https://rijournals.com/law-communication-and-languages/
RESEARCH INVENTION JOURNAL OF LAW, COMMUNICATION AND LANGUAGES 3(1):75-80, 2024
©RIJLCL Publications ISSN 1597-8605

The Impact of Taxation on the Performance of Small-Scale Business in Habaswen Shopping Centre of Wajir District, Kenya

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ABSTRACT
The examined the impact of taxation on the performance of small businesses in Habaswen shopping centres. It was found that taxation has a significant effect on the performance of small businesses, as evidenced by low profits, low sales, and poor-quality provision, all of which result from high taxation. Additionally, poor performance is marked by inefficiency and ineffectiveness due to low profitability and the high cost of running the business because of high taxes. It is recommended that tax authorities and the government consider not only revenue generation but also the economic effects of taxation. While small businesses, individuals, companies, and other business organizations have an obligation to pay taxes, these taxes should facilitate government efforts in providing essential services such as health, education, and infrastructure like roads. Taxes should benefit all stakeholders and promote the overall economic well-being of the community. More so, the taxable capacity of small businesses should be determined by assessing their ability to bear the tax burden. This ensures that the tax levy is not excessively high, allowing small businesses to continue operating with enough disposable income left. Qualified personnel should conduct tax assessments and collections to avoid overcharging for the self-interest of tax collectors and administrators.
Keywords: Government, Impact, Small scale business, Tax administrators, Taxation.

INTRODUCTION

Taxation is a legally compulsory transfer of money from the public to the government, mainly as a source of government revenue. Taxes are non-quid pro quo payments, meaning that the benefits taxpayers receive from the government may not always match the tax amount they pay. The benefits received from the government may be equal, greater, or less than the taxes paid. Business performance is defined as the ability of business projects to function efficiently in accordance with survival, growth, and reaction opportunities and threats [1]. Small-scale businesses are defined as those in which an individual manages the business regardless of its size, and there is a significant level of trust in this perspective. A small business may include the following: a manufacturing company, wholesalers, retailers, and service providers like Solan, barber shops, cyber cafés, etc. In Kenya, taxis are either direct or indirect. Direct tax is when the impact and incidence of taxes are on the same person who is the tax payer. Examples include income tax, corporation tax, and capital gains tax. Indirect taxis, which have a distinct impact and incidence, include excise duty, customs duty, export duty, and VAT (value-added tax)[2]. Taxation serves as a significant source of revenue for the government, enabling it to achieve its objectives. These objectives include the provision of services such as education, health, and other remedies like water, defense, maintaining law and order, and controlling or combating inflation and deflation[3]. However, this does not imply that the government should impose heavy taxes on individuals, small businesses, and companies. This is because a high tax rate on individuals, small businesses, and companies could negatively impact their operations by reducing efficiency, increasing advertising costs, and raising commodity prices, ultimately leading to higher prices and lower sales[4]. A high tax rate can have a negative impact on the performance of businesses. Such efforts reduce the business's productivity because of the low profit. This affects the performance of small-scale businesses in the economy because their primary goal is profitmaking[5]. Adam Smith, a classical economist, laid out the canons of taxation, which are rules applied when devising a system of taxation. These canons include economy or cheapness, simplicity or quality, convenience, equity, ability to pay, elasticity, and productivity[6].
The performance of small-scale businesses in Wajir District and Habaswen Shopping Centre falls short of desirable standards. The inefficiency and ineffectiveness of these small-scale businesses are evident in their limited ability to utilize the available business climate, which is a result of their low profitability and the high operating

costs resulting from high taxes. Small-scale businesses continue to perform poorly in Wajir District, particularly Habaswen Shopping Centre, due to high tax rates that have affected their performance. This is evident in the reduction in their efficiency, effectiveness, low sales, low profit, high prices of goods, or poor quality and service provision to the customers or the needy, less investment, less revenue, and the collapse of businesses. The primary goal of small businesses is to generate profits to propel their growth from small to medium to large-scale operations. However, high tax rates have hindered this progress, leading to the need for research on the relationship between taxation and performance. This study examines the impact of taxation on the performance of small-scale business in Habaswen Shopping Centre of Wajir Distrjct, Kenya.

The impact of taxation on performance or small-scale businesses

Taxes are a crucial source of government revenue, imposed by public authorities to cover expenses in the common interest of all. Small businesses, such as manufacturing companies, wholesalers, retailers, and service providers, are an organizational definition of a small business. They can be classified into direct and indirect taxes, with direct taxes impacting the same person as the taxpayer and indirect taxes impacting different persons. Taxes are primarily levied to raise revenue, prevent harmful substances like opium, protect domestic industries against foreign competition, and reduce wealth inequalities. Small-scale businesses create jobs for job seekers and are innovative in creating new ideas or business ventures that contribute to economic growth and development. They also grant independence to owners and allow them to reap the rewards of their efforts[7]. However, taxes can have negative impacts, including discouraging saving and investment, reducing economic growth, disincentivizing investment, inconvenience to business people, and progressive taxation. High taxes on company profits can discourage private investment in risky enterprises and may retard capital formation[8]. Additionally, highly progressive taxes discourage private savings and hard work, as the wealthy, who have a greater ability to save, are unable to do so if heavily taxed. Taxes have micro- and macro-economic effects, influencing both resource allocation and the economic welfare of society. Benjamin Franklin noted that taxes are a part of life and are costly in terms of collection by federal, state, and local governments[9]. The level of taxation affects the amount of money individuals and businesses can save, spend, or invest. The tax code allows small businesses that meet certain restrictions to set up as corporations, providing limited liability while still being taxed as a proprietorship or partnership[10].

The relationship between taxation and the performance of small businesses

Business income (revenue minus expenses) earned by a proprietorship or partnership is treated as personal income of its owners for tax purposes. If a small business is incorporated, the owners may be taxed either as a partnership or as a corporation. Any salaries and dividends paid to the owners are taxed as personal income. If owners wish to retain profits in the business to invest in additional assets to expand the firm, those funds would not be taxed as dividends until they are paid out. Therefore, dividend taxes on corporate income can be postponed [11, 12]. Taxes can significantly impact investment performance. Each year, dividends, interest income, and short-term capital gains are taxed at a high rate. Long-term capital gains are also taxed at higher rates than normal, reducing the after-tax return on investments. Taxes and inflation together can erode investment returns for common stocks. Taxes can be one of the largest cash outflows for a firm. The size of the tax bill is determined by the tax code. Taxes for partnerships and proprietorships are computed using personal income tax schedules, similar to corporate taxes. Sales tax payments on asset purchases reduce earnings by increasing the cost of goods sold (if taxes are paid on inventory purchases), depreciation expense (if taxes are paid on depreciable asset purchases), and other expenses[13]. Sales tax payments on purchases of inventory and long-lived assets are reported on the statement of cash flow as operating and investing activities, respectively, but are not separated from the amount paid for these assets[14].

The Impact of Taxation on the Small-Scale Business Sector

Tax models and the impact of taxation on the small business sector are important because a small number of growth businesses provide most of the new wealth and additional employment created by the small business sector. There are three important areas in which tax regulations currently restrain the growth and development of small businesses: sales growth, employment generation, and investment for the future. To reduce fiscal barriers, it is suggested to raise the value-added tax registration limit, compensate small businesses for the costs of collecting taxes on behalf of the government, and reduce the level of taxation on profits reinvested in small businesses[15, 16].

METHODOLOGY

Research design

The study used a survey as the chosen design. A survey is appropriate for this study because it carefully examines the impacts of taxation and provides a general view of the study.

Target population

The target population for the study was small-scale business owners or operators in the district, specifically those in Habaswen shopping centre. Since interviewing the entire population in the market was not feasible, a sample of

50 small-scale business owners/operators was identified to constitute the data samples.

Data collection procedures

The researcher employed questionnaires and interviews as the data collection methods to gather specified data for the research question under investigation.

Data analysis

The researcher employed descriptive and inferential statistics as the techniques for data analysis. Descriptive statistics summarize data and describe the sample, while inferential statistics allow the researcher to infer the sample results to the population. Tools such as correlation, tables, graphs, pie charts, and regression were used to analyze the data. This data analysis technique was chosen to show the direction and magnitude of the relationship between given variables.

RESULTS

Table 1: Responses on whether the tax payment affects the performance of small business in Habaswen Shopping Centre

Response Category	Frequency	Percentage (%,)
Yes	38	76
No	12	24
Total	50	100
Total	**50**	**100**

Source: Primary data

Table 2: Response on whether tax payment by small businesses encourage further investment in the market

Reponses Category	Frequency	Percentage ('%)
Yes	12	**24**
No	38	**76**
Total	***so***	**100**

Source: Primary data

Table 3: Responses on whether after payments of tax do small business owners continue with the business in the market

Response Category	Frequency	Percentage('1/c,)
Yes	24	**48**
No	26	**52**
Total	**50**	**100**

Source: Primary data

Table 4: Responses on whether a tax can be defaulted or avoided by the business owners and what happens when tax is evaded by the business owners

Reponses Category	Frequency	Percentage('1/c,)
Yes	27	**54**
No	23	**46**
Total	**50**	**100**

Source: Primary data

Table 5: Responses on how much taxes are paid by small businesses on the amount of taxes paid by small business depend on the type of the business

Type of the business	Frequency	Percentage, (%)	Amount in Shillings (KSH)
Restaurant	09	18	2,000
Bars	01	2	4,000
Grocery	15	30	3,000
Saloon	05	10	1,000
Retailers	20	40	5,000
Total	50	100	15,000

Source: Primary data

From the data above, restaurant operators paid 2,000 shillings in taxes, representing 18%. Bar operators paid 4,000 shillings in taxes, which is 2%. Grocery operators paid 3,000 shillings in taxes, indicating 30%. Salon operators paid 1,000 shillings in taxes, which accounts for 10%. Lastly, retailers paid 5,000 shillings in taxes, representing 40%.

Table 6: Responses on whether High Tax to Small Business results in Low Profit in Masalani Shopping Centres

Response Category	Frequency	Percentage ('1/.,)
Yes	40	80
No	10	20
Total	*So*	100

Source: Primary data

Although taxation is a major source of government revenue, it is important that the government does not heavily tax individuals, business enterprises, and companies. High tax rates on small businesses and companies, especially over 50%, can reduce efficiency, increase operational costs, lower productivity, and decrease profits. The results obtained in the study illustrate how taxation affects the performance of small businesses.

Table 7: Response on whether tax is progressive for a small business

Response Category	Frequency	Percentage('1/«,)
Yes	35	70
No	15	30
Total	50	100

Source: Primary data

The impact of taxation on the performance of small businesses includes lower profits due to higher prices, reduced sales, and consequently, less investment or expansion of the business owing to lower revenue. The researcher also investigated the effects of a progressive tax rate on small businesses. The results are summarized in the table below.

DISCUSSION

Taxation is often a problem for businesses, irrespective of their size or the individual who pays the tax. High taxes increase the prices of products or commodities, especially indirect taxes, which are later shifted to consumers in the form of high-priced goods. Subsequently, consumers reduce their demand for such commodities, consuming less, which affects business performance by causing low sales and low stock turnover[17, 18]. This, in turn, lowers the productivity level of the business due to the increased costs of production and running the business. In certain cases, taxes inconvenience businesses because they are paid in lump sums before goods are sold. This has a greater effect on commodities with elastic demand, where consumers reduce their demand and consumption because they can no longer afford the higher prices resulting from taxation[19]. The relationship between taxation and small business performance is such that high taxes, high prices, and low productivity lead to low profits, few or no sales, and poor quality and service provision to consumers. This negatively impacts business performance. Consequently, highly progressive taxes result in less investment because resources are reallocated away from taxed activities, leading to less revenue, lower profits, fewer sales, and eventually the collapse of small businesses. Businesses that attempt to evade taxes face serious consequences, including closure[20].

CONCLUSION

It has been observed that taxation significantly affects the performance of small businesses, particularly in terms of profit, sales, and the quality of goods and services provided. To foster a competitive business environment, small businesses need favorable taxation policies, systems, and timely payment schedules to meet consumer demands. It was found that taxation has a significant effect on the performance of small businesses, as evidenced by low profits, low sales, and poor-quality provision, all of which result from high taxation. Additionally, poor performance is marked by inefficiency and ineffectiveness due to low profitability and the high cost of running the business because of high taxes. Furthermore, the study noted that the impact of taxation on small business performance varies with the type of business. Finally, small businesses face numerous challenges related to taxation, including uncertainty about when, where, and how much to pay, as well as corruption within tax authorities who do not follow their code of conduct.

RECOMMENDATIONS

Based on the results obtained from the study, the researcher has the following recommendations for future researchers on the same topic, tax authorities, and small business owners to improve the performance of small businesses affected by taxation:

1. **Implement Low or Moderate Tax Rates**: It is recommended that tax authorities adopt low or moderate tax rates to enhance the efficiency and effectiveness of small business enterprises. Lower tax rates lead to higher profits, increased sales, lower prices, and higher production. Consequently, small businesses can expand and invest more due to reduced costs. This, in turn, improves their overall performance, including reduced advertising costs and non-taxable benefits for employees and directors.
2. **Certainty and Convenience in Tax Assessment**: Taxes should be assessed based on the principles of certainty, where the nature, base, and amount of the tax are clearly defined for taxpayers. Unpredictable taxes discourage investment and reduce work effort. Additionally, the periods and seasons for tax collection should be convenient for taxpayers. For instance, the convenient time for business people is when profits are made, and for farmers, it is after the sales of farm produce.
3. **Fair Tax Base and Ability to Pay**: There should be a fair tax base according to the benefit principle, meaning the tax should be proportional to the benefits a taxpayer receives from government programs. Taxes should also be assessed based on the ability to pay, considering factors such as:
    - Earned income and income from all forms of wealth possession by the taxpayer.
    - Disposable income should be sufficient to sustain the taxpayer's lifestyle and the business.
    - Expenditure and domestic obligations of the taxpayers and businesses.
4. **Assessment of Taxable Capacity**: The taxable capacity of small businesses should be determined by assessing their ability to bear the tax burden. This ensures that the tax levy is not excessively high, allowing small businesses to continue operating with enough disposable income left. Qualified personnel should conduct tax assessments and collections to avoid overcharging for the self-interest of tax collectors and administrators.
5. **Consider Economic Effects of Taxation**: It is recommended that tax authorities and the government consider not only revenue generation but also the economic effects of taxation. While small businesses, individuals, companies, and other business organizations have an obligation to pay taxes, these taxes should facilitate government efforts in providing essential services such as health, education, and infrastructure like roads. Taxes should benefit all stakeholders and promote the overall economic well-being of the community.

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CITE AS: Hassan Mathobe Bba (2024). The Impact of Taxation on the Performance of Small-Scale Business in Habaswen Shopping Centre of Wajir District, Kenya. RESEARCH INVENTION JOURNAL OF LAW, COMMUNICATION AND LANGUAGES 3(1):75-80.