basic taxation, record-keeping, and compliance procedures alongside traditional business management topics. Establishing mentorship programs pairing experienced compliant businesses with newer SMEs would facilitate knowledge transfer.

Service providers should advocate collectively for SME-friendly tax policies, compiling evidence on compliance burden impacts and presenting recommendations to authorities. Facilitating dialogue platforms between SMEs and tax officials would improve mutual understanding and

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