

The Impact of Business Income Tax on the Performance of Small Business Enterprise

Ayele Bogale Fikade

Department of Accounting and Finance, College of Business and Economics,
Bule Hora University, Ethiopia
Email: aye27@gmail.com

OlanaAngesaDabi

Department of Statistics, College of Natural and Computational Sciences,
Bule Hora University, Ethiopia,
Email: olana.angesa@gmail.com

Abstract: Tax revenue constitutes a big share in governmental revenue structure. Business income tax is one of the constituent parts of it even if it is crucial for government revenue. This study aimed to investigate the influence of business income tax on the performance of small business enterprise in Bule Hora town. To identify the impact of business income tax on small business enterprise, the population was stratified in to two major's stratification that are business operators and tax administrative office employees. There were 1700 small business operators and the tax administrative office has 27 employees of tax authority workers. 423 samples of respondents were selected from the population size of 1727. The result of this study showed that the small business operator had a positive attitude towards the tax assessment. Besides, the study showed that except for bar and restaurant and drug store operators, in the majority of all of the other small business operators in Bule Hora town hadn't any tax record kept by their business were such activities can make the operator for the purpose of tax evasion. Tax payers usually evade taxes not by declaring tax exact amount of profit to tax authority, such as act of escaping from passing tax liabilities by taking the advantage of loop holes in the tax evasion leads to avoidances of taxes. There is an association between operator business type and amount of tax that they paid whereas there is no association between operator business type and kind of assistance given by tax authority to small business operator at 5% level of significance. Therefore, the small business contribution to the economic development was high and the government should handle them properly.

Key words: -Business income tax, small business enterprise, tax impact on performance.

I. Introduction

Tax is a compulsory contribution levy payable by an economic unit to a government without expectation of direct and equivalent return (quid pro quo) from the government for the contribution made (Misrak, 2008). It is a liability to assess but a measure of revenue to a government. Therefore, the primary source that the government uses to finance itself is tax revenue.

Taxes may impose on transaction, property, meals and etc. But the final analysis they are paid by individual or households. The impact of tax refers to the immediate or initial burden of tax on the person who pays the tax to the government in the first instance bears its impact (Misrak, 2003).

According to Ethiopian income tax proclamation No 286/2002, business income tax or corporate tax as commonly returned to related to direct

viewed by various jurisdiction on the profit made by companies or association. As schedule “c” applies to income tax, it is only proper to start this discussion by defining what business is. According to article 6/2 of income tax proclamation; business trade refers to any individual commercial or vocational activity or any other activity recognized as trade by commercial code of Ethiopian and carried on by persons for profit. When a government imposes burden on the business, this in turn may transfer the burden to the society. When tax policies are implemented, they should be checked to minimize economic distortions. Therefore, imposition of higher tax also reduces income and savings. This in turn affects investment and capital formation in the economy as the ability to invest depends on the resource available for investment i.e. is saving. A tax may cause the incentive to investors and workers (Haile, 1996).

Statement of the paroblem

Income tax is a major significant contribution to the government revenue and expenditure. Even though the primary objective of taxation is to raise revenue by government to support the expenditure of its activities, some taxes are imposed to achieve specific objectives such as discourage harmful consumption by a society to stabilize an economy to utilize scarce resources for the production more essential goals and minimize income and wealth inequalities and also make peace and security for small business operators.

Within this environment, the business operators to promote their business activities or expanding their trading activities creating long term job, enhancing equity for business operation and reducing poverty in the country, but business income tax has some influence on small business, activity of business, price of commodity, profitability of business and behavior of individual (operator of business).

Taxes are raised by the government to generate revenue used to provide services to the public such as; health centers, telecommunication, roads, schools and electricity and this have helped to improve on the performance of small business

enterprises. Despite the services provided, small business enterprise’s performance in Bule Hora Town Council is still poor. This prompted the researcher to investigate more about the impact of business income taxes on the performance of small business enterprises.

II. Related literature review

History of Ethiopian taxation

It is believed that history of Ethiopian taxation was come with establishment of the government. Taxation was a source of government revenue from early Aksumite kingdom in Ethiopia around 100 A.D earlier day’s people used to contribute from their cattle and agriculture products to the government of the state (Misrak, 2008). The traditional taxation provided for taxes on crops, livestock, and livestock production (Gebre, 2006).

Taxation during Haile Selassie Regime

The concept of income taxation was introduced in Ethiopia in 1944. As far as the history of the laws governing income taxation in Ethiopia, it is said have started with the general and business tax proclamation N_o 60/1944, which provided for income taxation in the modern form as opposed to the traditional taxation of earlier time. The proclamation N_o 107/1944, was replaced seven years later by the income taxation proclamation N_o 19/1956.

Taxation during Derg Regime (1975-1995)

During the Derg regime, the taxes were similar to during Halesellasiie regime except that the proclamation related to different components of taxes was amendment of the previous proclamation or regulations or decrees (Misrak, 2008).

Taxation during transitional Government

With the establishment of regional government, pursuant to proclamation N_o7/1992, major changes took place in the tax policy of the country. Tax brackets and tax rate were modified and new tax bases such as tax on mining activity and capital gaining were introduced in this period (Misrak, 2008).

Taxation during Federal Democratic Republic of Ethiopia (FDRE) Government (1995 to date)

The new constitution of Ethiopia adopted by in November 1994 gives the powers of the federal and regional government to levy and collect taxes from the resources allocated to them (Misrak, 2008). As it indicated in Oromia region income tax proclamation No 74/2003, income tax shall be imposed on taxable business income realized from entrepreneurial activity.

Effect of taxation on distribution of income

An important objective of taxation in most government is to reduce the inequality of income and wealth and to bring about an equal society. If not generated properly it will create inequality in the distribution of income and wealth, it will give rise to the creation of two classes i.e. the class of rich and poor. The gap between rich and poor will lead to class conflict which may prove disasters to the society (Misrak, 2008).

Effect of taxation on stabilization of economy

A normal rise in price is a sign of healthy economy. However, problem arises whenever abnormal price fluctuations are there in the economy. The fluctuation may result in economic instability and taxation can be used as a tool stabilizes the economy i.e. to control abnormal rise in price (inflationary pressure) and telling price (deflationary pressure) IBD.

Tax Incidence

The land words actually make the payment of tax called incidence of the tax. The incidence of tax is felt by the person who directly and immediately bears the burden of tax (Haile, 1996). If the who pays the tax in the tax instances finds that he cannot transfer or shift the burden of tax to anybody else, then the as well as the impact of tax is on the same person (Misrak, 2008).

Tax Evasion

Tax evasion is the act of failing to pay the actual tax liabilities by various illegal means, business means and profession means may avoid the payment of tax with considerable over statement of expense and understatement of net income. Indirect tax relayed from sales or personal services cannot be accurately checked and hence

there is a wide chance for tax evasion (Haile, 1996).

Excess burden of Taxation

The amount by which burden of tax exceeds revenue collected by government is called the excess of burden of tax, because excess burden where a form of wastes or lost value, tax policy should be written to minimize them (excess burden was also called weight loses). The general principle from the analysis of the excess burden was the principle of neutrality. All else equal, a tax that was neutral with respect to the economic decision was returned to that distorts economic decisions (Haile 1996).

Taxation and Business

The small business man has the choice of the three main forms of business organization: sole trade, partnership or limited company. The form adopted as self-employed and liable to income tax on the profit of the business under the rule of the country. Sole proprietors are taxed at the rate set by legislative for individual (Hailibay, 2007).

Source of Government revenue

As mentioned on the pineapple of economic by Haile, 19996, taxation can be defined as compulsory payment made to a government as a large for the cost of administration and a delivery of goods and services to the general public. In fact, the major source of government revenue comes from taxation.

Fiscal Decentralization and reform programs

Fiscal Decentralization and assignment of functions can generate economic efficiency of the public sector. Once the allocation of expenditure responsibilities is conducted according to such broad principles, the rascal needs to address the issue of assigning tasking power that broadly identifies who should tax where and what (Gebre, 2003). According to Nigatu, 2007, decentralization involves delegating power and responsibilities to the regional government.

Taxable Business Income

Taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be

drawn in compliance with the Generally Accepted Accounting Standards, subject to the provisions of this Proclamation and the directives issued by the Tax Authority. As it mentioned in Oromia income tax proclamation No_74/2003 income tax proclamation shall be imposed on

taxable income realized from entrepreneurial activities and tax rate is decided on:

- Taxable business income of bodies is taxable at the rate of 30%.
- Taxable business income of other tax payers shall be taxed in according to the schedule “c” below:

Table 2.1: Taxable Business Income

Taxable business income (per year)		Income Tax payable
Over birr	to birr	
0 to	1800	Exempt threshold
1801 to	7800	10
7801 to	16,800	15
16,801 to	28,200	20
28,201 to	42,600	25
42,601 to	60,000	30
Over 60,000		35

Source: Income tax proclamation No_74/2003

Special Contribution of small business

Small firms lower possess some qualities that make them more than miniature versions of big business corporations. They make exceptional contribution as they provide new jobs, introduce innovations, stimulate competition aid big business and produce goods and services efficiently (Hailibily, 2007).

Small Business Problems in Ethiopian

Small scale enterprises have none been able to contribute substantially as needed to economic development particularly because of financial production, marketing, lack of adequate financial and credit, lack of asses to capital market, lack of asses to raw materials of good quality are main problems to their developments (Hailibily, 2007).

Empirical Literature Review

High Income taxes inhabit the growth of small firms

It is common belief among entrepreneurs and policy makers that the tax system is an obstacle to the established and growth of small business. Marginal tax rates affect the growth of sole proprietors’ firms. Income taxes exert a significant influence on a firm growth rate. Effect

of taxes on sole proprietorship is a general and pervasive phenomenon. Use the tax return data surrounding the tax reform act of 1996 (Robert Carol, Douglas Holtz, Eakin Mark Reder, and Harvey Rosen).

Personal Income Tax and the growth of small firms

Raising the sole proprietors tax price (one minus the marginal tax rate) by 10% increases receipts by about 8.4% and rising income tax rates discourage the growth of small business. According to William G.Gale (SPR, 2014), the structure and financing of a tax change are critical to achieve economic growth. Tax rates cats may encourage individuals to work save and invest, but if the tax acts are not finance by immediate spending cuts, they will also be likely to result in an increased federal budget deficit, which in the long term will reduce national saving and raise interest rates.

The net impact growth in uncertain, but many estimates suggests it is either small or negative. Those boarding measure can eliminate the effect tax rates acts on budget deficit, but at the same time they also reduce the impact in labor supply, saving and investment and thus reduce the direct impact on the growth.

Income tax competitive among SMES tax payer's proficiencies perspective

According to Chen Loo and Reng Ho (2005), an appropriate compliance can only be realized when tax payers liability is correctly computed, after taking in to account all factors that have a bearing on tax liability. The tax payers have to be competent to comprehend the income tax law and the administrative procedures. Therefore, tax payers who are tax illiterate or inadequately informal may either be under paying or over paying taxes. As well the revenue authority has to provide adequate resources to meet the needs of enhancing tax payer functional literacy elements in terms of skills and knowledge required to deal with tax matters.

According to Issac, NabetaNkote PHD SCP (2013) found that tax proficiency is a multidimensional variable composed of interpretation of tax regulation, tax planning and functional proficiencies and business operational proficiencies as the major components their income tax proficiencies. They include that the more the managers and owners of SMEs get to know and improve their income tax proficiencies, the more they will be able to interpret tax laws and regulations, carry out tax planning since they will have acquired functional and business operational proficiencies to manage their own tax matters.

Tax Policy and Growth of SMEs

According to Milin (2008), economist acquired that the resources of smaller companies direct to ward tax compliance resource that could otherwise be used for reinvestment, facilitating future growth. The impact of tax policy on economic growth in the states within the framework of an endogenous growth model, in this model differences in tax policy pursued by this state can lead to deferent paths of long run equilibrium growth. Regression analysis is used to estimate the impact of taxes on economic growth in the states. The analysis reveals that high marginal tax rates have negative impact on economic growth in the rates. The analysis also shows that greater representativeness had

opposite impact on economic growth. The rates of growth in revenue below the rates of growth income achieved high rates of economic growth. Effective corporate tax rate has a large and significant adverse effect on corporate investment and entrepreneurship. This effect is robust if we control for other tax rates, including personal income taxes and the VAT and sales tax, for measures of administrative burdens, tax compliance, property rights protection, regulations, economic development and openness to foreign trade seignorage and inflation. Higher effective corporate income taxes are also associated with lower investment in manufacturing but not in services, a larger an official economy, and greater reliance on debt as opposed to equity finance. In this new data, corporate taxes matter a lot and in ways consistent with basic economic theory. Changes interpret lead to the changes in prices of various goods and services. The results show that the increase in tax rates lead to higher production, distribution and saving costs which lead to higher prices and as a result consumer changes their behavior. People react to the higher prices by buying less of the product. When sales fall some manufacturers cut back on production and some workers may lose their jobs. The productive resources i.e. land; capital, labor and entrepreneurship are collected to other industries or go unused. For instance, when the government increases taxes on items such as beer and cigarettes for the purpose of realizing revenue and discouraging their consumption people tend to buy local breweries. Whenever, price increases due to increase tax rates, price of goods and services increases and there is a drop-in consumption rate and a decrease in sole volumes which leads to re-started growth of SEMs. By using the combination of both case study design and sources (exploratory focus), they find the above conclusions (Mika Mungaya, Andrew H, Mbwambo, Shivk, Tripath, Guly 2011) by using both qualitative and quantitative research design will be interviews and questionnaire will be used and concluded that tax are major limitation to the growth and expansion of small scale business

in Mtungamo town council. Because, very little and sometimes nothing is left better covering expenses and tax to allow for the expansion and growth of the existing SSBS. This was clearly showed by the fact over 60% of all the business is sampled in Mtungamo town council had occupied their current premises over 70% of business survey had been closed at one time due to non-payments of taxes.

Aim and objectives of the study

General objective

The general objective of this study was to investigate the impact on the performance of small business enterprise in Bule Hora town.

Specific objectives

- To identify the attitude of small business operators towards income tax.
- To assess the effect of business income tax on the price of commodities and services.
- To assess the influence of business income tax on the expansion of business activities.

Basic questions of the study

Based on the above ground, this study was used to answer the following questions.

- To what extent business income tax affect the small business operators' activity?
- How income taxes affect the small business operators?
- What is the business operators' attitude toward income tax?

Therefore, this study tries to fill the above gap by examining the impact of business income tax on small business enterprise in Bule Hora town.

III. Methodology

Description of study area

From the data taken from Ethiopian Geographer Associations(2016), Bule Hora town is found in Western Guji Zone, and is bordered by the Gedeb Woreda of Gedeo zone in North, in south by the DudaDawa in East by Melka Soda Woreda and in West by Amaro Woreda and Burji people of Southern Nations. The woreda has a distance of 467Km from the capital city of the country. The woreda has 45 rural kebeles and 3 town kebele (Woreda administration).

Bule Hora woreda is located at 5°35'2" N Latitude and 38°15'2" E Longitude. It is located at the North direction of Eastern Guji zone. The capital center of the woreda is found at 467 Km from Addis Ababa to the south direction being crossed by Addis Ababa Moyale international road. Area of the woreda is 132,703.19 hectares. Population of Bule Hora Woreda belongs a different nation, nationalities and ethnic groups; namely Gujioromo, Gedeo, Burji, Amara, Gurage and Koyira. According to 2007 population survey, the total population of Bule Hora woreda is 266,150 of which 134,603 and 131,547 is male and female respectively.

Source of data and sampling technique

The data type that was employed in the study was obtained from primary sources through self-administrate questionnaire. While the primary business operators and tax administrative office employees ease to access the surveyors that were preferred to performance of small business enterprise. The questionnaire was designed to gather data pertaining to business operators and tax administrative office employees. Since it is difficult to study about the whole business operators and tax administrative office employees, we were select sample from population to generalize impact of business income tax on the performance of small business enterprise in order to make the overall conclusions.

Sampling procedure

Stratified random sampling technique was used in this study to get more precise estimators which represent the whole population. Stratified sampling is a process which involves the division or stratification of a population by partitioning population units in the sampling frame into non-overlapping and relatively homogeneous groups called strata.

Since we focused on two internal primary business operators and tax administrative office employees, each internal primary business operators and tax administrative office employees are taken as different groups. Then by assuming

there is internal primary impact on the performance of small business, we will be used a technique of stratified random sampling. A stratified sampling procedure will be applied to the assessment of the impact of business income tax on small business enterprise that is involving in business operators and tax administrative office employees.

This study was identifying the impact of business income tax on small business enterprise and the researchers distributed the questionnaire for the selected small business operators and tax administrative office employees using simple random sampling method based on some characteristics for determination of sample size from the population. The researchers allocated the sample using stratified random sampling technique of proportional allocation. Because, stratified random sampling technique reduce the chance of being unlucky and having disproportionally large or small number of sample units selected from a sub-population.

Sampling frame

Our target population was all business operators and tax administrative office employees. There were 1700 small business operators those were included as target population. Additionally, the tax administrative office has 27 employees of tax authority workers of 10 were females. Totally, the target population of the study was 1727.

Sample size determination

Sample size determination is an important issue because sample that are too large may be need high cost and resources while, sample too small may lead to inaccurate result. So, in Stratified random Sampling, Sub-samples are randomly drawn from samples within different strata that are more or less equal on some characteristics. Once the sample size n is fixed, the next raises the question of deciding the sampling size n_h meant for the stratum $h = 1, 2$ that is employees of tax authority workers and business operators.

In this study, the researchers used simple random sampling for all the population. It was considered as significant for the analysis and it ensures proper representation of important sub-population groups without biasing the selection operation.

Let $\alpha = 0.05$, $E = 0.104$,

$$P = \frac{10}{27} = 0.37, \quad Q = 1 - 0.37 = 0.63$$

$$n_0 = \frac{Z_{\frac{\alpha}{2}}^2 * PQ}{E^2} = \frac{Z_{\frac{0.05}{2}}^2 * 0.37 * 0.63}{0.04^2}$$

$$= \frac{Z_{0.025}^2 * 0.37 * 0.63}{0.04^2} = \frac{1.96^2 * 0.37 * 0.63}{0.04^2} = 560$$

$$n = \frac{n_0}{1 + \frac{n_0}{N}} = \frac{560}{1 + \frac{560}{1727}} = 423$$

416 small business operators and 7 tax administrative office employees were selected for this study. Totally 423 samples of respondents were taken from the population size of 1727 small business operators and tax administrative office employees.

IV. Data analysis and interpretation

Descriptive analysis

A type of statistically recommended data analysis that contains descriptive analysis is percentages and tables.

Table 1: Socio-demographic characteristics of Respondents

Variable		Frequency	Percentage
Sex	Male	273	64.5
	Female	148	35.0
	Total	421	99.5
	Missing value	2	.5
	Total	423	100.0
Age	18-25 year	25	5.9
	26-35 year	200	47.3
	36-45 year	176	41.6
	Greater than 45	6	1.4
	Total	407	96.2
	Missing value	16	3.8
	Total	123	100.0
Educational level	1-8 Grade	213	50.4
	Certificate	156	36.9
	Diploma	45	10.6
	Degree and above	6	1.4
	Total	420	99.3
	Missing value	3	.7
	Total	423	100.0

Source: - Primary data 2018

Among a total of small business operators, 423 respondents were participated in this study. The researcher asked the small business operators about the back ground, attitudes extent of business income tax effects on their business, on their price of commodity and serving expansion of their business activities and behaviors of consumers. As indicated in table 1, out of total respondents of small business operators involved in this study, 36.9(50.4%) were have Grade 1-8 educational level, 156 (36.9%) of them were have

certificate, 45 (10.6%) of them have a diploma and only 6(1.4%) were have a degree and above. Regarding their sex, 273 (64.5%) of them were males and about 148(35%) of them were females during the study period. Therefore, one can conclude from this result that the majority of small business operators were males in the Bule Hora town. Age group of 26 to 35 year were the predominant 200 (47.3%) study subjects, followed by 36 to 45 year 176(41.6%) and age group greater than 45-yearaccount only 6 (1.4%).

Table 2: A General Characteristics of Respondents

Variables		Frequency	Percent
Experience in the Current Business	Less than 1 year	49	11.6
	1-2 years	223	52.7
	3-4 years	132	31.2
	Greater than or equal to 5 year	3	.7
	Total	407	96.2
Missing Value		16	16
Total		423	423
Beginning of Tax Paying	1 years ago,	115	27.2
	2 years ago,	180	42.6
	3 years ago,	115	27.2
	Greater than 4 year	4	.9
	Total	414	97.9
System		9	2.1
Total		423	100.0

Source: - Primary data 2018

This study reveal that, among small business operators, only about 0.7 percent of them were engaged for experience in the current business greater or equal to five year, whereas the percentage of small business operators experience engaged for less than one, one to two and three to four years are 11.6, 52.7 and 31.2 percent respectively. Furthermore, table 2 showed that the majority of small business operator began paid income tax two years ago.

Table 3: The level of stokes in the Small business Operators

Item	Amount of stock holder in the business	Operator Business type						
		Sale retailer	Bar and Restaurant	Local drink	Mill	Barber grain	Drug	Total store
Level response of respondents	Excessive	20	4	14	2	4	-	44
	Just Enough	124	60	76	10	80	10	360
	Inadequate	1	-	-	-	-	1	
	Total	145	64	90	12	84	10	405

Source: - Primary data 2018

The table 3 illustrated that, the stock level of the small business operators within their operations. Out of small business operators involved in this study, 44, 360 and 1 of the small business operators were believe that the amount of stock holder in their business is excessive, just enough and inadequate respectively. The majority of respondents in sale retail, bar and restaurant, local drink, mill grain, barber and drug store respondents were believing that the amount of stock holder in the business is just enough.

Table 4: The effect of stock level on the profitability of Small business Operators

Item		Operator Business type						
		Sale retailer	Bar and Restaurant	Local drink	Mill	Barber grain	Drug	Total store
An effect of stock level on the level of portability on small business operators	No	134	24	87	11	74	3	333
	Yes	12	42	8	2	11	8	82
	Total	146	66	95	13	85	11	416

Source: - Primary data 2018

Table 4 was designed to investigate about the effect of stock level on the level of portability on small business operators. According to this table, out of the total respondents, about 333 of the small business operators believed that level in the operation of the small business had no effect on their profitability in all operator business type except Drug store stock level in the operation of the small business had a great effect on their profitability.

Table 5: Assessing kind of tax paid by Small business Operators

Item	Tax Category	Operator Business type						
		Sale retailer	Bar and Restaurant	Local drink	Mill	Barber grain	Drug	Total store
Which tax category does your business paid	Category A	3	22	-	-	-	25	50
	Category B	107	41	6	4	6	2	166
	Category C	37	3	89	8	79	9	225
	Total	147	66	95	12	85	11	416

Source: - Primary data 2018

Table 5 explained about the kinds of business taxes which can be paid by the tax payers in Bule Hora town. From this item, the majority of the small business operators paid the category “C”

of business tax. Generally, from the above result we concluded that, there was an expansion of the small business operations because each operator business type paid different business tax categories.

Table 6: Attitude of the tax payers towards the assessment of the tax to their business

Item	Amount of stock holder in the business	Operator Business type						
		Sale retailer	Bar and Restaurant	Local drink	Mill	Barber grain	Drug	Total store
Which tax category does your business paid	Strongly agree	-	-	-	-	2	-	2
	Agree	106	63	62	8	69	6	314
	Uncertain	41	3	33	4	13	5	99
	Disagree	-	-	-	-	1	-	1
	Strongly disagree	-	-	-	-	-	-	-
	Total	147	66	95	12	85	11	416

Source: - Primary data 2018

Table 6 illustrated about the attitude of the payers towards the assessment of the tax to their business. Out of 147 sale retailers, 106 of them had agreed with the assessment of the tax to their business. Out of the total Bar and Restaurant (66) owner respondents, 63 of them have been agreed

with the assessment of the tax to their business. Among a total of local drink Operator Business type, 62 of them had been agreed with the assessment of the tax to their business. Generally, the result of this study showed that, the small business operator had a positive attitude towards the tax assessment.

Table 7: Assess tax record kept by small business operators

Item	The operator Business type	Frequency		Total
		No	Yes	
	Sale retailer	134	12	146
	Bar and Restaurant	24	42	66
	Local drink	87	8	95
	Mill grain	11	1	12
	Barber	74	11	85
	Drug store	3	8	11
Total	333	82	415	

Source: - Primary data 2018

Table 7 illustrated whether there was any tax record kept by small business operators or not. The number of operators those who kept tax record were only 12, 8, 1 and 11 for sale retailer, local drink, mill grain and barber, respectively. But the number operator those which not had kept tax record are only 134, 87, 11 and 74 for sale retailer, local drink, mill grain and barber respectively. There were 42 bar and restaurant operator those which kept tax record and only 24 bar and Restaurant operator not had kept tax

record. The result shows that except for bar and restaurant and drug store operators, in the majority of all of the other small business operators Bule Hora town was not had any tax record kept by their business. This type of activities can make the operator for the purpose of tax evasion. Tax payers usually evade taxes by not declaring tax exact amount of profit to tax authority, such as act of escaping from passing tax liabilities by taking the advantage of loop holes in the tax evasion leads to avoidances of taxes.

Table 8: Assess the assistance given by the tax authority regarding to awareness

	The operator Business type	Frequency for provision			Total
		Manual	Workshop	Training	
Kind of assistance	Sale retailer	1	0	3	4
	Bar and Restaurant	3	0	0	3
	Local drink	5	0	0	5
	Mill grain	10	0	2	12
	Barber	20	1	2	23
	Drug store	20	0	1	21
Total	60	1	8	69	

Source: - Primary data 2018

As shown in the table 8, the entire small business operator has lack of assistance regarding tax awareness about tax decision method. Among all small business operators those who obtained assistance regarding tax awareness about tax

decision method, the majority of them had obtained provision of manual assistance. Due to lack of tax awareness, the payers tried to evade and avoid tax which in turn decreases the government revenue and lead to decreases in economic development in the states.

Table 9: Assess the attitude of customer towards increase good and service price

Item	The operator Business type	Frequency		Total
		Positive	Negative	
Customer attitude towards increment of good and service price	Sale retailer	2	143	145
	Bar and Restaurant	0	65	65
	Local drink	1	91	92
	Mill grain	2	10	12
	Barber	1	84	85
	Drug store	0	11	11
Total	6	404	410	

Source: - Primary data 2018

As shown in the table 9, almost the entire customer had negative attitude towards the increment of good and service price. In order to overcome this problem, the tax authority should

reduce the tax rate and the small business operator makes their price moderate to the customers. If such kind of activity could not be taken, the small business expansion was failed and their contribution to the national economy also reduced.

Table 10: Assess the average amount of tax paid per year by the operators

Item	The operator Business type				Total
Amount of tax you pay		1-100000	110000-190000	300000-390000	
	Sale retailer	145	0	0	146
	Bar and Restaurant	47	19	0	66
	Local drink	89	0	0	92
	Mill grain	11	0	0	12
	Barber	85	0	0	85
	Drug store	11	0	0	11
	Total	388	19	0	407

Source: - Primary data 2018

Table 10 revealed that except bar and restaurant business operators there were no other small business operators those who contribute the average amount more than one hundred thousand tax revenue per year in Bule Hora town. Around 19 bars and restaurant small business operators contribute the average tax revenue of one hundred ten thousand to one hundred ninety thousand per year in the town. This showed that the small

business contribution to the economic development was high and the government should handle them properly.

Inferential Analysis

Inferential statistics deals with making inference or conclusion about population based on data obtained from a limit number of observations from population. Inferential statistics consists of performing estimation and hypothesis testing.

Table 11: Tests of association between Operator Business type and Amount of tax paid

	Test statistic Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	114.710	10	.000
Likelihood Ratio	66.834	10	.000
Linear-by-Linear Association	1.037	1	.308

Source: - Primary data 2018

Table 11 showed that, since p-value for Pearson Chi-Square is equals to 0.00 was less than 0.05, there is no association between operator business type and amount of tax paid by small business

operator. Therefore, we concluded that there was an association between operator business type and amount of tax paid at 5% level of significance.

Table 12: Tests of association versus business type and kind of assistance given by tax authority

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.945	15	.085
Likelihood Ratio	21.141	15	.132
Linear-by-Linear Association	.346	1	.557

Source: - Primary data 2018

V. Conclusion and Recommendation

Conclusion

This paper empirically explores the influence of business income tax on the performance of small business enterprise in Bule Hora town Oromia region Ethiopia. Despite the services provided, small business enterprise's performance in Bule Hora town is still poor. This prompted the researcher to investigate more about the impact of business income taxes on the performance of small business enterprises. In addition, the small business operators back ground, attitudes extent of business income tax effects on their business, price of commodity and serving expansion of their business activities and behaviors of consumers were assessed.

The result of this study showed that the small business operator had a positive attitude towards the tax assessment. From the study, except for bar and restaurant and drug store operators, the majority of all of the other small business operators, Bule Hora town Oromia region hadn't any tax record kept by their business. This type of activities can make the operator for the purpose of tax evasion. Tax payers usually evade taxes by not declaring tax exact amount of profit to tax authority, such as act of escaping from passing tax liabilities by taking the advantage of loop holes in the tax evasion leads to avoidances of taxes. The result of this study also revealed that, except bar and restaurant business operators there were no other small business operators those who contributed the average amount more than one hundred thousand tax revenue per year in Bule Hora town Oromia Region. Around 19 bars and restaurant small business operators contributed the average tax revenue of one hundred ten thousand to one hundred ninety thousand per year in the town. There was an association between operator business type and amount of tax that they paid and there was no association between operator business type and kind of assistance given by tax authority to small business operator at 5% level of significance.

Recommendations

From the empirical finding of the study the following recommendations were drawn.

- The small business has a great contribution to the economic development the government and concerned should handle the small business operators properly.
- The tax authority should reduce the tax rate and the small business operator makes their price moderate to the customers because if such kind of measurement could not be taken, the small business expansion was failed and their contribution to the national economy in turn reduced.
- The concerned body should provide training; manuals and workshop because they are other important determinants of small business growth and sustainability.
- The governments and concerned body should create conducive policy to support and encourage small business enterprises.
- Awareness creation on the tax payment should be given to small business operators
- The participation of the small business operator in most exhibitions should be encouraged
- The small business operator should be supported by different trainings through different government institutions
- There should be a close collaboration of the different offices of administration in enhancing small business operators.
- Further research on the importance of small business operator to the livelihood of individuals and government should be conducted.

References

- Adibisic (2009) *Mediterranean journal of social science* published by MCSER-CEMAS-saplens university of Rome.
- OECD (2008), Tax and economic growth economic department working paper. pp. 620
- Paulson and Jules (2003), State income taxes and economic growth
- Loo.E& Keng (2005), Competency of Malaysian salaried individuals in relation to tax compliance under self-assessments: *Journal of Tax Research*.

- David and Christina's (2017), Romer, Effects of income tax changes on economic growth
- Remalhos, March (2009) Effects of corporate taxes on investment and entrepreneurship
- Gebre (2006) *Tax accounting in Ethiopia context 1st edition*
- Gebre (2008) *Tax accounting in Ethiopia context 1st edition*
- Haile (1996), *Fundamental concepts of economics*, Addis Ababa: berhanaselam printing press pp,47 - 78
- Ethiopian Income tax proclamation* (2002), EthiopianIncome tax proclamation 20012
- Issac (2013), Income tax compliance among SMEs in Uganda: tax payers proficiencies perspective
- Karl, & Kaye (2004), Principles of Economics, New Jersey: Personal Education, Inc
- Manguya (2012) Study of tax system impact on the growth of small and medium enterprises (MSE): with reference to shinyanga municipality, Tanzania.
- Misrak (2003), Ethiopia tax accounting theory and practices.
- Misrak (2008), Ethiopia tax accounting theory and practices.
- Odongo (2011), Impact of taxes on performance of small business enterprises in Ntungamo town council
- Oromia Negart (2003), tax payable when due artistic printing enterprise
- William (2004), Effects of income tax changes on economics growth