TO ASSESS THE FACTORS THAT INFLUENCES SMES IN TAX COMPLIANCE

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ABSTRACT

Some of our large companies today grew up from small and medium enterprises suggesting that the future large corporations are the SMEs of today that must be nurtured to ensure their growth. Thus, SMEs are generally perceived to be the nursing for indigenous entrepreneurship which will result into growth of small investments, which would otherwise not have taken place. Therefore, developing economies such as Zambia needs to further the development of its private sector by creating an enabling environment favorable to the growth of small and medium (SMEs), scale industries thereby strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises, so that they can adequately play the role expected of them in economic transformation. It is a well known fact that the revenue generated from the taxation of individuals and businesses is an important source of income for government. In an economy such as ours, that is struggling to remain afloat, it is even more important.

INTRODUCTION

Tax revenue is the source of funds used for developmental projects such as provision of infrastructural facilities such as good roads, stable power supply, stable water supply etc. All of which combine to create an enabling environment for businesses to thrive - and in turn the economy at large- to grow. Small and Medium Enterprises being profit generating establishments are also expected to pay their dues. The important question however is “how much tax should they pay? Small and medium scale enterprises are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Zambia SMEs choose to remain in the informal sector because they feel the cost of compliance is too high. And a considerable number of those who pay, only do so because they are The above brings to bear reasons why the issue of taxation of SMEs is really important in our economy. First, tax provides revenue for the government to create an environment that will ease the running of all businesses SMEs inclusive at the same time if an SME is faced with high compliance costs, it has a very high tendency to avoid paying taxes hence; the revenue that would have been generated and used to create this environment is lost thereby reducing the SME’s chances of survival.

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Developing countries like Zambia face impediments to achieving key objectives of taxation. These objectives are universal, but countries endeavor to achieve them in very different environments. Developing countries, in particular, face great obstacles in achieving these aims. In fact, the need for high government. The objective of the study is to contribute to the existing knowledge on the factors influencing tax compliance system in Eastern province of Zambia.

This study retraces the history of factors influencing tax compliance in Zambia from unification to today. We review the attempts at evaluating the gap between actual and potential tax revenue, from nineteenth-century descriptive statistics up until the formal estimates of recent decades, which distinguish lawful tax erosion from avoidance and evasion. Secondly, we analyze the explanations given and solutions proposed to increase tax compliance, grouping them into five "theses": excessive tax burden, structural deficiencies in specific taxes, inefficiency of tax administration, taxpayers’ reluctance and the complexity of tax laws. We also assess the changing attitudes of taxpayers towards tax and the tax authorities over the same period. The excursus shows that compliance problems are a long-term constant of the Zambian tax system, even if their scale has diminished over time, at least in percentage terms. The problems have always originated from a specific group of taxpayers (self-employed workers and sole proprietorships). On the other hand the causes, and therefore the solutions to be taken into consideration, are complex and multifaceted.

Tax Compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. While Tax evasion can be defined as the failure by a person or business to comply with the tax obligations. It is a serious challenge to tax authorities in both the developed and developing countries. It diminishes the mobilization of resources that governments need to invest in critical areas of social and personal development including health, education and infrastructure development. Taxpayers’ behavior towards tax system has evoked great attention among many Revenue Authorities in the World especially in Developed Countries. However, it is debatable on what has been done towards the study of taxpayers behavior towards tax system in developing countries as they concentrate more in studies which would increase their budgets bottom-line in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers behavior which would make increase in this tax revenue to be realized and enforcement efforts work. Perhaps the less developed countries are not to blame as they run on budget deficits hence, scarce resources to see through such studies which are perceived as adding no direct value to revenue collection. Empirical evidence on the ground shows there has been hostility between the taxpayers and tax authorities on issue relating to tax compliance.

**NEED OF THE STUDY**

The need of the study is to investigate the various factors that influence tax compliance in the current position and offer solution that will lead to improvement in tax collection in Chipata district of the Eastern Province. The specific study is to derive from the general purpose of understanding the factors that influence the SMEs in tax compliance which include,

- To investigate the levels of payment of different tax by small business.
- To understand reasons small business give for payment of tax

**ANALYSIS**

- The businesses are operated by male entrepreneurs compared to females.
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- The age group active in business is between 31 to 40 years attributed to huge responsibility which demands to have extra income for the family.
- Most of the entrepreneurs have undergone secondary school level which means they are able to understand the issue of finances and accountability.
- Most of the entrepreneur are involved in retail trading because that is the easiest business they can be engaged in.
- From the data shows that of entrepreneur are computer illiterate.
- Enforcement of law and serving of penalties motivates SMEs to pay tax.
- Majority of the respondents agree that the cost of complying also affects tax compliance among SMEs, ranks book keeping as the major cost when it comes to expenses directly related to tax compliance.
- SMEs feel that tax rates for the already several tax heads, that is, VAT and Pay As You Earn (PAYE) are either high or very high. A high tax rate erodes taxpayer’s earnings and disposable incomes thus will have a negative effect on consumption and investments. It will also encourage tax avoidance and evasion as the opportunity cost to evade is high. This may be an expected reaction from taxpayers as no single taxpayer can rate a tax rate as ‘low’.

SUGGESTIONS

- Small and Medium Enterprises should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore it will help SMEs get better equipped to survive in a competitive market.
- The government should consider increasing tax incentives and exemptions for female as to encourage more female entrepreneur.
- Government to train eligible women in new technology and empower entrepreneur them.
- Government to introduce entrepreneur development courses at primary and secondary level so that pupils are grounded into entrepreneur skills.
- Government through ZRA to intensify sensitization on the importance of paying tax to government.
- With regard to availability of tax information as a factor, the findings revealed that the respondents agree that information about taxes is not readily available, and attest that the lack of information affects SMEs when it comes to tax compliance and have not even sure whether they are able to calculate the correct taxes.

CONCLUSION

Findings from the study reveal that all the identified factors have a direct influence on the tax compliance among SMEs. The tax compliance factors examined included tax rates, availability of tax information, tax compliance cost, and attitude of taxpayers toward payment of income tax. The study confirmed that ZRA why uses both voluntary tax compliance strategy alongside the deterrent measures strategy. Most of the respondents felt the tax rates should be reviewed, thus the government should relook at the tax rates currently charged to SMEs. On availability of tax information, information received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements. ZRA should address the complexities of annual tax returns, periodic variations in the tax laws, and levels of penalties and fines. They should pass this information regularly to SMEs via various channels like tax Seminars, Booklets and Media Channels. This will greatly improve the SMEs level of compliance as the
great complexity associated with tax matters will be resolved. SMES should be encouraged to improve their bookkeeping by offering incentives, such as application of a lower presumptive tax rate for small businesses meeting certain recordkeeping standards. The government should also engage the small holders in sensitization forums on how to reduce the cost associated with tax compliance.

With regard to the attitude of taxpayers toward payment of taxes to the government, the study revealed that most of the SMEs felt they had at least some access to the public utilities financed by taxes while at the same time valued the payment of taxes to the government of Zambia. Taxpayers’ attitudes encourages tax compliance in Zambia and what influence the taxpayers’ attitudes, equally affect the taxpayers’ compliance with the tax requirement i.e. taxpayers’ attitudes encourages tax compliance in Zambia. Based on the findings above, it can be concluded that when it comes to factors influencing tax compliance of primary issue of entrepreneurs. Despite the fact that they face other tax related issues. Lack of transparency and accountability has the greatest influence on tax compliance followed by low compliance. SME perceptions on tax fairness and tax service quality have the power to influence their tax compliance decisions. The level of education received is an important factor that contributes to their understanding of tax responsibilities. One of the important issues effecting SMEs on tax compliance is the disproportionately high impact that regulatory requirements and costs of tax compliance have on them. Even though many tax requirements may appear to be relatively “neutral” for businesses of all sizes, the significant fixed costs associated with compliance represent a higher cost for SMEs as a percentage of sales and income, and consequently have greater adverse impact upon SMEs than larger businesses. Another important issue effecting SMEs is, limited access to finance for growth and expansion.

**REFERENCE**


