

Relationship Between Tax Compliance And The Business Growth Of Small And Medium Sized Enterprises In

Rubaga Division, Kampala.

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Abstract

The study investigated the relationship between tax compliance and business growth among Small and Medium Sized Enterprises (SMEs) in Rubaga Division, Kampala, Uganda. The research employed a mixed-methods approach, surveying 180 SME owners/managers and conducting in-depth interviews with 12 tax officials and business leaders. Results demonstrated a significant positive correlation ($r = 0.71$, $p < 0.01$) between tax compliance levels and business growth indicators. Statistical analysis revealed that 73% of tax-compliant SMEs experienced revenue growth compared to only 28% of non-compliant enterprises. Compliant businesses showed superior performance across multiple dimensions: 65% accessed formal credit facilities versus 19% of non-compliant firms, 58% expanded their operations compared to 23%, and 61% reported improved supplier relationships versus 31%. Regression analysis indicated that tax compliance explained 51% of the variance in business growth ($R^2 = 0.51$). The study concluded that tax compliance facilitated business growth through enhanced access to financial services, improved business credibility, better government contract opportunities, reduced operational risks, and strengthened stakeholder relationships. Recommendations included simplifying tax procedures, enhancing taxpayer education, incentivizing compliance through recognition programs, strengthening enforcement mechanisms, and establishing SME-specific tax regimes that acknowledged resource constraints while promoting formalization.

Keywords: tax compliance, SMEs, business growth, Rubaga Division, tax administration, enterprise development, Uganda Revenue Authority

1.0 Background of the Study

Small and Medium Sized Enterprises constituted the backbone of Uganda's economy, contributing approximately 75% of the country's Gross Domestic Product and employing over 2.5 million people according to Uganda Bureau of Statistics data(Frank et al., 2023). In Kampala, the commercial and administrative capital, SMEs proliferated across various sectors including retail trade, manufacturing, hospitality, professional services, and technology(Ahumuza et al., 2025). Rubaga Division, one of Kampala's five administrative divisions, hosted a vibrant concentration of SMEs ranging from informal roadside vendors to established medium-sized manufacturing concerns, making it representative of the diverse SME landscape characterizing urban Uganda(Julius & Matovu, 2025).

The taxation of SMEs represented a critical intersection of revenue mobilization objectives and enterprise development imperatives(Amos et al., 2024). The Uganda Revenue Authority (URA), established in 1991, faced the dual challenge of expanding the tax base while fostering an enabling environment for business growth(Brian et al., 2024). For SMEs, tax compliance encompassed timely registration with tax authorities, accurate declaration of income

and revenues, prompt payment of assessed taxes including Value Added Tax (VAT), Corporate Income Tax, and Pay As You Earn (PAYE), maintenance of proper financial records, and cooperation with tax audits and inspections (Julius et al., 2024).

However, SME tax compliance in Uganda remained persistently low, with estimates suggesting that only 35-40% of eligible SMEs maintained full compliance with tax obligations (Julius & Matovu, 2025). Multiple factors contributed to this phenomenon including perceived complexity of tax regulations, high compliance costs relative to business scale, limited financial literacy and accounting capacity, inadequate understanding of tax benefits, distrust of government revenue utilization, fear of harassment by tax officials, and rational calculations that tax evasion offered short-term financial advantages (Amos et al., 2024). The informal nature of many SMEs further complicated compliance efforts, as businesses operated without formal registration, proper accounting systems, or documented transactions (Lydia et al., 2023).

The relationship between tax compliance and business growth remained theoretically ambiguous and empirically contested. One perspective, dominant among SME operators, viewed taxation as a burden that extracted scarce resources from businesses, reducing capital available for reinvestment, expansion, and innovation (Margaret & Kazaara, 2024). From this viewpoint, tax compliance represented a constraint on growth, particularly for enterprises operating on thin margins in competitive markets. The prevalence of tax avoidance strategies suggested that many entrepreneurs believed non-compliance enhanced profitability and growth prospects (Julius, 2024).

Conversely, institutional and stakeholder theories suggested that tax compliance could facilitate business growth through multiple mechanisms (Kazaara et al., 2024). Compliant businesses gained legitimacy and credibility with financial institutions, suppliers, customers, and government agencies (Tasha et al., 2023). Tax registration and payment records served as proof of business formality and stability, essential prerequisites for accessing bank loans, government contracts, and international market opportunities (Irumba et al., 2024). Compliance reduced risks of penalties, prosecutions, and business closures that created uncertainty and undermined long-term planning. Additionally, tax payment entitled businesses to government services, infrastructure, and support programs that indirectly supported growth (Irumba et al., 2024).

Despite taxation's centrality to both public finance and enterprise development, empirical evidence on the compliance-growth relationship in the Ugandan context, particularly at the divisional level where SMEs actually operated, remained limited (Christopher & Nelson, 2024). This study therefore examined the nature, direction, and strength of the relationship between tax compliance and business growth among SMEs in Rubaga Division, providing evidence to inform both tax policy and enterprise development strategies.

2.0 Problem Statement

Small and Medium Sized Enterprises in Rubaga Division faced significant growth challenges including limited access to finance, inadequate infrastructure, intense competition, and regulatory constraints (Julius & Matovu, 2025).

Simultaneously, tax compliance rates remained substantially below optimal levels, with the majority of SMEs operating partially or completely outside the formal tax system(Turyatamba et al., 2022). While policymakers and tax authorities emphasized compliance as essential for revenue mobilization and economic formalization, many SME operators perceived taxation as an additional burden rather than a catalyst for development(Alex et al., 2024). This disconnect between regulatory expectations and business realities perpetuated a cycle of low compliance and constrained growth. However, the actual relationship between tax compliance and business growth performance remained inadequately understood(Ronald et al., 2023). Questions persisted regarding whether compliant SMEs actually achieved superior growth outcomes, through what mechanisms compliance influenced growth, and whether the costs of compliance were offset by tangible business benefits(Ronald et al., 2023). Without clear empirical evidence on these relationships, neither effective tax policies nor appropriate enterprise support interventions could be designed(Tasha et al., 2023). This knowledge gap necessitated systematic investigation of the compliance-growth nexus in the specific context of Rubaga Division's SME sector.

3.0 Research Objective

To examine the relationship between tax compliance and business growth among SMEs in Rubaga Division.

4.0 Methodology

This research adopted a correlational research design within a mixed-methods framework, enabling both quantitative measurement of relationships between variables and qualitative exploration of underlying mechanisms and contextual factors. The target population comprised registered and unregistered SMEs operating in Rubaga Division across all major sectors including retail trade, manufacturing, services, hospitality, and professional services(Gloria et al., 2023). SMEs were defined following Uganda's classification: small enterprises employed 5-49 people with annual turnover of 10-100 million Ugandan Shillings, while medium enterprises employed 50-100 people with turnover of 100-360 million Shillings(Lydia et al., 2023).

The sampling approach employed stratified random sampling to ensure representation across business sectors, sizes, and compliance levels. From a sampling frame developed through Uganda Revenue Authority records, Kampala Capital City Authority business licenses, and field enumeration, 180 SMEs were selected proportionally across five strata: retail (35%), manufacturing (20%), services (25%), hospitality (12%), and professional services (8%)(Amos et al., 2024). This sample size provided adequate statistical power for correlation and regression analysis with 95% confidence level and 5% margin of error.

Primary data collection utilized structured questionnaires administered through face-to-face interviews with SME owners or senior managers(Aslam et al., 2022). The questionnaire contained sections on business characteristics, tax compliance behaviors measured through self-reported registration status, filing frequency, payment timeliness, and record-keeping practices, and business growth indicators including revenue trends, employment changes, market expansion, asset accumulation, and profitability(Irumba et al., 2024). To address potential social desirability bias in

self-reported compliance, questions were framed neutrally and responses were cross-validated where possible with observable indicators such as possession of Tax Identification Numbers and recent tax receipts. Complementary qualitative data came from semi-structured interviews with 12 key informants including URA officials from Rubaga tax station, Kampala Capital City Authority licensing officers, business association leaders, and accounting service providers (Sarah & Audrey, 2024). These interviews explored systemic issues, compliance challenges, and perceptions of the tax-growth relationship from multiple stakeholder perspectives.

Quantitative data analysis employed SPSS version 26 (Nelson et al., 2022). Descriptive statistics characterized sample attributes and variable distributions. Tax compliance was operationalized as a composite score based on registration status, filing regularity, payment timeliness, and record-keeping quality, creating a compliance index ranging from 0 (non-compliant) to 100 (fully compliant). Business growth was similarly measured through a composite index incorporating revenue growth, employment expansion, market diversification, and asset acquisition. Pearson correlation analysis examined bivariate relationships, while multiple regression analysis determined the predictive power of tax compliance on business growth while controlling for confounding variables including business age, sector, initial capital, and owner education.

Qualitative data underwent thematic analysis using NVivo software, with interview transcripts coded to identify patterns, mechanisms, and contextual factors influencing the compliance-growth relationship. Ethical considerations included obtaining informed consent, ensuring confidentiality given the sensitivity of tax information, securing institutional permissions, and maintaining objectivity despite potential political sensitivities surrounding taxation issues.

5.0 Results and Discussion

5.1 Characteristics of Sampled SMEs

Table 1: Business Characteristics of Respondents (N=180)

Characteristic	Category	Frequency	Percentage
Business Age	Less than 3 years	42	23.3%
	3-5 years	68	37.8%
	6-10 years	51	28.3%
	Over 10 years	19	10.6%
Business Sector	Retail Trade	63	35.0%
	Manufacturing	36	20.0%
	Services	45	25.0%
	Hospitality	22	12.2%
	Professional Services	14	7.8%
Business Size	Micro (1-4 employees)	38	21.1%

	Small (5-49 employees)	112	62.2%
	Medium (50-100 employees)	30	16.7%
Owner Education	Primary	28	15.6%
	Secondary	89	49.4%
	Diploma	41	22.8%
	Degree & Above	22	12.2%
Initial Capital	Below 5M UGX	67	37.2%
	5-20M UGX	76	42.2%
	Above 20M UGX	37	20.6%

Source: Primary Data, 2025

The sampled SMEs represented a diverse cross-section of Rubaga Division's business landscape. The predominance of businesses aged 3-5 years (37.8%) and 6-10 years (28.3%) indicated a relatively mature SME sector, with sufficient operational history to assess growth trajectories meaningfully. Newer enterprises (less than 3 years) comprised 23.3%, reflecting ongoing entrepreneurial activity and business formation. The sectoral distribution aligned with Rubaga's economic profile, with retail trade dominating (35%) due to the division's residential density and consumer markets, followed by services (25%) and manufacturing (20%). The concentration of small enterprises employing 5-49 people (62.2%) confirmed that the sample genuinely represented the SME segment rather than micro or large enterprises.

Educational attainment showed that nearly half of business owners possessed secondary education (49.4%), while only 12.2% held university degrees. This moderate education profile suggested potential knowledge gaps regarding tax regulations, compliance procedures, and strategic business management that could influence both compliance behavior and growth capacity. Initial capital distribution revealed that 79.4% of SMEs started with capital below 20 million Shillings, indicating resource constraints that shaped subsequent compliance decisions and growth possibilities. These characteristics provided essential context for interpreting compliance-growth relationships, as business age, sector, size, owner education, and initial resources all potentially confounded the primary relationship of interest.

5.2 Tax Compliance Levels Among SMEs

Table 2: Tax Compliance Indicators (N=180)

Compliance Indicator	Compliant	Partially Compliant	Non-Compliant
TIN Registration	118 (65.6%)	-	62 (34.4%)
Tax Return Filing	89 (49.4%)	46 (25.6%)	45 (25.0%)
Timely Tax Payment	76 (42.2%)	58 (32.2%)	46 (25.6%)
Proper Record Keeping	81 (45.0%)	52 (28.9%)	47 (26.1%)
Overall Compliance Level	73 (40.6%)	68 (37.8%)	39 (21.6%)

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Source: Primary Data, 2025

Tax compliance analysis revealed substantial variation in adherence to different compliance dimensions. While 65.6% of SMEs possessed Tax Identification Numbers (TINs), indicating formal registration with URA, this foundational step did not translate uniformly into ongoing compliance behaviors. Tax return filing, a critical compliance requirement, was performed regularly by only 49.4% of enterprises, with 25.6% filing irregularly and 25% not filing at all. This pattern suggested that initial registration often represented responses to specific trigger requirements such as obtaining business licenses or accessing particular opportunities, rather than reflecting genuine integration into the tax system(Nelson et al., 2023).

Timely tax payment showed even lower compliance rates, with only 42.2% consistently meeting payment deadlines. The 32.2% who paid irregularly indicated capacity to comply partially, possibly paying when resources allowed or when enforcement pressure intensified. This payment pattern reflected both cash flow challenges common among SMEs and strategic decisions to prioritize other business needs over tax obligations. Proper record keeping, essential for accurate tax assessment and business management, was maintained by just 45% of enterprises. The relatively high proportion (28.9%) with partial record-keeping suggested awareness of documentation importance but inadequate accounting capacity or resources to maintain comprehensive systems.

The overall compliance assessment, synthesizing these multiple dimensions, classified only 40.6% of SMEs as fully compliant, 37.8% as partially compliant, and 21.6% as non-compliant. This distribution indicated that while complete tax evasion was practiced by a minority, full compliance with all requirements remained the practice of less than half of Rubaga's SMEs, confirming the compliance challenge facing tax authorities.

Table 3: Reasons for Non-Compliance (Multiple Responses, N=107)

Reason	Frequency	Percentage
Tax procedures too complex	68	63.6%
High tax rates	71	66.4%
Lack of awareness of requirements	45	42.1%
Fear of harassment by tax officials	38	35.5%
Perception that taxes not well utilized	52	48.6%
Cannot afford compliance costs	59	55.1%
Business not profitable enough	48	44.9%
Competitors don't comply	41	38.3%

Source: Primary Data, 2025

Analysis of non-compliance reasons revealed complex motivations beyond simple tax avoidance for financial gain. High tax rates emerged as the most frequently cited barrier (66.4%), reflecting perceptions that tax burdens exceeded business capacity to pay, particularly given profit margins in competitive markets. Procedural complexity (63.6%)

highlighted administrative barriers, as SMEs often lacked dedicated accounting staff or professional tax advisors to navigate requirements. Compliance cost concerns (55.1%) encompassed both direct costs of accounting services and opportunity costs of time spent on tax administration rather than business operations.

Perceptions regarding tax utilization (48.6%) reflected broader governance concerns, as taxpayers questioned value received for taxes paid, noting inadequate public services and infrastructure despite tax contributions. This erosion of the fiscal contract between citizens and state undermined voluntary compliance. Competitive disadvantages from compliance (38.3%) illustrated a prisoner's dilemma where individual compliance placed businesses at cost disadvantages relative to evading competitors, creating incentives for collective non-compliance. Fear of harassment (35.5%) pointed to problematic tax administration practices that deterred rather than encouraged formalization.

5.3 Business Growth Patterns

Table 4: Business Growth Indicators by Compliance Status

Growth Indicator	Fully Compliant (n=73)	Partially Compliant (n=68)	Non-Compliant (n=39)
Revenue Growth	53 (72.6%)	37 (54.4%)	11 (28.2%)
Employment Expansion	48 (65.8%)	31 (45.6%)	9 (23.1%)
Market Expansion	42 (57.5%)	28 (41.2%)	8 (20.5%)
Asset Acquisition	46 (63.0%)	29 (42.6%)	10 (25.6%)
Profitability Improvement	44 (60.3%)	32 (47.1%)	13 (33.3%)
Overall Growth Index (Mean Score)	72.4/100	51.6/100	31.8/100

Source: Primary Data, 2025

Table 4 was interpreted to show that compliance status significantly influenced business growth across multiple indicators. It was established that businesses that were fully compliant demonstrated the highest levels of growth. Specifically, a majority of fully compliant businesses experienced revenue growth (72.6%), employment expansion (65.8%), market expansion (57.5%), asset acquisition (63.0%), and profitability improvement (60.3%). The overall growth index for fully compliant businesses was 72.4 out of 100, indicating strong performance across all growth measures. Partially compliant businesses exhibited moderate growth. Just over half of these businesses achieved revenue growth (54.4%) and profitability improvement (47.1%), while fewer recorded employment expansion (45.6%), market expansion (41.2%), and asset acquisition (42.6%). Their overall growth index was 51.6 out of 100, suggesting that partial compliance only moderately supported business development. Non-compliant businesses recorded the lowest growth levels. Less than a third of these businesses achieved revenue growth (28.2%), employment expansion (23.1%), market expansion (20.5%), and asset acquisition (25.6%), while only one-third realized

profitability improvement (33.3%). Their overall growth index was 31.8 out of 100, indicating that non-compliance significantly hindered business performance.

Table 5: Access to Growth-Enabling Resources by Compliance Status

Resource	Fully Compliant (n=73)	Partially Compliant (n=68)	Non-Compliant (n=39)
Bank Credit Access	47 (64.4%)	26 (38.2%)	7 (17.9%)
Government Contracts	32 (43.8%)	9 (13.2%)	2 (5.1%)
Supplier Credit Terms	51 (69.9%)	33 (48.5%)	14 (35.9%)
Business Licenses/Permits	68 (93.2%)	54 (79.4%)	18 (46.2%)
Training Programs	38 (52.1%)	19 (27.9%)	6 (15.4%)

Source: Primary Data, 2025

Business growth patterns demonstrated striking disparities across compliance categories, providing strong evidence for positive associations between tax compliance and enterprise development. Revenue growth, the most direct growth indicator, was achieved by 72.6% of fully compliant SMEs compared to 54.4% of partially compliant and only 28.2% of non-compliant enterprises. This gradient pattern suggested that compliance level corresponded positively with revenue expansion capacity. Qualitative interviews revealed that compliant businesses leveraged their formal status to access larger customers, supply to institutions requiring proper documentation, and participate in formal value chains that non-compliant enterprises could not enter.

Employment expansion showed similar patterns, with 65.8% of compliant SMEs increasing workforce size versus 23.1% of non-compliant firms. This finding contradicted the common assumption that tax compliance reduced resources available for hiring. Instead, compliant businesses' superior revenue performance and growth trajectories enabled employment creation. The employment gap between compliance categories (42.7 percentage points) represented substantial differences in job creation contributions, with significant implications for development policy given SMEs' employment generation role.

Market expansion, indicating geographic diversification or product line broadening, occurred in 57.5% of compliant SMEs but only 20.5% of non-compliant enterprises. This 37-percentage-point difference reflected compliant businesses' enhanced capacity to undertake expansion investments and access new market opportunities. Tax receipts and formal registration served as entry requirements for many institutional markets and formalized distribution channels. Asset acquisition patterns (63% vs. 25.6%) further illustrated investment capacity differences, with compliant firms better positioned to purchase equipment, vehicles, and facilities supporting growth.

The overall growth index, synthesizing multiple indicators, showed compliant SMEs scoring 72.4/100 compared to 31.8/100 for non-compliant enterprises a 40.6-point differential representing substantially superior growth performance. Even partially compliant businesses (51.6/100) significantly outperformed non-compliant firms, suggesting that even incomplete compliance yielded growth advantages, though full compliance optimized outcomes.

Analysis of access to growth-enabling resources illuminated mechanisms through which compliance facilitated growth. Bank credit access showed the starkest disparity, with 64.4% of compliant SMEs accessing formal credit compared to only 17.9% of non-compliant firms. This 46.5-percentage-point gap reflected financial institutions' requirements for tax compliance as creditworthiness indicators. Tax returns, filing history, and payment records served as proxy measures for business formality, stability, and management quality, enabling banks to assess loan applications from SMEs lacking conventional collateral or audited financial statements. Non-compliant enterprises faced severe credit constraints, limiting their capacity to finance inventory, equipment, or expansion regardless of business opportunity quality.

Government contract access illustrated another critical advantage, with 43.8% of compliant SMEs winning public procurement opportunities compared to only 5.1% of non-compliant firms. Government procurement regulations required tax compliance certificates as mandatory bidding requirements, effectively excluding non-compliant enterprises from this substantial market segment. For compliant SMEs, government contracts provided stable revenue streams, capacity-building opportunities, and reputational benefits that enhanced competitiveness in private markets as well.

Supplier credit terms, while accessible across compliance categories, showed quality differences with 69.9% of compliant versus 35.9% of non-compliant SMEs obtaining favorable terms. Suppliers viewed tax-compliant businesses as more reliable, transparent, and permanent, justifying extended payment periods and larger credit lines. This working capital advantage enabled compliant SMEs to maintain larger inventories, respond to demand fluctuations, and negotiate better purchase prices through volume commitments.

Business licensing and permitting showed compliance-related disparities (93.2% vs. 46.2%), as tax compliance certificates were prerequisites for license renewal in many cases. Operating without proper licenses exposed businesses to closure risks, harassment, and inability to advertise or operate visibly, constraining growth. Finally, access to training programs (52.1% vs. 15.4%) reflected both formal eligibility requirements favoring compliant businesses and self-selection patterns where growth-oriented entrepreneurs pursued both compliance and capacity development.

5.4 Statistical Relationship between Compliance and Growth

Table 6: Correlation Analysis

Variables	Correlation Coefficient (r)	Significance (p)	Interpretation
Tax Compliance × Business Growth	0.71	< 0.001	Strong Positive
Tax Compliance × Revenue Growth	0.68	< 0.001	Strong Positive
Tax Compliance × Employment Growth	0.63	< 0.001	Strong Positive
Tax Compliance × Market Expansion	0.59	0.002	Moderate Positive

Tax Compliance × Profitability	0.54	0.004	Moderate Positive
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Source: Primary Data, 2025

Statistical analysis provided robust evidence of strong positive relationships between tax compliance and business growth. The Pearson correlation coefficient of 0.71 ($p < 0.001$) between overall compliance and growth indices indicated a strong, statistically significant positive association. This relationship was consistent across specific growth dimensions, with correlations ranging from 0.54 for profitability to 0.68 for revenue growth, all statistically significant at $p < 0.005$ levels. The consistency of positive correlations across multiple growth indicators strengthened confidence that the relationship was genuine rather than artifact of measurement or sampling. Simple linear regression analysis demonstrated that tax compliance explained 51% of variance in business growth ($R^2 = 0.51$), a substantial explanatory power indicating that compliance status was a major determinant of growth outcomes. The F-statistic of 184.3 ($p < 0.001$) confirmed the regression model's overall significance. This meant that knowing an SME's tax compliance level allowed prediction of its growth trajectory with considerable accuracy, supporting policy emphasis on promoting compliance as a growth strategy.

Table 7: Regression Analysis - Tax Compliance Predicting Business Growth

Model	R	R ²	Adjusted R ²	F	Significance
Simple Regression	0.71	0.51	0.50	184.3	< 0.001
Multiple Regression*	0.78	0.61	0.59	67.8	< 0.001

*Controls: Business age, sector, owner education, initial capital

Source: Primary Data, 2025

Multiple regression analysis, controlling for potential confounding variables including business age, sector, owner education, and initial capital, strengthened rather than weakened the compliance-growth relationship. The R^2 increased to 0.61, indicating that the model explained 61% of growth variance when control variables were included. Critically, tax compliance remained the strongest predictor with a standardized beta of 0.52 ($p < 0.001$), meaning compliance had the largest independent effect on growth among all examined variables. The unstandardized coefficient of 0.48 indicated that each one-point increase in compliance score (0-100 scale) corresponded to a 0.48-point increase in growth score, holding other factors constant.

Table 8: Regression Coefficients

Variable	Unstandardized Beta	Std. Error	Standardized Beta	t	Significance
Tax Compliance	0.48	0.06	0.52	8.31	< 0.001
Business Age	0.21	0.08	0.18	2.63	0.009
Owner Education	0.16	0.07	0.15	2.29	0.023
Initial Capital	0.13	0.06	0.14	2.17	0.031

Source: Primary Data, 2025

Control variables also showed significant but smaller effects. Business age positively predicted growth ($\beta = 0.18$, $p = 0.009$), reflecting learning curve benefits and established market positions of older firms. Owner education exhibited positive effects ($\beta = 0.15$, $p = 0.023$), suggesting that educated entrepreneurs better managed both compliance and growth strategies. Initial capital showed modest positive effects ($\beta = 0.14$, $p = 0.031$), confirming resource endowment's role in enabling growth. However, compliance's larger coefficient demonstrated that even controlling for these structural advantages, tax compliance independently and substantially influenced growth outcomes. These statistical findings conclusively rejected the hypothesis that tax compliance impeded growth by extracting resources. Instead, results supported the alternative hypothesis that compliance facilitated growth through multiple reinforcing mechanisms including enhanced access to finance, markets, inputs, and legitimacy that more than compensated for direct compliance costs.

6.0 Conclusions

This study established definitively that tax compliance maintained strong positive relationships with business growth among SMEs in Rubaga Division, Kampala. The empirical evidence contradicted widespread perceptions among entrepreneurs that tax compliance represented an impediment to growth. Instead, compliant enterprises systematically outperformed non-compliant counterparts across all examined growth dimensions including revenue expansion, employment creation, market diversification, asset accumulation, and profitability improvement. Statistical analysis demonstrated that tax compliance explained over half of the variance in business growth, making it one of the most powerful predictors of SME development trajectories.

The mechanisms through which compliance facilitated growth were multiple and mutually reinforcing. Access to formal financial services emerged as perhaps the most critical pathway, as compliant businesses obtained bank credit at rates nearly four times higher than non-compliant firms, overcoming the capital constraints that typically limited SME expansion. Government procurement opportunities, available almost exclusively to compliant enterprises, provided stable revenue sources and capacity-building experiences. Enhanced relationships with suppliers, customers, and business partners reflected the legitimacy and trust that compliance conferred, translating into operational advantages throughout the value chain.

The study also revealed that tax compliance challenges stemmed from complex interactions between structural constraints, administrative barriers, and perceptual factors rather than simply tax avoidance for profit maximization. High compliance costs relative to business scale, procedural complexity, inadequate awareness of requirements and benefits, and problematic enforcement practices all contributed to suboptimal compliance levels. The finding that even partially compliant SMEs achieved significantly better growth than non-compliant enterprises suggested that compliance benefits accrued incrementally, making even imperfect compliance worthwhile.

From a policy perspective, the research demonstrated that promoting tax compliance and supporting SME growth were complementary rather than competing objectives. Initiatives that reduced compliance barriers, enhanced taxpayer services, and built understanding of compliance benefits could simultaneously expand the tax base and accelerate enterprise development. However, achieving this synergy required moving beyond purely enforcement-oriented approaches to embrace facilitative tax administration models that recognized SMEs' distinctive capacities and constraints. The study concluded that Rubaga Division's SME sector would benefit substantially from increased tax compliance, generating gains for enterprises, the tax authority, and the broader economy. Realizing this potential required coordinated efforts among multiple stakeholders to reshape incentive structures, build capacity, and transform compliance from perceived burden into recognized enabler of business success.

7.0 Recommendations

7.1 For Uganda Revenue Authority

URA should prioritize simplification of tax procedures specifically for SMEs, recognizing that administrative complexity constituted a primary compliance barrier. This could involve developing streamlined registration processes, simplified tax return forms, and consolidated payment systems that reduced transaction costs. The authority should establish dedicated SME service centers in divisions like Rubaga, providing one-stop support for registration, filing, payment, and problem resolution. These centers should emphasize taxpayer education and assistance rather than purely enforcement, helping entrepreneurs understand requirements and navigate procedures.

URA should implement graduated compliance incentive programs that recognized and rewarded timely filers and payers through public acknowledgment, expedited service, or preferential treatment in audits. Conversely, enforcement should target persistent non-compliers through systematic audits and penalties while avoiding harassment of genuine but struggling enterprises. The authority should develop taxpayer education campaigns that highlighted compliance benefits for business growth, using case studies and testimonials from successful compliant enterprises to shift perceptions beyond viewing taxation as pure cost extraction.

7.2 For SME Owners and Business Associations

Entrepreneurs should recognize tax compliance as strategic investment in business development rather than merely regulatory obligation. SMEs should allocate resources to establish basic accounting systems, maintain proper records, and engage professional tax services where necessary, viewing compliance costs as producing returns through enhanced access to growth opportunities. Business associations should provide collective services including tax advisory support, compliance training, and group accounting services that reduced individual member costs through economies of scale.

Associations should advocate constructively with tax authorities for SME-friendly reforms while encouraging member compliance. They should facilitate peer learning platforms where compliant businesses shared experiences and benefits, creating demonstration effects that encouraged broader adoption. SME owners should proactively seek

information about tax requirements and benefits, utilizing available resources rather than remaining ignorant of obligations and opportunities.

7.3 For Financial Institutions

Banks and microfinance institutions should recognize tax compliance as valuable creditworthiness indicator and incorporate it systematically into lending assessments. Financial institutions should develop specialized SME loan products that incentivized compliance, for example offering preferential interest rates or terms to tax-compliant businesses. Banks could partner with URA to access compliance data (with appropriate consent) that supplemented traditional credit assessment, enabling lending to compliant SMEs lacking conventional collateral.

Financial institutions should provide bundled services combining credit with tax advisory support, recognizing that improving client compliance enhanced both loan performance and business success. They should engage in joint financial literacy programs with tax authorities that addressed both business finance management and tax compliance as complementary competencies.

7.4 For Government and Policy Makers

The Ministry of Finance and URA should consider establishing simplified tax regimes specifically designed for SMEs, such as presumptive taxation systems based on turnover thresholds rather than complex profit calculations. Such regimes, successfully implemented in countries like Rwanda and Kenya, reduced compliance costs while maintaining revenue collection. Government should ensure that tax revenues demonstrably funded public services and infrastructure that benefited taxpaying businesses, strengthening the fiscal contract and voluntary compliance motivations.

Kampala Capital City Authority should integrate tax compliance requirements into business licensing processes seamlessly, using shared databases with URA to streamline procedures rather than creating duplicate requirements. Government procurement agencies should rigorously enforce tax compliance prerequisites for bidding while ensuring transparent, accessible tender processes that enabled qualified SME participation. Policy makers should commission regular impact assessments of tax policies on SME development, using evidence to refine approaches and balance revenue objectives with growth facilitation.

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