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Purpose: The purpose of the study was to determine the effect of tax incentives on financial performance of SMEs in Kabale district Uganda. This study was guided by the normative theory and the political systems theory.

Materials and Methods: The study employed the descriptive research design. The data was collected using structured questionnaires. Data was later edited, coded, and fed into the SPSS computer package to generate both inferential and descriptive statistics.

Findings: The study findings as indicated by the coefficients of determination show that tax exemptions have a significant impact on growth of SMEs (β= .325, t=4.075, p<0.000). It was observed that there are various tax incentives that have been formulated to accelerate the financial performance of SMEs in Uganda although their practical implementation has not been fully realized.

Unique Contribution to Theory, Practice and Policy: The study recommends that the development of policies by Ugandan government geared to accelerate the financial performance of SMEs should have the target beneficiaries' input before implementation to prevent the formulation of impractical and undesirable policies. The government should also provide frequent trainings to SMES on the available incentives, which they could leverage on to boost their financial performance.

Keywords: *Tax Incentives, Financial Performance, Small and Medium Sized Enterprises Investment Allowances, Tax Exemptions, Uganda*

JEL Codes: *M2; P3; L1; L2;04*

1.0 INTRODUCTION

The use of tax incentives to promote the financial performance of Small and Medium Sized Enterprises (SMEs) is derived from the theory of net present value (NPV) decision principle. The theory states that firm would consider tax implications while estimating the value of their expenditure decisions since any reductions in the cost of capital attributed to the tax policy results to increased expenditure (Twinomujuni, 2023). When enterprises thrive, economic financial performance is realized, it is for this reason that the Ugandan government has put in place different tax policies such as the tax incentives policy to assist to SMEs through promotion of trade and investment and hence financial performance of small businesses (Karingi, 2005). According to Ranti, Uwalomwa and Chineye (2016), Ugandan small scale enterprises face challenges such as infrastructural deficiency, difficult and unfavourable operating environment, inadequate funds for financing, difficulties in obtaining licenses and trade permits, poor working environment and exploitative taxes in form of double taxation or high tax rate. High tax rate act as a disincentive to enterprises for expansion and investment since it leaves them with inadequate funds for re-investment, which in the long run discourages investment, output levels and the overall firms' productivity (Ranti & Kingsley, 2016).

Tax incentives are special offerings by national tax agencies granting preferential provisions to certain investments or taxpayers (Klemm, 2010). Tax incentive can also be described as provisions that grant any activity or person favourable conditions that vary from the normal tax legislation provisions (URA, 2016). Tax incentive includes; tax holiday, accelerated depreciation, increased tariff to protect domestic market and loss carried forward for tax purpose. Keen, (2013) further describes tax incentives as all the strategies and measures that provide for better tax treatment to specific activities or sectors. In Uganda, tax incentives can be classified into either export promotion incentive or investment promotion incentive. Examples of investments promotion incentives are the investment deductions allowances which was implemented to accelerate investments in physical assets for instance machinery and industrial buildings. Industrial building allowances was for instance advanced to encourage investment in buildings used for industrial purposes. Other investment allowances were advanced to encourage investors to delve into the mining sector, which was capital intensive (Githaiga, 2013).

Governments across the globe utilize tax incentive to promote economic activities and investment by enterprises-they introduce these incentives to boost some crucial sectors of the economy where they appear dormant or lacking completely (Kaplan, 2011). Incentives increase return on capital thus making investments more attractive and which increases the firm's profitability. Despite the above benefits, tax incentives are rated poorly in investment climate and have been reported to be redundant since the investments they purport to support would still have been executed without the incentives (Klemm, 2010). Their fiscal costs are also high which reduces the opportunities for infrastructure, social support or public services requiring higher taxes on other undertakings (James & Sebastian, 2014). According to the Kabale District commercial office Report (2024), the SMEs in Kabale district have indicated a decline in their profits. The report displays the percentages of businesses that generated profits in 2020, 2021, 2022, 2023, and 2024. 67.0% of the businesses that replied to the interview questions stated that they made profits in 2020. In 2021, the percentage of profitable businesses rose to 69.0 percent, but in 2022, 2023 and 2024, it fell to 63%, 61% and 58% respectively. Accordingly, SMEs need help and government support if they are to remain sustainable and profitable. One such measure that the Ugandan government has taken, is offering tax incentives to SMEs. Despite the critical role Small and Medium Enterprises

(SMEs) play in Kabale district economic development, their financial performance remains vulnerable due to limited access to capital, high operational costs, and burdensome tax regimes. In attempt to revamp enterprise-level performance, the Ugandan government introduced various tax incentives. However, the actual impact of such incentives including investment allowances, reduced capital gains tax, and turnover tax reductions on the financial performance of SMEs in Kabale district has remained under-researched and unclear. Previous studies (Andersen et al., 2017; Anim et al., 2021) have shown mixed outcomes, indicating that while tax incentives attract investment and reduce compliance costs, their effectiveness depended on firm size, sectoral dynamics, and administrative efficiency. Furthermore, evidence from tax compliance literature (Andreoni et al., 2012) suggest that unclear policy implementation could undermine intended benefits. In Kabale district, there is insufficient empirical data examining how these tax incentives specifically influence firm's financial outcomes. This knowledge gap hinders policymakers from designing well-targeted fiscal policies. Therefore, this study sought to evaluate the effect of key tax incentives on SME financial performance in Kabale district to inform evidence-based policymaking. Specifically, the study aimed at not only understanding how investment allowance affects the financial performance of SMEs in Kabale district, Uganda, but also exploring the impact of reducing capital gains on the financial performance of SMEs in Kabale District.

2.0 LITERATURE REVIEW

2.1 Theoretical Foundation

This part describes and discusses theories related to the study namely the Political System

Theory and Normative Theory

2.1.1 Normative Theory

Cochran (1999) propagated the normative theory. Net Present Value (NPV) theory provides a framework for evaluating the profitability of an investment by accounting for the time value of money. It is the difference between the present value of future cash inflows and the present value of future cash outflows. When analysing a tax policy, governments and economists apply NPV to forecast the policy's long-term economic effects by treating taxes as cash flows.

NPV Theory Definition

The core of NPV theory is that a dollar today is worth more than a dollar in the future. This is because a dollar today can be invested and earn a return. To perform an NPV analysis, a discount rate is applied to a stream of future cash flows to determine their worth in today's dollars, also known as their present value**.**

Demonstration of NPV to Taxation Policy

Governments use NPV analysis to evaluate the economic viability and long-term impact of new or proposed tax policies. Instead of analysing a company project, the government treats the tax policy as an investment, with the cash flows representing the effects on the broader economy.

Taxes and Tax-Related Cash Flows

Governments analyse how different tax policy changes, such as new tax credits or changes to corporate tax rates, alter the cash flows of businesses and individuals. Taxable income represents a cash outflow, as it generates a tax cost. Deductible expenses generate a tax saving, which is a cash inflow. Tax credits, such as for research and development, are direct

cash inflows. The model explains how the existence of institutional government structures create different incentives and the constraints faced by the governments. The incentives stipulate a clear development path and various governments may transition in different ways some of which might not be effective.

Tax administrative reforms and tax policy-making therefore evolve symbiotically and simultaneously. The institutional theory provides a holistic framework, which could be used to articulate the development of tax policy administrations across cultures over time. According to Chua (1995), every incentive is associated with certain merits and demerits and it is thus extremely hard to ascertain the ones that are effective since different economies are faced with different circumstances and challenges. The proxies for establishing what works for a particular economy include budgetary constraints, the nature of investment being courted, the tax administration's competence, the extent to which the government stimulates investment, the available tax planning opportunities and the extent of revenue leakages. Shah and Broadway (1995) postulate that any incentives allocated by politicians and public servants are potentially open to corruption and abuse. Therefore, there exists a strong believe that all potential investors should have access to incentives which is possible through transparent allocation criteria. Conversely, adequate incentives for investment should be availed to firms to promote positive financial performance. Therefore, each potential investment need receives incentive specific to the precise situation.

The Normative theory is useful in illustrating the factors influencing the tax incentives' efficiency in affecting the financial performance of firms as well as the benefits and costs of tax incentive in the nation. Normative Theory, in the context of Institutional Theory, focuses on how shared beliefs, values, and professional standards shape individuals' behaviour within institutions, emphasizing the "logic of appropriateness" rather than pure self-interest or instrumental rationality. It relies on normative isomorphism, where conformity is driven by social obligations and professional norms, often leading to standardized practices and a perceived sense of legitimacy. Key elements include the influence of professions and education, which create common understandings of appropriate conduct and foster a balance between established rules and prevailing values.

2.1.2 Political System Theory

Housesits, (1917) developed the political systems theory of entrepreneurial financial performance. The theory argues that the political system creates favourable laws, adequate infrastructure, security to entrepreneurs, fair taxation system, provide subsidies and incentives, creation of promoting policies and encourage individuals to engage in entrepreneurship. The state can provide an enabling environment for upcoming entrepreneurs. Therefore, the contribution of the political system can meaningfully lead to entrepreneurial advancement. The source of resources emanating from the judgment of government owners constitutes an entrepreneurial element in the government action. Lack of these elements implies that ownership, direction and judgment would imply monopoly powers as implied in the economic theory (Karol, 2013). Political system theory explains taxation not merely as an economic function but as a product of political struggle, state building, and the relationship between state and society. These theories move beyond purely economic models, which focus on efficiency and revenue maximization, to examine how political factors like elite power, democratic processes, and state capacity shape a country's tax system. The theory states that, political system could integrate appropriately with different sectors such as the agricultural, industrial, handicraft industries, old-style and current social structure and labour-intensive technologies. This creates a strong sense of

belief that the political structure is the pivotal factor for entrepreneurial financial performance. The political systems theory of entrepreneurship is considered to be beneficial over other theories found in public literature since it does not rely on the anti-social or economically inefficient assumptions. The theory enlarges the potential scope of political entrepreneurship to include democracy via a political process. Even though the state does not directly control resources, it may regulate the flow of resources within the economy through different policy initiatives and regulatory frameworks. The entrepreneurs make decisions regarding use of resources but are beholden by higher authorities (Foss & Glein, 2020). The theory is applicable to the research since it emphasizes the function the government plays in bringing up enterprise development through different policy initiatives. This study adopts a conceptual framework that links tax incentives specifically investment allowance, capital gains reduction, and turnover tax reduction as independent variables influencing the financial performance of SMEs in Kabale district, Uganda.

The framework illustrates how these tax policies affects key financial indicators such as profitability, cash flow, and business financial performance, ultimately shaping the overall financial performance of the SMEs. Few public debates are as polarized as that about taxation. Taxes are at once celebrated as crucial for large-scale cooperation (Piketty, 2014) and denounced as "on a par with forced labour" (Nozick, 1974, p. 169). Disagreements can be technical, involving sophisticated predictions about the consequences of various proposals for the economy as a whole. However, in the end, "Taxation is not a technical matter. It is pre-eminently a political and philosophical issue, perhaps the most important of all political issues" (Piketty, 2014, p. 630). This irreducible normativity is widely accepted, and most familiar debates involve appeals to fairness from all sides. For instance, when proponents of a wealth tax argue that it will compel the rich to pay their fair share, opponents answer that it will unfairly deprive people of their rightful earnings. Alternatively, a carbon tax is proposed to reduce emissions, but critics claim it will unfairly affect people with low incomes. Similarly, there are disputes about whether tax implications attracted by certain preferences are unfair. For example, tax deductions might arbitrarily favour preferences to donate to charity, to own rather than to rent, or to save rather than to consume. Consequently, the overall system of taxation is sometimes criticized as unfair for failing to provide "neutral tax treatment of economic activities" (Slemrod & Bakija, 2017, p. 228).

2.2. Conceptual Framework

Independent Variable
Tax Incentives

- ➢ Tax deduction policies
- ➢ Incentive utilization rate
- ➢ Tax compliance cost

Dependent Variable
Financial Performance

- ➢ Profitability
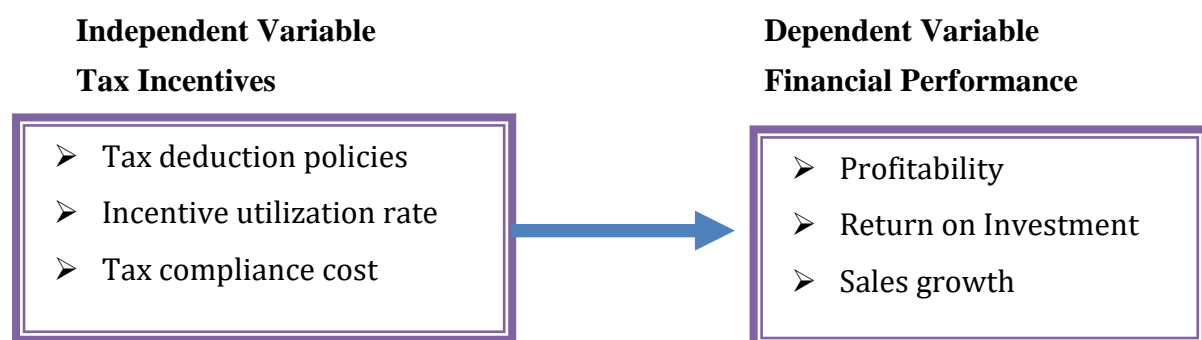- ➢ Return on Investment
- ➢ Sales growth

Figure 1: Conceptual Framework

Source: Mathieson and Roldos (2011) as modified by the Researcher, 2025

This conceptual framework demonstrates that the dependent variable for the study is financial performance of SME's while the independent variable is tax incentives. The constructs for performance classified under financial performance include profitability, return

on investment and Sales growth (Mutual & Juma, 2018). The measures of tax incentives considered in this study are; tax deduction policies, Incentive utilization rate and tax compliance cost criteria.

2.3 Empirical Review

The subject of tax incentives has become a topic of interest in current times. This is mainly due to the fact that a significant amount of business profits is channelled to payment of taxes which reduces the anticipated profits or even business sustainability (Kitsios & Patnam, 2016). Scholars like Rapuluchukwu, Ibukun and Belmoondo, (2016) examined the effect of fiscal incentives on the productivity of the firm using firms in Cameroon. Their survey contained specific measures of measuring the beneficiary status of firms from various groups of fiscal incentives for instance profit tax exemption, import duty exemption and, export financing. Their study concluded that the preposition for government involvement in firm endeavours could be inclined towards reward of outputs thus providing an integral component of industrialization.

Relatedly, Ordu and Owaume, (2014) undertook a survey to explore the impact of tax incentives on economic development of Nigeria between the time frame 2004 and 2014. Their study's population involved 51 respondents from management, tax payers and staff of chosen manufacturing firms in the South political zones of Nigeria. Their study established that sufficient tax incentives enhance industrial financial performance and economic development and recommended the government to waive certain corporate taxes to assist them mature more so at their early stages.

More still, Alhulial, (2014) delved into effects of tax incentives on the sales performances of eco-friendly cars in Japan. Their results show that tax incentives have a strong positive effect on sales of eco-friendly cars. This study highlights that tax incentives were advanced in this case not only for the purposes of business financial performance but to promote the purchase of environmentally friendly vehicles in order to control pollution of the environment and conserve natural resources.

Onyango, (2015) explored the influence of tax incentives on performances of four-star hotels in Uganda. The survey's findings showed that there exists a negative nexus between industrial deductions and investment reduction and performance of hotels of this classification. This study portrays that depreciation allowances have a positive impact on financial performance of the four-star hotels. Financial measures were used in this study to measure performance yet tax incentives may be affected by other factors in the organization which may not be depicted through financial measurements and thus the study should have considered the utilization of both financial and non-financial measures. It's a gap which this study addressed incorporating both financial and none financial measures.

Other empirical evidences exist in the same regard as in the study by Ilodigwe, (2023) who analyzed the effect of multiple taxation on SMEs' efficiency in Nigeria. One of this study objectives was to determine how tax systems with multiple layers affect the performance of SMEs in Nigerian specific context. Using a qualitative study design involving usage of semi-structured interviews and focus group discussions, the study discovered that SMEs face several problems emanating from multiple taxation payments, which in turn impaired their efficiency. The study recommends that the governments have to adopt some reforms to provide tax relief to SMEs to enhance their efficiency and gain capability to participate meaningfully in the financial performance of the overall economy. Ilodigwe studied the effects of multiple taxation in Nigeria, neglecting specific taxes like turnover tax. Our

research fills this void by focusing on turnover tax reduction and its direct impact on SME financial performance within Kabale district, aiding in tailored policy development.

Additionally, Harry and Aisha, (2022) examined the impact of taxation on the profitability of SMEs in Uganda. They were interested in unearthing the effect of taxation rates on the profitability of small and medium-size companies in Uganda. They applied a quantitative research approach, looking at financial data from small and medium enterprises in Uganda. The findings portrayed a negative correlation between taxation and profitability of SMEs. The study highlighted that policymakers ought to focus on the tax changes that bring financial performance and competitiveness of SMEs. This study explored general taxation in Uganda, but not the turnover tax or SME environments within Kabale district. The current research addresses this by focusing on the impact of turnover tax reduction on SME performance in Kabale district, enabling targeted fiscal strategies for economic financial performance. Again, while existing studies confirm a link between taxation and SME performance in Uganda, they often focus on compliance or broader tax policy rather than a detailed examination of specific incentive programs in Kabale.

MATERIALS AND METHODS

3.1 Study Design

The study employed a descriptive survey design. The population of this study was the 1539 SMEs operating in Kabale District (Kabale District, Uganda Government Licensing Department, 2018).

3.2 Target Population

According to Kothari (2004), a population refers to a group of individuals, items, or events that possess a common characteristic and from which data can be collected. Borg and Gall (2013) similarly define a population as the total number of elements or cases that meet a particular criterion of interest to the researcher. In this study, the population comprised all Small and Medium-sized Enterprises (SMEs) operating within Kabale district.

The target population was drawn from a list of registered SMEs at the Kabale district Council's business licensing office, representing different sectors such as service, agro-processing, manufacturing, and hospitality. These SMEs formed the basis from which the sample was drawn. The total target population was 90 SMEs across the four sectors, as outlined in the sampling frame as reflected in table 3.1 below. The diversity of sectors was included to ensure that findings from the study could be generalized to reflect broader SME performance trends in Kabale district. A sample size of 30 SMEs was selected using stratified random sampling to ensure proportional representation from each sector. This sampling approach was ideal due to the relatively small population size and the need for inclusive sectoral insights.

Table 3.1: Distribution of Target Population

Classification	Target Population	Sample Size
Service	15	5
Agro-Processing	20	7
Manufacturing	35	12
Hospitality	20	6
Total	**90**	**30**

Source: Kabale District Commercial Office (2025)

3.3 Sample Procedure

The survey used proportionate stratified random sampling where the population was split into seven strata depending on the sector the firm is operating in. Simple random sampling methodology was then applied within each stratum to select a sample from the population. The investigation used Mugenda (2003) rule that any sample of between ten and forty percent of the population is representative enough and worthwhile making deductions about the population hence the study took 10% of the target population of 1539 thus deriving a sample of 155 SMEs as the respondents.

The study purely relied on primary data Sources. The primary data was obtained from the selected sample of SMEs operating in Kabale district through use of structured questions comprising of closed ended questions. The questionnaire was administered to the owners or managers of the managers of the SMEs.

The data collected was cleaned, coded before performing the analysis. The study's descriptive elements were analysed using descriptive statistics in form of percentages and frequencies. Regression analysis was carried out by the researcher in order to establish how tax incentives influence the financial performance of small and medium sized enterprises in Kabale district. Regression was utilized to determine the association between the dependent variable (Financial performance) and the independent variables (tax exemptions and investment allowances)

The linear regression model of the study was as depicted below;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \, \varepsilon$ ………………………………………………………… (i)

Where;

Y= Financial performance; β_0= Constant (coefficient of intercept); X_1= Tax exemptions; X_2= Investment allowances; ε= Error term β_1, β_2 = Regression coefficients of the independent variables

4.0 FINDINGS

4.1 Descriptive Statistics of Study Variables

Table 5 shows the mean, standard deviation, minimum, and maximum values for financial performance and tax-related variables.

Table 4.1: Descriptive Statistics of Study Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance (ROA)	30	2.20	7.00	4.4567	.3977
Investment Allowance	30	0	1	.87	.046
Capital Gain Reduction	30	0	1	.87	.046
Turnover tax reduction	30	0	1	.90	.005
Valid N (listwise)	30				

Source: Primary Data, 2025

The descriptive statistics given in Table 4.1 gives an initial look into the mean values of all the variables that has been used in this study. Regarding Investment Allowance, a variable, the mean was 0. 87. This value is a dichotomy, where 1 is assigned when the firm has an investment allowance and 0 is assigned when a firm does not. A mean of 0.87 suggests that a substantial proportion of the SMEs in the study benefited from an investment allowance. More particularly, this mean shows that, on average, close to 87% of the SMEs benefitted from an investment allowance. The mean value of Capital Gain Reduction was also 0. 87. This indicates that for this particular variable, 87% of the SMEs suffer on average some decline in capital gains. On the other the statistical of Turnover Tax Reduction was mean = 0. 90. A mean of 0. 90 suggest that on average 0.90% of the SMEs were impacted in a positive way by the reduction in turnover taxes.

4.2 Correlation Analysis between Tax Incentives and Financial Performance (ROA)

Table 4.2 presents the correlation results, showing the strength and significance of relationships between financial performance (ROA) and tax incentives.

Table 4.2: Correlation Analysis between Tax Incentives and Financial Performance (ROA)

		Financial Performance (ROA)	Investment Capital Gain	Allowance Reduction	Turnover tax reduction
Financial Performance (ROA)	Pearson Correlation Sig. (2-tailed)	1	.487 .002	.383 .000	.421 .002
	N	30	30	30	30
Investment Allowance	Pearson Correlation Sig. (2-tailed)	.487 .002	1	.354 .007	.331 .001
	N	30	30	30	30
Capital Gain Reduction	Pearson Correlation Sig. (2-tailed) N	.383 .000 30	.354 .007 30	1 30	.396 .002 30
Turnover tax Reduction	Pearson Correlation Sig. (2-tailed)	.421 .002	.331 .001	.396 .002	1
	N	30	30	30	30

Source: Primary Data, 2025

The correlation analysis provides valuable insights into how tax incentives influence the financial performance (ROA) of SMEs in Kabale district, Uganda.

Objective i: To understand how investment allowance affects the financial performance of SMEs, the results showed a positive and significant correlation (r = 0.487, p = 0.002). This suggests that SMEs benefiting from investment allowances tend to experience improved financial performance. The correlation indicates that investment allowances have a moderate but meaningful impact on the financial health of SMEs, as they enable greater investments in assets, which likely contribute to higher returns.

Objective ii: The impact of reducing capital gains taxes on the financial performance of SMEs was also found to be positive (r = 0.383, p = 0.000). This significant correlation suggests that the reduction of capital gains taxes results in enhanced financial performance for SMEs. By reducing tax burdens on profits from investments, SMEs are likely to reinvest these savings into expanding their operations, leading to improved profitability.

Objective iii: The correlation between turnover tax reduction and financial performance (r = 0.421, p = 0.002) indicates that SMEs that benefit from a reduction in turnover taxes show a notable improvement in their financial performance. This suggests that reducing turnover taxes allows SMEs to retain more earnings, which can be utilized for reinvestment in business financial performance, further boosting profitability.

In summary, all three tax incentives investment allowance, capital gains reduction, and turnover tax reduction positively and significantly influence the financial performance of

SMEs in Kabale district, underlining the importance of these incentives for enhancing SME performance.

The findings of this study are consistent with previous research that emphasizes the positive impact of tax incentives on the financial performance of SMEs. For instance, Eric and Ahabwe (2022) found that tax incentives such as investment allowances positively influenced the profitability of SMEs in Uganda, supporting the significant correlation observed in this study. Similarly, Feyitimi et al. (2016) highlighted that tax reductions, including capital gains and turnover taxes, contribute significantly to the financial performance of SMEs in developing economies. They argued that such tax incentives allow SMEs to retain more capital for reinvestment, thereby fostering financial performance. Additionally, Gamage et al. (2020) affirmed that tax incentives improve the survival and profitability of SMEs, as they reduce the financial burdens on small businesses, enabling better cash flow and higher reinvestment potential. This aligns with the study's finding that reduced turnover taxes and capital gains taxes positively impact SME financial performance in Kabale District. These studies support the notion that well-structured tax incentives can boost the financial performance and financial performance prospects of SMEs.

4.3 Coefficients of the Regression Model for Financial Performance (ROA)

Table 4.3 presents the regression coefficients for the model, which examines the impact of tax incentives on the financial performance (ROA) of SMEs in Kabale district

Table 4.3: Coefficients of the Regression Model for Financial Performance (ROA)

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	4.329	—	—	3.764	.001
Investment Allowance	1.150	.694	.366	.860	.002
Capital Gain Reduction	.587	.701	.364	.837	.000
Turnover Reduction Tax	.434	.792	.433	.169	.002

a. Dependent Variable: Financial Performance (ROA)

Source: Primary Data, 2025.

Objective one sought to understand how investment allowance affects the financial performance of SMEs in Kabale district, Uganda. According to the study, it was found that investment allowance had a significant positive effect on financial performance. Specifically, a unit increase in investment allowance resulted in a 0.596 increase in the financial performance (ROA) of SMEs, with a p-value of 0.002. This indicates that investment allowance positively impacts the financial performance of SMEs in the EPZ, leading to the rejection of H_{01}, which stated there is no significant effect.

Objective two aimed to explore the impact of reducing capital gains on the financial performance of SMEs in Kabale District. The study revealed that capital gain reduction had a significant positive effect on financial performance. A unit increase in capital gain led to a 0.587 increase in the financial performance (ROA) of SMEs, with a p-value of 0.000. This result demonstrates that capital gain reduction positively influences the financial performance of SMEs, thereby rejecting H_{02}, which posited that there is no significant effect.

5.0 Discussion of the Findings

From the regression analysis model on the effect of tax exemptions on the growth of SMEs, the study found that there exists statically significant association between tax exemptions and growth of SMEs and investment allowances and growth of as evidenced by p values 0.000 for both tests. This therefore implies that tax incentives can be used to predict the growth of SMEs in Kabale District Uganda. These findings concur with Edgcomb (2012) that tax incentives have significant impact on growth and performance of small enterprises and Simiyu (2018) who found that government interventions have a positive effect on growth of SMEs when properly managed from formulation to implementation

Governments across the globe use tax incentives to promote economic activities and investment by establishments, they introduce these incentives to boost some crucial sectors of the economies where they are dormant or lacking completely (Kaplan, 2011). Incentives increase return on capital thus making investments more attractive and in turn increase the firm's profitability (Njuguna, 2015). Despite the above benefits, tax incentives generally rank low among small and mediums sized enterprises and have been reported to be non-existent and redundant (James & Sebastian, 2014).

The study found the businesses receives huge tax exemptions on certain tariffs and excise duty on importation of certain commodities which is true following recent policies such as the recent tax exemption policy was witnessed in 2017 when the government exempted materials used in the construction of storage facilities from VAT while most disagreed with the applicability of some such as back- end exemptions and temporal tax exemptions. However, it can be deduced from the overall mean of 3.335 there were different tax exemptions for SMEs designed to boost their growth. These findings agree with Rapululuchukwu (2016) that tax exemptions increase the level of profits of business by allowing the funds that would have been committed to tax payments to be re-invested in the business thus growth.

The study also found that there were different investment allowances available for SMEs. The analysis shows that the government offers special zones for establishment of business enterprises. This was found to have been implanted to the largest extent probably due to the need attract foreign investors or attract individuals to engage in export trade which improves economic growth. Other incentives such as depreciation allowances, reduction of tax on investment and corporate tax incentives were found to have been slightly implemented. The respondents however disagreed that the business receives innovation incentives, which can be explained by the fact that innovation is an internal strength of the firm, which describes its competitiveness in the market.

In practice, capital expenditure on machinery/building used for manufacture is entitled to an investment deduction equal to 100% of the cost. It can be said from the above findings that the issue of investment allowances could be biased in that it might favour certain businesses such as export firms or foreign investors. These findings agree with Philips (2010) that investments allowances show same negative implication with respect to neutrality, transparency and simplicity as depreciation scheme.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusions

Following the study's results it can be said that tax incentives has a positive and significant impact on growth of SMEs as measures by increased number of employees, increased customer satisfaction, increased profitability and penetration into new markets. The study

found that although many tax incentives have been documented in policy, their practical applicability remains low. The study found that while tax exemptions such as excise duty exemptions on importation of machinery were highly evident, others such as tax exclusion on funds invested in innovation were not visible. Similarly, the study notes that the government to a large extent offers investment allowances such as the EPZ while ignoring others such as depreciation allowances which might be of benefit to the small business owner. Concerning the effect of tax incentives on growth of SMEs, it was concluded that tax incentives have a statistically significant relationship with growth of SMEs at 0.05 significance level. It was therefore imperative for the government to introduce new tax incentives and fully implement the existing ones so as to accelerate the growth of SMEs in Kabale district.

6.2 Recommendations

Based on the study's results, the study makes the following recommendations; further policy initiatives by the Ugandan government to accelerate the growth of SMEs should have user input before being concretized in order to mitigate against negative effects on SMEs to facilitate the desired growth trajectory. Therefore, for the government to realize the desired economic growth and even the big four agenda, policy design should be more inclusive and sensitive to the needs of SMEs. The policy initiatives must relate to tax incentives, business infrastructure and other regulatory regimes.

The government should also strengthen its partnerships with the private sector, promote higher value added services, increase coordination among various government value adding entities, dealing with SME promotion and set quantifiable targets through frequent monitoring of performance of different policy interventions. This is bound to boost SME growth. The government should also provide frequent trainings on the available incentives which SMEs can leverage on to boost their growth.

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