

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE



DEPARTMENT OF ACCOUNTANCY

THE IMPACTS OF TAXES ON THE PERFORMANCE OF SMEs IN HARARE ZIMBABWE

BY

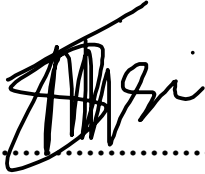
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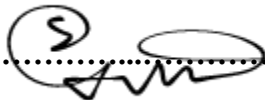
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DEDICATIONS

I have dedicated this project to my parents, my siblings and my friends, for they were the inspiration behind my project and also the ones who kept me pushing through.

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I prepared this research with the full support of various SME owners, Tax experts and policymakers who supplied the information that constituted my findings. Their support and cooperation is greatly appreciated. I extend my gratitude to my supervisor for panel-beating the production of my dissertation, with his recommendations and guidance. His experience was pivotal in improving the quality of this writing. I would also want to acknowledge my parents for their input and support, prior to my research and throughout the research. I am also grateful to every other individual who played a part, in making my research a success. It was not through my effort, alone, that I was able to produce my work at this quality.

ABSTRACT

The main purpose of this project was assessing and determining the impacts of taxes on the performance of SMEs in Harare, Zimbabwe. Harare served as a focal point due to its business density. The key factor that motivated this research was the desire to understand the impacts of tax rates and tax policies on SMEs as they are the backbones of all economies.

The study employed a mixed-methods research design, and it employed a sequential explanatory approach, to reach its conclusions. A combination of random stratified sampling, purposive sampling and snowball sampling was adopted, in order to achieve the necessary rigor and validity of results. The study made use of a sample of 400 SMEs from Harare, from different sectors, sizes and trades. Data was collected using questionnaires, surveys, interviews and observations.

The data was analysed using descriptive analytics and the findings were presented using frequencies and percentage analysis. The findings indicate that the majority of SMEs owners believe that the current tax rates and tax policies are unfair on their performance and suggests their review, to make them fairer on SMEs. The findings would be helpful to stakeholders to achieve effective alignment of the tax systems of Zimbabwe.

The study recommend that further studies should be conducted on taxes and SME performance, to validate and improve the country's tax system.

TABLE OF CONTENTS

Table of Contents

APPROVAL FORM	i
RELEASE FORM.....	iii
DEDICATIONS.....	iv
ACKNOWLEDGEMENTS	v
ABSTRACT.....	vi
1.0 Introduction	1
1.1 Background of the study	1
1.2 Problem statement.....	4
1.3 Purpose of the study	4
1.4 Specific research objectives	4
1.5 Research questions.....	4
1.6 Significance of the study.....	5
1.6.1 To the Researcher	5
1.7 Assumptions.....	6
1.8 Delimitations of the study	7
1.9 Limitation of the study	7
1.10 Definition of terms	8
1.11 Abbreviations	8
1.12 Summary	8
The basis for how taxes affect SMEs' performance was thoroughly examined. The study's context, problem statement, and objectives constituted the primary focus of the effort. ...	8
2.0 Introduction.....	9
2.1 Purpose of literature review	9
2.2 Theoretical literature	9
2.3 THEORETICAL REVIEW	15
EMPERICAL LITERATURE	21
3.0 Introduction.....	28
3.1 Research design	28
3.2 SUBJECTS	31
3.2.1 Target polulation	31

3.3	Research instruments	33
3.4	Validity	35
	How validity was achieved	35
3.5	Reliability.....	36
3.6	Ethical considerations	36
3.7	Data collection Procedures	37
3.8	Data presentation and analysis	37
3.9	Summary	38
4.0	Introduction.....	39
4.1	Response Rate.....	40
4.2	Data Presentation	40
4.3	Data presentation	45
4.4	Summary	55
5.0	Introduction.....	56
5.1	Summarised major fundings	57
5.2	Conclusions and recommendations.....	57

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter serves to provide an overview of my research, including the study's history, problem statement, merit, assumptions, objectives, questions, scope, constraints, delimitations, and definitions under investigation.

1.1 Background of the study

One of the primary sources of funding for the government is taxation, and paying taxes is a moral duty owed by all people and organizations. Paying taxes on time benefits the government as well as the taxpayer since, among other reasons, the money collected is used to develop infrastructure and the business climate in which all required taxpayers operate. The fascinating journey of taxation over millennia has had a profound impact on economies and societies. originating about 5000 years ago in Ancient Egypt, where the Pharaoh amassed a twenty percent share in all grain harvests. Later, ancient Rome adopted the concept of taxes and created the income tax and sales tax. This demonstrates how long-lasting and vital the concept of taxation has been throughout various dynasties and economies. The taxation systems in place in the current world are, nevertheless, very diverse and intricate than those in the past; as such, their effects on the economies must be continuously monitored to guarantee the highest level of operational efficiency. The idea of taxes has withstood the test of time and shown to be a fundamental idea in all aspects of our lives, including the day-to-day operations of many businesses throughout the globe. As a result, it's necessary to regularly evaluate the effectiveness and feasibility of the current tax systems to ensure that everyone who is impacted by taxes is fairly represented. Owing to the realities that a tax system must maximize revenue while minimizing its negative effects on the economy and that small and medium-sized businesses (SMEs) drive the majority of economies, it is critical to constantly examine and improve a nation's tax

structure in order to create an environment that is favorable to both the revenue authority and the SMEs that operate within it. Zimbabwe is no different.

All entities that generate revenue are required to pay taxes since they are essential to the commercial agreements between those in the economy and the economy itself, as well as to the development and expansion of the nation's economy. In any economy, small and medium-sized businesses play a crucial role, and the economy as a whole, gains from their effective operation. An impasse arises in a faltering economy such as Zimbabwe's, where SMEs must spend as little as possible to survive, but the government needs to inject as much capital as possible to stabilize the economy—funding that is largely derived from taxes. A struggling economy makes it impossible for companies, particularly SMEs, to produce a lot of money; as a result, many of them wind up liquidating before achieving their objectives. In summary, this suggests that a government's potential tax revenue is decreasing. In response, a government might raise taxes or enact new ones in an effort to raise more revenue, but doing so would worsen the situation and make it harder for businesses—SMEs in particular—to operate and survive.

The origins of small and medium-sized businesses can be traced back to the 1800s. The rich history of empirical study on small and medium-sized enterprises (SMEs) in (West) Germany dates back to the 19th century, as noted by German economist Hans-Heinrich Bass. But in the middle of the 20th century, SMEs were seen by many scholars as obstacles to economic development. SMEs promotion strategies were frequently created inside the confines of social policies. Notably, the proponents of Germany's social market economy, the *ordo-liberal* school, were the ones who first acknowledged the advantages of SMEs. They viewed SMEs as the answers to problems in the economy such as widespread unemployment and the misuse of economic power. As a result, they established the framework for industrial policies that are non-selective (functional) and that benefit SMEs. Since then, SMEs' impact on economies has increased dramatically, to the point that they are now the backbone of every economy and significantly contribute to each one's GDP. Since small and medium-sized businesses represent the foundation of all economies, they are extremely important. In developed (Pandya, 2012; Belanger & Hart, 2012; UK Select Committee on SMEs, 2013), emerging (Haner, 2011; Ortmans, 2013), and developing

(Ahiawodzi & Adade, 2012; Inyang, 2013) countries, they represent a major source of economic growth, dynamism, and flexibility. Around 90% of enterprises and over 50% of employment are made up of them, according to www.worldbank.org. In emerging nations, formal SMEs can account for up to 40% of GDP.

90% of all firms in Zimbabwe are SMEs, which account for 57% of GDP. Of all the provinces in Zimbabwe, Harare boasts a percentage of SMEs (13%), placing it sixth nationally. This is a significant number given that Mashonaland West is the leading province with 17%, but perhaps most importantly, it is geographically considerably larger than Harare, spanning 57,441 square kilometers as opposed to Harare's 872 square kilometers. Nevertheless, despite the stark differences in geography, Harare is home to about 2.4 million people, or 16% of Zimbabwe's total population, while Mashonaland West is home to an estimated 1.9 million people, or roughly 12.66% of the country's total population, according to ZimStats' 2022 National Census. This data illustrates the significance of selecting Harare as a focal location since it has the highest population density and, because of the number of people to serve them, is a very favorable environment for many enterprises across all industries, especially SMEs.

SMEs' performance refers to the outcomes of firms' business activities (Kotane & Kuzimina- Merlino, 2017). It can be quantified with a variety of markers. According to <https://ojs.feb.uajm.ac.id>, these indicators include cost, finance, quality, time, flexibility, delivery reliability, security, employee and customer happiness, social responsibility, and growth and development. It is critical to continuously evaluate a company's performance in order to comprehend its efficacy and efficiency as well as its capacity for change adaptation and future growth. However, the economy's volatility hinders the performance of SMEs, particularly in Zimbabwe. The existence and expansion of SMEs are greatly endangered by an uncertain economy since it becomes more challenging for them to accurately assess the different facets of their performance and develop contingency plans.

1.2 Problem statement

In Zimbabwe, SMEs are important for economic growth and development, yet they are subject to a complex and often burdensome tax system. Multiple taxation, inefficient tax collection and high compliance costs can reduce the financial resources available to SMEs and hinder their performance. Despite their importance, the impacts of taxes on the performance of SMEs in Harare, Zimbabwe not well understood. This study aims to address this gap by examining the relationship between taxes and SME performance in Harare.

1.3 Purpose of the study

The study will seek to:

Determine the impact of various taxes on the performance of SMEs and offer potential remedies for any areas that may require revisions.

1.4 Specific research objectives

Considering the problem statement, my research therefore seeks to:

- ascertain the effects of tax compliance on all aspects of business performance of small and medium-sized enterprises (SMEs) operating in different industries in Harare;
- ascertain the categories of taxes that have the greatest effects on the SMEs' performance;
- investigate the tactics SMEs employ to manage their tax liabilities and enhance their performance; and
- offer potential solutions to the issues found.

1.5 Research questions

- How do tax policies and the government affect the performance of SMEs in Harare, Zimbabwe?
- What impacts do tax incentives have on the investment behaviour on SMEs in Harare?
- How does the complexity of the tax system influence the tax compliance of the SMEs in Harare?

- What are the main challenges faced by SMEs in Harare in achieving tax compliance, and how do these challenges affect their operational efficiency?

1.6 Significance of the study

1.6.1 To the Researcher

As the researcher, this study has improved my understanding of Zimbabwe's tax laws, the survival tactics employed by numerous small and medium-sized enterprises, and a general picture of the business climate in my field of study. This has also helped me become more proficient at conducting research and has given me a better grasp of the prerequisites for completing a project.

1.6.2 To the Government and Zimbabwe Revenue Authority (ZIMRA)

This study can give ZIMRA and the government a fresh understanding of how the current tax laws are impacting SMEs in the economy and offer suggestions for changes that could be necessary to improve the tax laws for the benefit of all stakeholders. Gaining a better understanding of how taxes affect SMEs' performance will also help them comprehend the challenges SMEs face in maintaining tax compliance, which may be contributing to tax evasion. SMEs are the backbone of economies, but they are also likely the ones most impacted by taxation.

1.6.3 To Small and Medium Enterprises

Small and medium-sized firms, particularly those in Harare, will gain knowledge about how other companies in the same industry are doing as well as the tactics they are using to stay afloat in such a difficult economic climate. Also, as many of them lack the resources to conduct in-depth studies on these topics, they will have a clearer understanding of how taxes impact them in their operational environment.

1.6.4 To Bindura University

Future scholars working on related or comparable projects will use this project as a reference. By shedding light on the effects of taxes on SMEs' performance—many of which would not be specific to SMEs in Harare—the study will help fill a knowledge vacuum. Those that are interested in knowing the project's results will also be able to learn more from the research.

1.7 Assumptions

For the sake of the research, the following presumptions were made:

- All questions will be honestly answered to the best of our knowledge and in accordance with the subject matter of the study.
- There is a considerable relationship between the tax policy of Zimbabwe and the performance of small to medium firms.
- The desired sample size will completely cooperate with the researcher during the study;
- ZIMRA would appreciate the recommendations made, therefore taking corrective action; and
- The researcher will have access to all current information regarding taxation and SME performance.

1.8 Delimitations of the study

- Data from other Zimbabwean cities, towns, or regions will not be included in the study; instead, it will concentrate on SMEs in the city of Harare.
- Informal firms that are exempt from taxes will not be included in the study; instead, it will concentrate on SMEs that are taxed and registered with the government.
- In order to weed out start-ups that might be too young to have a track record of success, the study will concentrate on SMEs that have been in business for at least five years.

1.9 Limitation of the study

- Response bias: The quality and accuracy of the data gathered were impacted by some business owners' reluctance to provide sensitive information regarding their performance and/or taxes.
- Small sample size: Due to the restricted resources at my disposal, I was unable to gather sufficient data from a representative sample of SMEs to draw the best possible generalizable findings regarding the effects of taxes on the performance of SMEs in Harare, Zimbabwe.
- Data accuracy: The quality of the records maintained by the SMEs in the sample, which varied greatly amongst the enterprises, determined the correctness of the data collected on taxes and performance.
- External influences: in addition to taxes, other factors that affect SMEs' performance include the state of the economy, managerial choices, and competition. As a result, certain effects cannot be entirely attributable to taxes.

1.10 Definition of terms

Revenue – according to Hayes, A (2021) revenue is the income generated from normal business operation.

Tax - according to Mclure (2020) taxation is an imposition of compulsory levies on individual by governments.

Tax rate - This represents the tax to base ratio. The rate is applied to the assessed value for property tax purposes in order to calculate the tax amount. The rate is applied to taxable income to calculate the tax amount for income and franchise tax purposes.

SMEs – in the context of developing countries, SMEs are locally owned and operated entities which have a number of employees ranging from one to hundred, and annual turnover that is significantly lower than that of large corporations.

1.11 Abbreviations

GDP – Gross Domestic Product.

ZIMRA- Zimbabwe Revenue Authority.

SMEs- Small to Medium Enterprises

1.12 Summary

The basis for how taxes affect SMEs' performance was thoroughly examined. The study's context, problem statement, and objectives constituted the primary focus of the effort.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

The impacts of taxes on the performance of small to medium enterprises is an important topic for both the scholars and policy-makers in Zimbabwe. As SMEs are the backbone of the Zimbabwean economy, understanding the effects of taxes on their performance is crucial for ensuring the stability and growth of the business sector. This literature review provides an overview of the existing research on the relationship between taxes and SME performance, focusing on the studies conducted in Zimbabwe and other developing countries, especially in Africa.

2.1 Purpose of literature review

It identifies the literature sources used in the study and determines the factors that influence tax revenue collection as identified by previous researchers.

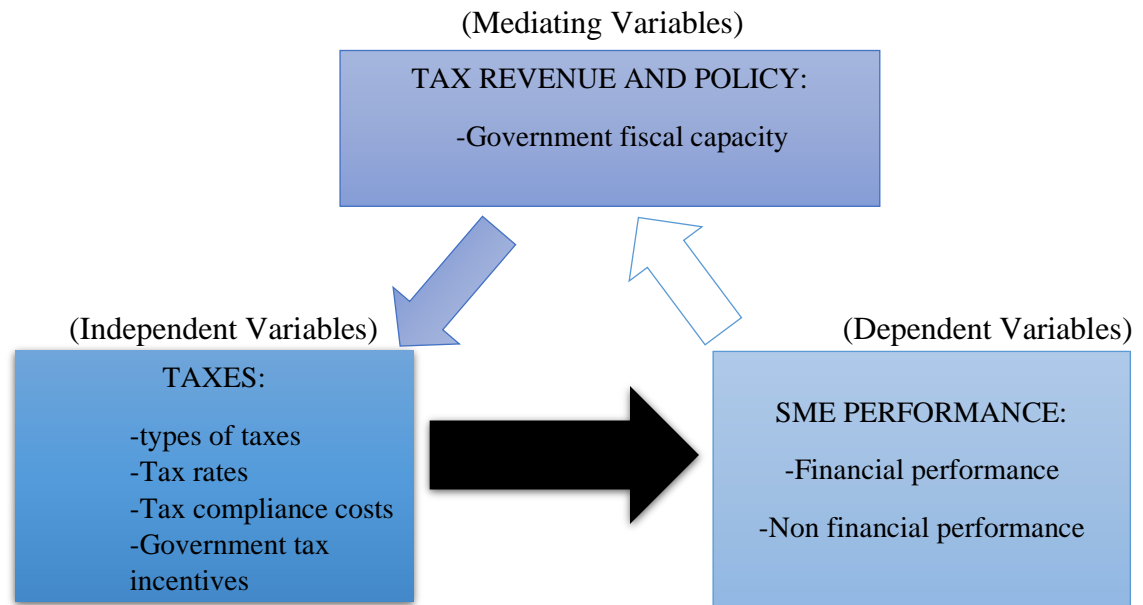
2.2 Theoretical literature

2.2.1 Conceptual framework.




Conceptual framework depicts what people expect to learn from the research, (Swaen, 2015). The conceptual framework for this study is depicted in the following diagram, which shows the relationship between independent variables related to taxes, dependent variables related to the performance of SMEs and the mediating variables related to tax revenue and policy. The variables are expected to be related tridirectionally. Taxes influence SME performance through their direct impacts of the performance of SMEs including both

positive and negative effects, whilst SME performance influences tax revenue and policy through feedback, with better performance potentially leading to higher tax revenue and more favourable tax policies. Tax revenue and policy affect taxes through the influence it has on the types of taxes, tax rates, compliance costs and tax incentives.

Figure 2.1: Conceptual framework



Key

-  Direct impact of taxes on SME performance
-  Feedback loop from SME performance to tax revenue and policy
-  Influence of tax revenue and policy on type, level and complexity of taxes imposed on SMEs

2.2.1 Independent Variables

2.2.1.1 Types of taxes

Taxes imposed on businesses come in various types which include corporate income tax, value added tax, payroll taxes, withholding tax, property tax, excise duty and customs duty. While some of the taxes are mandatory to all entities, such as corporate income tax, other

taxes such as value added tax and excise duty apply to entities depending on their business activities. The quantity of tax payments that an entity makes in tax payments may be substantially influential on the entity's the operational efficiency and financial planning. Given the diversity of the business industries in Harare, this would imply that that the types of taxes, to which an entity is obliged, causes substantial variability on the direct impacts of taxes on the performance of SMEs.

2.2.1.2 Tax rates

Tax rates can influence the performance of SMEs, significantly. As the tax rates charged on SMEs increase, they directly reduce their net profits, thus leaving less capital available for reinvestment and expansion. This can directly affect the long-term sustainability of the entity. Tax rates can also influence the cash flows of an entity, and the effects are negative if tax rates are higher, relative to SMEs' profits. This may also the influence the investment decisions made by SMEs as optimal tax rates creates a good investment environment whereas higher taxes may result in discouragement of SMEs to undertake new investments, as a result of the reduced earnings. SMEs might end up resorting to tax avoidance, or even tempted to commit tax evasion, which may also carry reputational risk. Tax rates may also affect the human resources of entities, as entities employ staff basing on the availability of funds to compensate them. This means optimal tax rates, which allow more funds to be at the disposal of SMEs, give SMEs the freedom to adjust their human resources, to meet maximum operational efficiency, and in contrast, higher tax rates variably take away this freedom.

2.2.1.3 Tax compliance costs

The variability in the tax compliance costs charged on an SME's finances can impact the SME's performance. Entities which incur less compliance costs enjoy the benefit of having a larger share of their profits at their disposal, while the inverse condition leads to an opposite result. This factor benefits entities which have been granted more tax incentives, the most. SMEs operating in Special Economic Zones, such as Sunway City, in Harare, are examples of entities which enjoy tax exemptions, more so in their first five years of operation, where they are exempt from tax payment. They are also exempt from duty on the equipment and goods used in the establishment of the business. These benefits do not

extend to SMEs operating outside these Special Economic Zones, which would be left with a heavier tax burden, as taxes take away a larger portion of their working capital. This can also introduce cash flow problems which hinder the ability of SMEs to invest and expand, especially for an SME with limited resources.

2.2.1.4 Government tax incentives

Tax incentives are presumed to cause a change in the performance of an SME, for example, specific tax credits and lower tax rates, most likely, lead to increased profitability and better investment opportunities. These tax incentives come in various forms, such as fiscal incentives, investment incentives, employment incentives and Special Economic Zones incentives, thus they cause variable impacts on the performances of SMEs. An employment incentive like the Physically Challenged Persons Employment Tax Credits has a less implication on SME performance, in comparison with a Special Economic Zones incentive, which grants SMEs more substantial benefits.

However, the impacts of government tax incentives, on the performance of SMEs can also be determined by other factors such as the regulatory environment, an SME's access to capital and the current market conditions.

2.2.2 Dependent Variables

The dependent variables of the study related to the performance of SMEs. The performance of SMEs can be classified into financial performance and non-financial performance. The variable SME performance indicators will be discussed below.

2.2.2.1 Financial performance

There are multiple ways to measure the financial performance of an SME. The key financial performance indicators include profitability, growth, liquidity, efficiency and solvency. Higher SME profitability increases the tax revenue because the SMEs pay a

larger share of their profits in tax, whereas lower taxes can have the opposite effects. This provides a basis for tax rate adjustments, or the introduction of progressive tax structures. SME growth also leads to more contributions to tax revenue through the various taxes on income, sales and payroll. Policymakers, in such case, may design tax policies in a manner that supports growth, with incentives for growth and reinvestment.

Furthermore, SMEs with strong liquidity would be to meet tax obligations timeously, thus ensuring a consistent flow of tax revenue, which could also allow the tax policy to include provisions for deferred tax payments, to assist businesses with liquidity issues. The efficiency of SMEs can also influence tax revenue and tax policy, as efficient SMEs can generate more output with less inputs, which potentially means potentially higher taxable profits for ZIMRA. This could also influence tax policy to offer incentives for investments which improve business efficiency. Solvency is another key financial performance indicator. Solvent SMEs are in a better position to commit to their tax obligations, which benefits the continuity and consistency the tax revenue collection. In line with this, tax policies may include measures to assist the struggling SMEs to maintain solvency and keep contributing to the tax base.

2.2.2.2 Non-financial performance

An entity's performance is not limited to financial records, but also includes key non-financial performance indicators such as customer satisfaction, employee satisfaction, market share, innovation and the entity's environmental impacts. The variation of these key performance indicators has effects to the tax base and tax policy of the country. When businesses achieve customer satisfaction, they may experience repeat business, leading to business growth and an indirect increase in tax revenue. The tax policy, through tax credits, may encourage the business practices that enhance customer satisfaction. Employee satisfaction is a crucial and variable measure of a firm's performance, as satisfied employees tend to be more productive, thus improving the financial performance of the organization, and tax revenue as a consequence.

Furthermore, market share can also indicate the performance of a business, as sales and profits increase variably with the growth of the business' market share, which results in variations on taxable income for ZIMRA. The tax policies may be designed to support SMEs operating in competitive markets, through tax incentives such as tax credits and reduced tax rates. In addition, innovative SMEs can contribute more to economic growth through new products, services and improvements in technology, thus generating additional taxable income. This justifies designing tax policies to include research and development tax credits to stimulate the desired growth. The environmental impacts of an entity's business, which are monitored and regulated by the Environmental Management Authority, may also indicate its performance. This is likely due to environmental efficiency being achieved at a financial cost, which may affect the sustainability of an underperforming entity. Tax policies may include incentives for environmentally friendly practices, to reduce their regulatory financial burden.

2.2.3 Mediating Variables

2.2.3.1 Government Fiscal Capacity

According to www.investopedia.com, fiscal capacity refers to the ability of government, groups, and institutions to generate revenue. The fiscal capacity of governments encompasses the realistic total revenue that a government can collect, considering the available tax base, the constraints it faces and the availability of other, non-tax revenue sources. Increased growth and productiveness of potential tax payers' population result in a larger tax base and base fiscal capacity.

The government, however, cannot fully exploit its tax base due to various constraints, which may be physical, political, administrative or economical. Physical constraints involve the demographic and geographical factors that limit a government's tax base, such as population and the abundance natural resources. Political constraints refer to the political will and the ability to enforce tax policies. Political instability, corruption, lack of public support of taxation and corruption may affect a governments fiscal capacity. Administrative constraints encompass the government's capacity to collect taxes

effectively. Lackluster administrative systems, outdated technology and inefficient staffing may cause inefficiencies in tax collection. Economic constraints such as unemployment rates, inflation rates and economic recessions can also affect the government's ability to collect taxes. Economic policies that lower the tax rates to stimulate growth can also limit a government's fiscal capacity.

Non-tax revenue sources also influence the fiscal capacity of a government. The Zimbabwean government has several sources which include royalties, sovereign wealth funds and administrative fees. Royalties refer income from the extraction of natural resources such as oils and minerals, and their sale. The government also earns income from government-owned investment funds known as sovereign wealth funds. The administrative fees charged for services such as construction permits, trade licenses, and the registration of birth and marriage certificates ensure additional non-tax revenue for the government. These are a few examples of the variety of the Zimbabwean government's non-tax revenue sources.

The variability of the government's fiscal capacity influences both the tax rates charged on the SMEs, and consequently on the performance of SMEs

2.3 THEORETICAL REVIEW

Various significant theories submitted by multiple researcher's in relation to taxation exists. The sole purpose of this thesis is to assess the taxation in Zimbabwe as a major source of government funding.

2.3.1 Laffer Curve

This curve which was popularised by economist Arthur Laffer in the 1970s, represents the relationship between tax rates and government tax revenue. The curve suggests that there is an optimal tax rate that maximizes government revenue, which balances the trade-off between collecting more revenue and avoiding disincentives to work and invest. However, beyond a certain point, further tax rates lead to diminishing returns, as taxpayers may reduce their economic activity or engage in tax avoidance strategies. A low, income tax rate would generate no revenue for the government and conversely, a very high tax rate

would also yield no revenue as it kills the incentive to work or invest. When taxes are cut, the arithmetic effect will immediately lead to reduced income, but over time, the economic effect will come into play as growth is stimulated, leading to increased income, spending, production and employment, which can offset the initial revenue loss from the tax cut.

2.3.2 Theory of Optimal Taxation

This theory was derived from the work of influential economists like Ramsey (1927) and Mirrlees (1971). This theory suggests that taxes should be designed to minimize the distortions and deadweight losses associated with taxation, while maximizing revenue and fairness. This theory aims to design a tax system that balances out revenue needs of the government, economic efficiency and fairness of the tax policies. There are several key lessons from this theory which include optimal marginal tax rates. The optimal marginal tax rate schedules are mainly dependent on the distribution of ability amongst the tax payers. In other words, tax rates should be designed taking account of the varying abilities of individuals and also entities. For SMEs, this implies that tax policies should consider the diverse income levels and abilities within the business sector. Another key lesson was the declining marginal tax schedules at high incomes. Optimal tax theory suggests that the marginal tax schedule could decline at high incomes. This implies that excessively high tax rates on SMEs' profits may hinder growth and discourage entrepreneurship. Policymakers should strike a balance to encourage investment and innovation.

2.3.3 Allocative Efficiency Theory

This theory suggests that taxes can influence the allocation of resources in the economy, potentially causing distortions or inefficiencies in the allocation of resources to SMEs. Allocative efficiency refers to the optimal allocation of resources within an economy. It occurs when resources such as labor, capital, and goods are distributed in a way that maximizes overall welfare or utility. In the context of SMEs, allocative efficiency implies that these businesses allocate their resources, including financial capital, labor, and production inputs, effectively to achieve their goals and maximize profits. Taxes can

significantly affect allocative efficiency for SMEs as they introduce distortions by altering relative prices and incentives.

The theory also advises some policy considerations relating to the topic under study. It advises that policy-makers should design tax policies that minimize distortions and compliance costs for SMEs. In addition, they should focus on simplifying tax rules and reducing compliance burdens to enhance allocative efficiency. They could also introduce progressivity where graduated tax rates based on income levels can balance revenue needs while encouraging SME growth. Incentives were also another of its considerations, emphasizing particularly, targeted tax incentives such as investment allowances, which can promote efficient resource allocation. Moreover, a broad tax base with lower rates can reduce distortions and encourage investment, which would be beneficial for both the government and the SMEs operating in the economy.

2.3.4 Dynamic Taxation Theory

Dynamic Taxation Theory is a broad field that involves the study of how taxes affect economy over time. Dynamic taxation theory emphasizes that tax policies should consider the long-term effects on economic behavior, investment decisions, and overall economic growth. Unlike static tax analysis which assumes fixed behavior, dynamic analysis accounts for how tax changes influence tax payers' choices over time.

In the context of SMEs, this theory suggests that taxes can have dynamic effects on the behaviour of SMEs, such as by influencing investment decisions, entrepreneurship, or innovation. The theory suggests that taxes influence investment decisions. Dynamic taxation considers how taxes affect SMEs' investment choices. High tax rates can discourage capital investment, leading to suboptimal resource allocation. It also suggests that tax policies influence innovation and entrepreneurship activities as favorable tax treatment such as Research and Development credits can encourage innovation. They also impact SMEs' growth trajectory. Dynamic analysis recognizes that SMEs evolve over time. Tax policies should adapt to SMEs' changing needs as they progress from startup to maturity. Due to the interdependence between taxes and SMEs, tax policies also influence

SMEs' behavioral responses. SMEs may adjust their behavior based on tax incentives or disincentives. For instance, tax credits can spur hiring or investment.

The Dynamic taxation theory also makes some policy considerations, which could help optimize the interdependence between taxes and SMEs. The theory considers effective tax rates, encouraging policy makers to consider not only statutory tax rates but also effective rates which implies accounting for deductions, credits, and compliance costs. It also urges the policy makers to make timing considerations as dynamic effects often emerge gradually. Policymakers should assess long-term impacts rather than short-term gains. Implementing SME-specific policies is another one of the theory's considerations. Policymakers should tailor tax policies to SME characteristics such as size, industry and growth stage. They should avoid one-size-fits-all approaches. They should also avoid lock-in as high capital gains taxes can discourage SMEs from selling assets or reinvesting. Dynamic analysis helps identify such distortions.

2.3.5 Static Efficiency Theory

Static efficiency theory focuses on the immediate effects of tax policies without considering long-term behavioral changes. It assumes fixed behavior and resource allocation, ignoring dynamic adjustments over time. This theory suggests that taxes can affect the efficiency of SMEs by reducing their net profits and lowering their incentive to invest and expand.

The Static Efficiency Theory suggests several impacts of taxes on the performance of SMEs, inclusive of tax burden. High tax rates can directly affect SMEs' profitability and cash flow. Excessive taxation reduces their ability to invest, expand, or innovate. SMEs could also suffer due to compliance costs as complex tax regulations impose administrative burdens on SMEs. Compliance costs divert resources from productive activities. Taxes could also introduce distortions in the operations of SMEs as they alter relative prices, affecting production decisions. For example, high rates of income tax discourage entrepreneurship and investment and consumption taxes, such as VAT, could impact consumer demand for SME goods and services.

There are also various policy considerations in line with this theory. The theory urges simplicity in policy making. Streamlining tax rules reduces compliance costs and it promotes efficiency. Policymakers are also encouraged to consider effective tax rates, including deductions and credits, rather than just statutory rates. Sector-Specific Policies are another consideration of the theory, suggesting that policymakers should tailor tax policies to SME characteristics such as their industry and/or their size, amongst other characteristics. The theory also backs aiming to balancing revenue and growth as striking a balance between revenue collection and SME performance is crucial for the operating environment and the operators, both.

2.3.6 The Tax Preference Theory

This theory suggests that taxes can influence the behaviour of SMEs by favouring certain types of investments or activities over others, such as debt-financed investments or passive income.

Tax preferences aim to lower the tax burden for SMEs, their investors, and owners. These preferences can take various forms, such as additional deductions where SMEs may benefit from deductions related to business expenses, such as Research and Development costs and employee wages; credits where tax credits encourage specific behaviors, such as investment and hiring, by reducing tax liability; or exemptions specifically targeted at SMEs where certain income or transactions may be exempt from taxation for SMEs.

The theory suggests various impacts of tax preferences on SMEs, including the encouragement of growth of SMEs. Tax preferences can stimulate SME growth by freeing up capital for investment. The theory also suggests that they help in reducing compliance costs because simplified tax rules and incentives lower administrative burdens. Additionally, they assist in influencing business decisions. SME owners consider tax implications when structuring their businesses.

2.3.7 Tax Complexity Theory

Tax complexity refers to the level of difficulty and administrative burden associated with complying with tax regulations. This theory suggests that complex tax systems can create compliance costs for SMEs, which can reduce their profitability and competitiveness as SMEs spend significant time and resources navigating complex tax rules, filling out forms, and ensuring accurate reporting. It also suggests that complex tax systems create distractions because managing tax complexities diverts attention from core business activities of an entity. SMEs may also face uncertainty due to changing tax laws, exemptions, and deductions, when tax systems are too complicated. Additionally, the businesses may also suffer inefficiencies due to complex tax systems leading to suboptimal resource allocation and hinder growth.

The theory, however, makes some policy considerations in respects to tax complexities. Policymakers should aim for simplicity in tax rules to reduce compliance costs for SMEs. The theory also emphasizes clarity, encouraging clear guidelines and transparent regulations help SMEs understand their tax obligations. It also encourages tailoring of tax policies, advocating for SME-specific tax policies that account for their unique characteristics. It also urges balancing revenue and efficiency, urging policymakers to strive for a balance between revenue collection and minimizing tax complexities.

EMPERICAL LITERATURE

The empirical literature in this study was compiled with special attention to the research questions of this research, in order to determine the extent to which other studies answer them.

2.4.1 How do tax policies and the government affect the performance of SMEs in Harare, Zimbabwe?

2.4.1.1 (Gumbo, Chabanga, and Nyemba, 2017), The Impact of Tax Policies and Administration on Small and Medium Enterprises in Zimbabwe.

In the study, the researchers found that high tax rates and complex tax administration have a significant negative impact on the profitability and growth of SMEs. They found that the SMEs in Zimbabwe have a high tax burden, with an average effective rate of 34% and compliance costs of over 10% of revenues. The researchers used a cross-sectional survey of 200 SMEs in Harare and Bulawayo.

2.4.1.2 (Munangwa, 2019), The effects of tax compliance and Enforcement on Small and Medium Enterprises in Harare.

The researcher found that SMEs in Harare face significant challenges in complying with tax regulations due to frequent tax audits and penalties, which negatively impact their performance. (Munangwa, 2019), found that SMEs in Harare face frequent tax audits, which require time and resources to comply with. The audits often result in penalties and fines, which reduce the profitability of SMEs and also their investment. The research made use of the case study approach and semi-structured interviews with 20 SME owners and tax experts.

2.4.2 What impacts do tax incentives have on the investment behaviour of SMEs in Harare?

2.4.2.1 (Chibaya, 2018), The impacts of tax incentives on Small and Medium Enterprise Investment in Harare.

The author investigated the impacts of tax incentives on SME investment behaviours in Harare, by analysing a sample of 50 SMEs that were offered tax incentives such as tax holidays and investment allowances, under the Zimbabwe investment and Development Agency Act. The findings showed that SMEs that received tax incentives had a higher likelihood to invest in new equipment, hiring more employees and expand their operations. The findings also found that the effects of tax incentives on SMEs varies by sector, which suggests that tax policies should be tailored to the specific characteristics of the different sectors of the economy.

For example, high risk sectors like agriculture and renewable energy require which long-term investment and have long term payoffs would respond to tax holidays with more positivity. Contrastingly, SMEs in sectors such as hospitality and retail were more likely to respond to investment allowances and depreciation deductions, as these incentives encourage them to invest in equipment other than capital goods.

2.4.2.2 (Mukweshu, 2021), Tax Incentives and Technology Adoption in Small and Medium Enterprises in Harare.

The study explored the relationship between tax incentives and technology adoption in SMEs in Harare. The researcher found that tax incentives, especially those targeted towards research and development, and technology investments, had a significantly positive impact on the technology adoption of SMEs. The SMEs that receive tax incentives for research and development, and technology investment, were more likely to adopt new technologies, such as computing, big data analytics and artificial intelligence. The researcher also found that the availability of tax incentives for technology adoption increased SME investment in human capital, such as employee training and education, which further enhanced their technology capabilities. Furthermore, the study discovered that SMEs that adopt new technologies reported higher profitability, productivity and growth compared to SMEs which did not adopt new technologies. The study was based on data collected from a survey of 100 SMEs in Harare, as well as interviews with SME owners and tax experts.

2.4.3 How does the complexity of the tax system influence the tax compliance of SMEs in Harare?

2.4.3.1 (Mashingaidze, 2020), The Impact of Tax Complexity on Small and Medium Enterprise Tax Compliance in Harare, Zimbabwe.

The study sought to examine the relationship between tax complexity and SME tax compliance. The findings indicated that SMEs which faced higher tax complexity levels were less likely to comply with tax regulations, reporting difficulties in understanding tax regulations, and complying with tax filing and payment requirements, thus they were more likely to engage in tax evasion. The research also found that tax complexity was negatively correlated with SME profitability and growth, suggesting that high levels of tax complexity may obstruct SME performance and competitiveness. The study also found that SMEs that reported a lack of trust in the tax system or believed that tax evasion was common amongst their peers, were more likely to engage in tax evasion, regardless of the level of tax complexity. The results were achieved from a survey of 200 SMEs in Harare.

2.4.3.2 (Mutasa, 2022), Tax Compliance and SME Performance in Harare, Zimbabwe: The role of Tax Complexity.

This study found that SMEs perceived the tax system to be complex and difficult to understand, especially with regards to tax rates, deductions and exemptions. (Mutasa, 2022) further found that the perceived complexity of the tax system had several consequences on the tax compliance of SMEs such as the engagement of SMEs in tax avoidance behaviours, such as underreporting income and overstating deductions, to reduce their tax liability. SMEs were also more likely to rely on informal tax advisors such as their family or friends, for tax advice, rather than seeking professional advice, which may have led to omissions in their tax filings or other errors.

2.4.4 What are the main challenges faced by SMEs in Harare in achieving tax compliance, and how do these challenges affect their operational efficiency?

2.4.4.1 (Dube, Matsika, 2021), Challenges Facing SMEs in Achieving Tax Compliance in Harare, Zimbabwe.

(Dube and Matsika, 2021) identified several key challenges faced by SMEs in achieving tax compliance and their impact on operational efficiency. They cited a lack of knowledge and awareness of our tax regulations, inclusive of rates, filing requirements and deductions, which has led to non-compliance and increased fines and penalty risks, which causes reduced operational efficiency and less liquid cashflows. They also found the inefficiency of the tax administration to be causing challenges on the operational side of SMEs. They reported ZIMRA's slow responses to queries and requests for assistance, which makes it difficult for the SMEs to comply with the tax regulations. Another challenge reported was the inadequacy of tax effective tax planning and record keeping, which affected their capacity to accurately report their tax liabilities and their compliance to the tax regulations.

2.4.4.2 (Chiwandamira, 2022), Tax Advisors and SME Tax Compliance in Harare, Zimbabwe.

This research produced several key findings related to the role of tax advisors in SME tax compliance such as a lot of SMEs in Harare lacking tax advice due to the high costs, trust matters and also a lack of understanding of the benefits of seeking professional tax advice. It also found that SMEs that had developed long-term business relationships with their Tax Advisors had displayed great confidence in their tax compliance and greater efficiency in managing their taxation matters. The researcher also found that SMEs which used digital tax solutions like cloud-based accounting software or online tax filing systems, reported greater efficiency and accuracy in tax compliance, thus reducing their reliance on tax advisors.

2.4.5 To what extent does the Zimbabwean government's fiscal capacity affect the support and resources available to SMEs in Harare?

2.4.5.1 (Banda, Mhlanga, 2021), Fiscal Capacity and SME Support in Harare, Zimbabwe.

In their paper, (Banda, Mhlanga, 2021) reported inadequate financial support towards SMEs, from the government. The SMEs reported limited access to credits, grants and other financial resources from financial institutions and the government, which crippled their expansion ability and investment into new technologies. The researchers also mentioned inadequacy of capacity-building as another finding of the study, stating that SMEs reported having limited access to training, mentorship and other capacity-building resources, which negatively affected their ability to develop management and technical skills. Inefficient public services were another finding of the paper. The SMEs reported significant delays in obtaining permits and licenses, amongst other government services, which affected their efficient operation and compliance with tax regulations.

2.4.5.2 (Mwale, Mususa, 2020), Infrastructure and SME Performance in Harare, Zimbabwe.

This research found that SMEs in Harare experienced problems with their infrastructure as they faced challenges in accessing reliable electricity, telecommunications and transport which reduces their productivity and foreign direct investment, and also limiting their access to markets. The researchers reported that many SMEs ended up relying on generators, which increased their operating expenses and causing inefficiencies, which reduced their ability to invest in other important areas. The study further found that poor infrastructure led to increases in traffic congestion, pollution and crime, thus creating negative externalities for SMEs, due to increased costs, reduced productivity and limits in market access.

2.4.6 Gap analysis

Taking into consideration the evidence from empirical literature, there is a lack of empirical studies on the impacts of taxes on the performance of SMEs in Harare, Zimbabwe. While there are researches which were conducted in similar context, for example, (Mashingaidze, 2020), The Impact of Tax Complexity on Small and Medium Enterprise Tax Compliance in Harare, Zimbabwe, there seems to be a scarcity of researches specifically focused on tax policies in Harare and their impacts on the performance of SMEs. This gap justifies the significance because the Harare tax environment may possess unique characteristics owing to local economic, political and social factors. Due to this, understanding the specific impacts of tax policies on the performance of SMEs in Harare could help provide valuable insights for policymakers, the tax authorities and SME owners. In addition, most of the related researches were made using smaller SME samples, which affects the fair representation of the total SME population in Harare, thus justifying the need to carry out a more robust study.

2.4.7 Summary

This chapter provided the theoretical literature around which the research is built, and also provided the empirical literature from other related researches, to create an understanding of how far research has gone into the studies of taxation and SME performance of SMEs in Harare.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design and methodology underpinning the study on the impacts of taxes on the performance of SMEs in Harare, Zimbabwe. The research draws on a mixed-methods sequential explanatory design, which integrates quantitative and qualitative approaches for a comprehensive understanding of the research problem. The chapter begins by outlining the theoretical underpinnings of the study, including the research philosophy, research approach, and the justification for the mixed-methods design.

3.1 Research design

De Vaus (2001) defined a research design as an overall strategy that the researcher chooses to integrate the different components of research in a clear and consistent way, so that the problem of the study can be effectively addressed. To achieve the most accurate results under the existing conditions, the researcher used the mixed-methods approach due to its ability to integrate both qualitative and quantitative information, thus achieving more comprehensive findings from the study. I adopted a sequential explanatory design, where I started with a quantitative phase, which included analysis of financial data, structured observations and surveys, so as to attain factual findings on the study, followed by a qualitative phase, where I conducted interviews with various focus groups such as SME owners and tax experts, in order to help and explain the quantitative findings. The qualitative phase also helped in providing information on other aspects of SME performance, which is not financial, for example, employee satisfaction.

3.1.1 Reasons for the research design adopted

The mixed-methods sequential explanatory design was the best option for a number of reasons. The method allows for the triangulation of data. Mixed-methods design allows for triangulation, or the convergence of both quantitative and qualitative data. This helps validate findings, provide a more comprehensive understanding of the research problem, and increase the credibility of your study. It also enables a more contextual understanding of the research and its findings. The qualitative phase provides a deeper understanding of the context in which SMEs operate, including the challenges they face, their experiences with tax regulations, and the support they receive from the government.

3.1.2 Philosophy of the study

According to Saunders, Lewis, and Thornhill (2012), research philosophy is the method through which a scholar generates knowledge in the context of their research. It is associated with assumption, knowledge, and nature of the study. Due to the nature of my research and my chosen research design, I opted for paradigm pluralism, specifically a pragmatic approach that combines positivism and interpretivism, to draw on the strengths of multiple paradigms, enabling a more comprehensive understanding of the research problem and the generation of richer insights.

3.1.1 Reasons of adopting the philosophy employed

The pragmatic research philosophy was chosen for its emphasis on the use of both quantitative and qualitative methods to address real-world problems. Adopting a pragmatic approach, allowed me to use quantitative methods to analyze the relationships between taxes and SME performance indicators, such as revenue, profit, and employment. I was also able employ qualitative methods to gain a deeper understanding of the context, challenges, and experiences of SMEs in dealing with tax regulations. This combination of methods enabled me to provide practical recommendations for policymakers and SME owners based on the findings of the research.

Positivism was important to include as the philosophy relies on quantifiable observations and statistical analysis to draw conclusions about the world. As part of my research produces clear, measurable outcomes, where I would remain independent of the study, such as focusing on quantifiable data such as tax rates, financial metrics and performance indicators, positivism was necessary to ensure a systematic, rigorous and credible analysis.

I also adopted interpretivism because it emphasizes understanding the subjective experiences and meanings that SME owners and stakeholders attribute to tax regulations. By adopting an interpretivist approach, I was able to explore the perspectives of SME owners, tax experts, and policymakers through interviews or focus groups, providing valuable insights into the complex relationship between taxes and SME performance.

In summary, paradigm integration was ideal for my research because it allowed me to integrate both quantitative and qualitative methods to provide a comprehensive, context-sensitive, and practical understanding of the impacts of taxes on SME performance in Harare, Zimbabwe.

3.2 SUBJECTS

3.2.1 Target polulation

Kindmond (2012) articulated that target population is the research population from which research samples are formed, which includes heterogeneous characteristics mixed together. My targeted population was made up of SMEs geographically located in the city of Harare, Zimbabwe, and more specifically, entities befitting the definition of SMEs, as defined by the country's legal and regulatory framework.

3.2.2 Sample

Sampling is the process selecting a subsection of the population of interest in a research, Turner and Deng (2020). In the context of my study, this implies that sampling is a method of selecting individual entities to make statistical inferences and estimate population characteristics.

3.2.3 Sampling technique

The methods employed by researcher to choose samples from study population are known as sampling techniques, Cooper and Schindler (2003). OECD (2004) supported this by stating that a sampling technique is the identification of the precise process by which the entities of the sample have been selected.

Due to the nature of my research design, I chose to employ various sampling techniques for the quantitative and qualitative phases of my study. For the quantitative phase, I adopted Stratified Random Sampling, by first dividing the population of SMEs in Harare into strata based on characteristics such as business size, industry sector and their locations. The samples were then selected from each stratum to ensure that the sample was representative of the diverse population of SMEs in Harare. This technique helped me to obtain a more accurate picture of the relationship between taxes and SMEs across the different businesses in Harare.

On the qualitative phase, I used a combination of purposive sampling and snowball sampling. For purposive sampling, I selected participants using their varying tax compliance statuses, to gain insights into the different tax experiences and challenges faced by SMEs. I also included SMEs from different size categories, ranging from micro-businesses, small and medium enterprises to understand how taxes impact SMEs across the sector as a whole. I also selected tax experts who have extensive experience in assisting SMEs, because they have in-depth knowledge of the topic under study. I also employed snowball sampling, where I asked my initial participants to recommend other potential participants who potentially had valuable insights into the topic under study, especially when sampling for tax experts and policymakers who had extensive experience in assisting SMEs.

3.2.4 Sampling size

According to Cooper and Schindler (2003), sample size refers to the number of units in a subgroup of the study population. From the over 150,000 SMEs formally registered in Harare- a population that was too wide for study-the researcher ended up with a sample size of 400 SMEs, across different industries and different size categories, so as to achieve proper representation of the SMEs in Harare. I also included 10 tax experts and 5 policymakers based in Harare. To achieve a confidence level of 95%, under the existing conditions, my margin of error was an approximate +/-4.9%.

3.2.5 Sampling procedures

The sampling process was designed to discover fair and true representation of the population. As a result, there were no biases in the study. This was best achieved by employing the Stratified Random Sampling, purposive sampling and snowball sampling; a combination of techniques which ensured fair selection of participants from the population.

3.3 Research instruments

Research instruments refers to the methods utilized by the researcher to collect data for research, Burns and Groove (2012). Research instruments allow researchers to acquire data which is confidential and non-available in the public domain. I employed interviews, observations and surveys for the collection of such data. These research instruments allowed me to collect information which enhanced the reliability and validity of my findings, as the information contained rich and in-depth information which was contextual to the study, thus highlighting the nuances and complexities of tax compliances and SME performance in Harare.

3.3.1 Questionnaires

According to Bhandari (2021), a questionnaire is a list of questions used to obtain information from respondents in terms of attitudes or experience. Questionnaires are used to obtain both quantitative and qualitative information. Haiying (2014), articulated that a questionnaire is a research tool that consists of a series of questions meant for the respondent to answer. They are used for the gathering of primary data. In order to achieve in- depth primary data, I made use of closed questions, open questions and matrix questions.

3.3.1.1 Justification for using questionnaires

There were several justifications for using questionnaires for my study, such as feasibility. Questionnaires were a practical way of collecting data, from the large samples of SMEs, tax experts and policymakers, from whom I had to collect very important information. As they could be distributed electronically, a lot of time and resources were saved as a result. Questionnaires also allowed me to standardize the data collection process, with the upside of having comparable data from correspondents, and also over time. They also allowed the respondents to provide their honest and accurate responses without the potential for social desirability bias and any other forms of bias that could have arisen due to face-to-face interactions.

3.3.2 Interviews

A total of 30 SME owners were interviewed, from different the size categories, and from five business areas, which were Mbare, Harare CBD, Msasa, Highlands, and the only Special Economic Zone in Harare, Sunway City, so as to factor in any possible differences which arise from business locations. A total of 10 tax experts and 5 policy makers were also interviewed. The interviews were carried out to have clarity on the impacts of taxes on the performance of SMEs without bias and without the respondents replies limited to required answers. The interviews were conducted to gain more detailed and qualitative explanations of the findings from the quantitative phase of my study. Most of the interviews were face-to-face, though some were carried out via phone calls, due to convenience issues, especially for policymakers.

3.3.2.1 Reasons for conducting interviews

Interviews were carried out for the purpose of getting in-depth insights into the attitudes, experiences and motivations that influence tax compliance behaviours. This helped me understand the challenges faced by SMEs in complying with taxes and the factors affecting their performance. Interviews with tax experts provided in-depth insights into the policies, procedures and practices that shape up the tax environment of Harare, and possibly Zimbabwe. This helped in understanding how tax policy and administration impact the performance of SMEs and also identifying opportunities for reform. Interviews with policymakers were vital for providing insight into the priorities and perspectives of policymakers in relation to taxes and SME development. This helped in identifying the opportunities and constraints for tax reform, to suggest policy recommendations for improving SME performance.

3.4 Validity

Talapatas, Alimisi, Heidmann, and Moschos (2014), stated that validity is the degree of behaviour and credit of the information under consideration. The researchers also wrote that information is regarded to be legitimate if it has been strengthened using the triangulation approach. This approach helps achieve the different types of validity, which include construct validity, content validity, face validity and criterion validity.

How validity was achieved

To achieve construct validity, I made use of financial performance indicators, surveys on business owner satisfaction and third-party assessments to measure the impacts of taxes on the performance of SMEs. By employing the different facets of triangulation, such as data triangulation, investigator triangulation and methodological triangulation, I was able to cross-validate the results to ascertain that they were truly reflective of the construct of ‘SME performance’, and not influenced by other factors.

To achieve content validity, I collected data from various sources such as tax records, financial statements and qualitative feedback from SME owners to ensure that all aspects of taxation and its impacts on SME performance were captured. I also involved experts to review my work. I achieved criterion validity by comparing my SME performance measures to other established benchmarks of business success. This ensured that I was relying on multiple measures to establish the existing correlations.

3.5 Reliability

According to Shuttleworth (2015), reliability relates to the uniformity of a measure. Orodho, (2006), articulated that reliability is the degree of consistency that is contained by uniformity.

In the context of research, reliability refers to the consistency and stability of research findings over time, across different measurement occasions, or across different observers. This was achieved in this research, through a number of measures including the prioritizing use of appropriate research tools. For example, when I conducted surveys, I ensured that the questionnaires were validated, and the accurately measured the tax-related challenges faced by SMEs. Ensuring that my sample size included a diverse range of SMEs from different sectors, sizes and locations, to make my findings more generalizable, was another measure I took, to achieve reliability in the findings. Triangulation of the quantitative data from financial records, with the qualitative interviews from with the various sample groups, also helped ensure the desired reliability. I also limited my data to financial records, which were clear and in line with the proper financial recording and reporting framework. Statistical analysis, using methods like the regression analysis to determine the relationship between tax rates and SME performance, proved to be vital in achieving reliability too.

3.6 Ethical considerations

In research, ethics aims to guarantee that no one is harmed. Participants in this research were properly informed about the purpose, methods and potential risks of my research to obtain their voluntary consent, before collecting data. Confidentiality of participants' personal information and any other information, which the participants preferred undisclosed, was given priority to a degree where I chose to keep the data acquired through questionnaires undisclosed to protect the respondents. The data collected from SME owners, tax experts and policymakers used only for scholarly purposes only, hence the choice to keep it private and confidential. Participants were also treated with respect and sensitivity, to avoid unnecessary harm or discomfort.

3.7 Data collection Procedures

The study focused on both primary and secondary data. Primary data was heavily relied on, for the qualitative phase of the research, and secondary data was more crucial for the quantitative phase. The primary data was collected from SME owners, tax experts and policymakers through interviews, surveys and observations of operations. Interview guides for each of the sample groups were developed, to assist in the proper execution of the interviews. The use of questionnaires (check Appendix) was adopted, and closed questions, open questions, matrix questions and Likert Scales were included. The questionnaires were distributed through the drop and pick, and online distribution, to all the sample groups. A pilot test was performed for each of the sample groups to assess the measured variables and the data was analysed to ensure its relevance to the topic, before the questionnaires were distributed to all participants. The secondary data was collected from, government reports and statistics on tax revenue, tax compliance rates and SME performance indicators.

3.8 Data presentation and analysis

There are four sections to the questionnaire. The respondents supplied general information in-section A, on B investigation was to determine whether taxation is a major source of government revenue in Zimbabwe. Section C was utilized to investigate the difficulties in collecting tax revenue. The numerous potential remedies to the highlighted issues were recorded in section D.

3.8.1 Presentation

Percentages, totals, means and standard deviation were used for data presentation. The mean in this research was used to determine the respondent's overall reaction to questions. The standard deviation was used was used to calculate the requestion response variability.

3.8.2 Analysis

SPSS version 20 for windows was used to analyse the data. The data from literature review and acquired information from the study instruments were compared. The mean was utilised by the researcher to categorise the answers from respondents, which enhanced the analysis of data.

Also, correlation was adopted in the analysis of data. It's an analytical tool which shows the relationship or association between variables.

3.9 Summary

The research methods employed in the study were discussed in detail in this chapter. The research instruments of questionnaires, as well as their reasons were used. The research population was displayed, as well as a sample was used to represent the whole population under investigations.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter is for the data presentation and analysis of objectives established in the first chapter, whose literature review was presented in the second chapter followed by research technique which was presented in the third chapter. This chapter aims to assess and determine the impacts of taxes on the performance of SMEs Zimbabwe. The proposed remedies are also discussed in this chapter. The data was gathered to give an insight on the assessment of taxation as major source of government funding in Zimbabwe.

4.1 Response Rate

The data was collected from various SME owners, policymakers and tax experts, and in the absence of SME owners, data would be collected from anyone in that organization who had the relevant information. The research targeted participation from 400 SMEs; 30 SME owners or other responsible personnel were to be interviewed and complete questionnaires, and the rest were to have questionnaires dropped off at their offices or sent online. All 30 face-to-face encounters were successful, resulting in a 100% response rate from that subgroup. Drop and pick, and online questionnaires yielded 197 responses, which translates to a 53.24% response rate. all 10 tax experts and 5 policymakers cooperated, and that was 100% response rate, for both sample groups. Khan (2012) articulates that a rate of response of more than 50% is sufficient and justifiable for reasonable conclusion to be drawn, and such was, thankfully, achieved for this study.

Table 4.1: Response rate

Description	Targeted sample	Actual participation	Response rate (%)
SME owners/relevant personnel (physical interactions)	30	30	100
SME owners/relevant personnel (drop and pick, online)	370	197	53.24
Tax experts	10	10	100
Policymakers	5	5	100
Total	415	242	58.31

Source: Primary data (2024)

4.2 Data Presentation

4.2.1 Demographic information

According to social sciences, the personal characteristics of the respondents plays a crucial role in expressing their responses to the questions asked. For this study certain socio-demographic information was collected from all sample groups, so as to include those

variables, and it includes gender, age, education and experience. The information was presented to represent the variability of demographics amongst the respondents, as follows.

Table 4.2: Demographic Characteristics of Respondents (SME respondents)

Demographic Variable	Category	Frequency	Percentage (%) <i>*rounded to 2 d. p</i>
Respondents' ages	18-25 years	28	12.33
	26-35 years	46	20.26
	36-45 years	57	25.11
	46-55 years	48	21.15
	56-65 years	35	15.42
	66+ years	13	5.73
Respondents' genders	Male	153	67.4
	Female	74	32.6
Professional qualifications	Ordinary Level	15	6.61
	Advanced Level	38	16.74
	Diploma	67	29.52
	Undergraduate degree	50	22.02
	Masters degree	42	18.5
	PhD	15	6.61
Ages of businesses	5-10 years	82	36.12
	11-15 years	79	34.8
	16+ years	66	29.07
Business Structure	Sole proprietorship	70	30.84
	Partnership	63	27.75
	Pvt Ltd	85	37.44

	Co-operative society	9	3.96
Business size (*by number of employees)	Micro	86	37.89
	Small	77	33.92
	Medium	64	28.19

Source: Primary data (2024)

4.2.1.1 Key findings

Table 4.2 shows that the ages of respondents were generally fairly distributed, but the 18-25 years category had a significantly lower age distribution. This could have simply been due to the reluctance to participate in the research. However, that could also be an indicator of a reduction in the registration of new businesses by younger entrepreneurs, possibly due to the currently prevalent economic struggles. The 65+ years age group also recorded the lowest age distribution, which could have possibly been due to the age being the general retirement age, thus it's a possibility that a lot of business owners would have retired, at such ages. Furthermore, the information on Table 4.2 shows that almost two thirds of the participants were male figures. A lot of factors could have influenced this variation. An example would be the social norms of men being expected to work, ahead of women. As much as modern social values have shifted away from such norms, it is a possibility that more Zimbabweans or Harare based citizens are still catching up to the modern social standards.

Table 4.2 shows that younger businesses occupied the largest percentage of SME respondents, and the oldest businesses were the fewest. This could probably be explained by the alarming failure rate of SMEs in Zimbabwe. A lot of businesses liquidate in their early growth stages, which could possibly be accelerated by the ever-worsening economic environment. A business operates as a going concern, and in a viable economy, the statistics could have possibly been the other way round. The higher number of younger SMEs, could also result from the increase in initiatives aimed at supporting entrepreneurship over the past years.

Table 4.3: Demographic Characteristics of Tax Experts

Demographic Variable	Category	Frequency	Percentage (%)
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Ages of tax accountants	25-35 years	2	20
	36-45 years	3	30
	46-55 years	3	30
	56-65 years	2	20
Genders	Male	7	70
	Female	3	30
Professional experience	5-10 years	4	40
	11-15 years	5	50
	16+ years	1	10
Membership in professional bodies	Yes	10	100
	No	0	0
Involvement in policy-making	Yes	3	30
	No	7	70
Relevant international experience (<i>*minimum of 4 years</i>)	Yes	2	20
	No	8	80

4.2.1.2 Key findings

Table 4.3 shows an even distribution of tax experts across the various ages. This indicates continuity of the tax system and a balanced distribution of expertise across generations. This may be due to the modern availability of information, which enables professionals of all ages to gain the relevant knowledge. There was a greater distribution of male tax experts, from the figures shown in Table 4.2. This may have been due to a variety of factors, such as the social norms stated before. It could also be because a most of the tax experts consulted were chosen through snowball sampling, meaning there is a likelihood that the tax experts would refer me to their peers, who would, in most cases, be of the same gender. Table 4.3 also shows that only 10% of the tax experts had sixteen years of experience or more. This could be attributed to a bias in the sample, or the emigration of qualified personnel from the country.

The information on the table also pointed towards a lack involvement of the tax experts in policy-making. Tax experts, are supposed to play a larger role in policy-making, because they understand the tax policies and the effects of changes to the tax law, better than politicians and other policymakers, who lack proper understanding.

Table 4.4: Demographic characteristics for policymakers

Demographic Variable	Category	Frequency	Percentage (%)
Age	18-25 years	0	0
	26-35 years	0	0
	36-45 years	2	40
	46-55 years	2	40
	56-65 years	1	20
	66+ years	0	0
Gender	Male	3	60
	Female	2	40
Educational qualifications	Undergraduate degree	1	20
	Master's degree	2	40
	PhD	2	40

4.2.1.3 Key findings

The policymaking participants were matured by age, which signified their wisdom in the field of policymaking. This was validated by the distribution of their educational qualifications. 80% of the policymaking respondents at least a Master's Degree, which meant that they were well educated on the subject and were equipped with knowledgeable answers to the questions asked.

4.3 Data presentation

4.3.1 Theme 1: Government influence and Tax Policy

Research sub-question: How do tax policies and the government affect the performance of SMEs in Harare, Zimbabwe?

4.3.1.1 Overview

This theme focuses on the policy and regulatory framework, set by the Zimbabwean government, which has direct impacts on the financial and operational aspects of SMEs. It is inclusive of tax compliance requirements, tax rates and the availability of tax-related information.

4.3.1.2 Key findings

- A greater number of SME respondents complained about high tax rates being a substantial financial burden which reduces the capital available for reinvestment and growth.
- Many SMEs reported inadequate communication of tax policies may lead to confusion and non-compliance, which would often result in penalties that further cripple their finances.
- Tax filing procedures were found to be more challenging due to their complexity. SMEs ended up consuming time and other resources, which would otherwise have been channeled towards business development.

4.3.1.3 Detailed analysis

1. The impact of tax rates

While any tax amount charged on operations negatively affect a firm's financial performance, the tax rates were found to be too high for SMEs, hence they hinder the profitability and expansion of SMEs. The financial burden caused by taxes reduce the ability of SMEs to invest in new technologies, recruit additional staff or expand their business operations. Gumbo *et al.* (2020) as quoted in empirical literature, found that high tax rates and complex tax administration significantly

and negatively impact the growth and profitability of SMEs, with the average effective tax rate and compliance costs being 34% and 10%, respectively, at that time.

Since then, the Zimbabwean government has steadily reduced the effective tax rate to the current 25.75%. The results of that reduction were increase in the government's fiscal capacity. In 2020, when the effective corporate income tax was 24.72%, ZIMRA's revenues for the fourth quarter surpassed targets, despite the COVID-19 challenges. This shows that a tax rate reduction could achieve mutual benefits for all parties involved.

The need for a tax rate reduction may be further justified by the responses from the study's participants. When asked to rate the impacts of taxes on the performance of their businesses on the questionnaire, the participants mostly reported dissatisfaction, as shown on Table 4.5 below.

Table 4.5: Analysis of the responses on the impacts of current tax rates on performance

Measures	1	2	3	4	5	Total
How do you rate the impacts of the current tax policies on the performance of your business?	68	122	30	4	3	227
Percentages	29.96	53.74	13.22	1.76	1.32	100

Source: Primary data 2024

More context was provided from the interviews carried with the thirty SME owners. The reports from four business locations, namely Mbare, the CBD, Msasa and Highlands were relatively, similar with twenty-three participants, representing 76% of the total interviewed participants, rated the impacts as either negative or strongly negative. This differed from the reports from participants based in Sunway City Technological Park, who rated the impacts on their businesses as neutral. They cited the tax incentives available to them as optimal for business growth and

development. This shows that there is an inverse relationship between tax rates applicable to SMEs and their performance.

This implies that if tax rates are adjusted to be more favourable, the business outcomes of SMEs may also surge, as the majority of SMEs are currently reporting negative impacts. Lowering tax rates could positively impact the small to medium enterprises by causing cashflow and retained earnings increases, which allows the SMEs to reinvest in the business for growth, operations improvements, and/ or innovation. Favourable conditions can attract investment such as capital assets, workforce development and technology. Lowering taxes also improves operational efficiency, due to reduced compliance costs. It also causes enhanced competitiveness, as the SMEs would have more funds to allocate towards, quality improvements, marketing and customer service.

2. Communication and implementation of Tax Policies.

There is need to achieve effective communication of tax policies, for tax compliance and strategic planning. The study found a gap between policy formulation and its dissemination as many SMEs in Harare are operating without clear guidance on tax matters. Musabayana *et al.* (2022) found that the Zimbabwean government developed sound policies, which were aimed towards the empowerment of SMEs, but their impacts were insignificant because the communication and implementation were poor, thus they failed to support SMEs and their impact was highly insignificant. The researchers also deduced that the poor performance of SMEs was the government’s fault, as it failed to communicate its intentions to the implementers, which had a negative ripple effect across the whole economy of the country. This was confirmed by the distribution of answers from the questionnaires, pertaining that question. The distribution is clarified in the table below.

Table 4.6: Analysis of ratings of communication and implementation of taxes to SMEs

	1	2	3	4	5	Total
How do you rate the communication and implementation of the current tax policies to you?	56	87	42	37	5	227
Percentages	24.67	38.33	18.50	16.30	2.20	100

Source: Primary Data (2024)

From the information provided in the diagram, a combined 63% of the respondents rated the communication from the government, poorly. Only 18.5% of the respondents rated the government's communication positively, with only 2.20% giving the best review. This is testament of the findings of Musabayana *et al.* (2022). Poor communication and implementation of tax policies, would only hurt the government more. Taxation is a major source of government funding, thus raising the need to ensure effective communication, which assists in maximizing the government's fiscal capacity.

3. Administrative Burden

The administration burden in tax compliance was a recurrent theme in the collected data. SMEs reported that they often lack the resources to efficiently navigate the complexity of the tax systems, thus increasing their costs and reducing their productivity. Of all the participants of the study, 126 individuals noted administrative tax burden as one of their main challenges in achieving tax compliance, citing reduced productivity and inefficient resource allocation as the main effects of the administrative burden.

Munangwa (2019) found that SMEs face compliance challenged because of frequent tax audits and penalties which negatively impact their performance, through the wastage of time and resources to comply to the tax policies. Taxation is already costly, on these SMEs, thus incurring high compliance costs could push the SMEs to end up engaging in tax evasion activities.

4.3.1.4 Case Studies and examples

A service providing SME, from the sample, reportedly faced penalties for failing to comply with the VAT regulations, due to misunderstandings caused by poor communication of the tax policy changes which became effective on 1 January 2024. This case study is an example of the findings from Munangwa (2019), and it shows how the administrative issues affect the performance of SMEs in Harare.

4.3.1.5 Policy implications

- The analysis suggests a need for the government to review and lower the tax rates applicable to SMEs, to foster a more operable environment, if possible.
- the government must improve its communication and implementation of tax policies, as it can lead to better tax compliance from SMEs, which improves the government's own fiscal capacity, at the same time allowing SMEs to make informed decisions towards their growth.
- The tax filing system could be simplified to reduce the administrative burden on SMEs, which can improve their operational efficiency

4.3.1.6 Conclusion

The analysis of this theme has revealed how pivotal government tax policies and the manner in which they are executed, are important factors in shaping the performance of SMEs in Harare. By addressing the challenges identified, policymakers can create a sustainable tax environment which promotes better SME performance, thus contributing to economic growth.

4.3.2 Theme 2: Tax incentives and investment behaviour.

Research sub-question: How do the tax incentives available to SMEs in Harare influence their investment decisions?

4.3.2.1 Overview

This theme aims to examine the impacts of tax incentives on the investment behaviour of SMEs in Harare, in order to achieve an understanding of how these incentives influence strategic business decision-making.

4.3.2.2 Key findings

- Tax incentives are a motivator- the implementation of tax incentives such as deductions, exemptions and tax credits motivate SMEs to make new investments, especially in productivity- improving equipment.
- Investment in growth-focused activities- There is a direct relationship between tax incentives and engagement in growth-focused activities such as research and development and market expansion
- Behavioural responses to tax incentives- the implementation of tax incentives leads to a noticeable shift in SME investment behaviour, as SMEs tend to allocate funds to long term assets

4.3.2.3 Detailed analysis

1. Types of tax incentives

The study found that tax incentives have influenced the decision making of the total sample. This is shown on Table 4.7 below.

Table 4.7: Responses on the influence of tax incentives on investment decisions.

	Yes	No
Have tax incentives influenced your decisions to invest in business expansion or innovation?	227	0
Percentages	100	0

Source: Primary data (2024)

From the information in the table, all participants agreed to have been influenced by tax incentives, on their investment decisions. However, different tax incentives influence SME investment behaviour in different ways. SMEs in Special Economic Zones, reported being encouraged to invest in the growth and expansion of their

businesses. This was mainly due to the relative availability of more funds for investment, in comparison to entities outside SEZs, whose finances would be more constrained, thus hindering such investments. Other SME owners reported resorting to hiring young and physically challenged persons, to take advantage of the Youth and Physically Challenged Employment Credits, so as to salvage as much of their profits as possible. This gives evidence of how some SMEs which are not getting much benefit, are trying to navigate the loop holes within the policies, in order to reduce their tax burden.

2. Effectiveness of tax incentives

Several studies have delved into the question about the effectiveness of SMEs, inclusive of Chibaya (2018). The researcher's study suggested that incentives are more effective when they are tailored for a specific sector of the economy, and also that tax incentives have varying effects on SME behaviour, determined by sectors. This research came to a relatable assessment, as it found that tailored tax incentives would be more effective to improve SME performance and fiscal capacity. This assessment was reached from the analysis of the data in Table 4.8 below.

Table 4.8: Analysis of the significance of effects of different taxes on SMEs

	C.I.T	C.G.T	IMTT	P. T	W. T	E. D	C. D	VAT	TOTAL
Participants	95	5	11	59	0	43	14	0	227
Percentages	41.85	2.2	4.85	25.99	0	18.94	6.17	0	100

Source: Primary data (2024)

The information in the table shows the results when SME owners were asked to select the taxes which impacted their businesses the most. The figures in the table clearly show that the perception of tax impacts on the SME performance could dependent on the business type or sector. This means the government could offer tax incentives to SMEs, basing on the type of tax which affects them the most. This could improve SME performances as the tax incentives would give the SMEs the

necessary relief, tailored to their industries. The study by Mukweshu (2021) came out with a relatively similar finding, on his research.

3. Risks and challenges

The ability of tax incentives to stimulate economic growth, comes with some risks. The incentives must not be overused, as they could potentially cause market distortions or encourage investment in less productive business ventures. This is supported by the allocative efficiency theory and the static efficiency theory. Policymakers need to strike a balance between the immediate costs associated with tax incentives and their long-term benefits, such as the growth of SMEs and the broader economic development.

4.3.2.4 Policy considerations

- The study suggests carefully designed tax incentives, which can play a pivotal role promoting SME investment behaviour, in Harare.
- To maximise the benefits, tax incentives should be transparent, targeted and accompanied by measures which ensure a supportive climate for investment

4.3.2.5 Conclusions

Theme 2 underscores the importance of tax incentives, and the influence they hold over investment behaviour of SMEs in Harare. Tax incentives can contribute towards the competitiveness and growth of SMEs, significantly. The incentives must, however, be part of a well-structured tax policy which considers long term sustainability of SMEs.

4.3.3 Theme 3: Challenges in Tax compliance and operational efficiency

Research sub-question: What are the challenges faced by SMEs in achieving tax compliance and operational efficiency?

4.3.3.1 Overview

this theme aims to explore the specific challenges faced by SMEs in complying with tax regulations, and how the challenges affect SMEs' operational efficiency.

4.3.3.2 Key findings

- The tax filing process was found to be too complex and time-consuming for SMEs.
- The study found inadequate communication of tax policies as another challenge on SME performance, which leads to confusion and non-compliance, which may be unintentional.
- SMEs also incur administrative burdens. The resources required for compliance with tax policies, cause significant strains on the operational efficiency of SMEs, as it detracts them from their core businesses.

4.3.3.3 Detailed Analysis

1. Impacts of tax rates

The study found that high tax rates deter the profitability and expansion of SMEs due to the reduction in financial capacity. High taxes can push SMEs to engage in tax evasion, and such were also the findings of Mutasa (2022). Mashingaidze (2020) also came to a similar finding. The tax rates were found in this study to be too high for SMEs, and more respondents admitted to engaging in tax evasion, to avoid crippling their operational efficiency. Table 4,9 clarifies the distribution of the responses.

Table 4.9: Analysis of responses on tax evasion

	Yes	No
Participants	122	105
Percentages	53.74	46.26

Source: Primary Data (2024)

The table shows that an alarming 53.74% of respondents have engaged in tax evasion, due to the complexity of taxes and the and tax rates being charged on them. This shows evidence that the tax rates being implemented are not optimal, as suggested by the Optimal Efficiency Theory.

2. Communication and implementation of tax policies

Mashingaidze (2020) came to the conclusion that effective communication, education and implementation of tax policies is key to building trust in the tax system. The study by Mashingaidze (2020) found that SMEs reported difficulties in understanding the tax policies, which affected their compliance to the tax systems. Dube and Matsika (2021) also cited a lack of knowledge and awareness of regulations as one of the main challenges SMEs faced in trying to achieve tax compliance. This study came to a similar finding as 135 participants, representing 59.47% of the respondents, also cited communication of tax policies and implementation, as a major challenge in achieving tax compliance.

3. Administrative Burden

The administrative tax burden on SMEs was also attributable to the communication and implementation of tax policies, by the government. 126 participants, representing 55.51% of the respondents reported administration burden, and much 122 of them, representing 53.74% of all respondents, mentioned both the administrative burden of taxes and the weak communication of policies as their main challenges in achieving tax compliance. This could point that the weak communication is adding to the administrative burdens, owing to inefficiency in handling their tax matters, which could be caused by the lack of knowledge of the current tax policies.

4.3.3.4 Policy implications

This study suggests that the government should take the review of tax rates into consideration and possibly lowering tax rates to provide a more conducive SME operating environment.

Improvements in the communication of tax policies and implementation could lead to better compliance and enable SMEs to make informed decisions, which supports their growth.

The simplification of the tax filing process could reduce the administrative burdens of SMEs, which can lead to increased operational efficiency, which would be beneficial for the government too.

4.3.3.5 Conclusions

This theme paints a picture of how the government tax policies play a pivotal role in shaping the performance of SMEs located in Harare. Addressing these concerns would allow policymakers to create a more supportive and conducive tax environment that enables SMEs to thrive and contribute more significantly to the economy.

4.4 Summary

This presentation and interpretation of data from research instruments were discussed in this chapter. The research data was also presented using descriptive and frequency tables in this chapter.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the study's results, and the conclusions reached from the study.

5.1 Summarised major fundings

Government policies and performance of SMEs

- The government of Zimbabwe developed sound policies targeted to improve SME performance.
- the government, however, faced challenges in communicating and implementing the sound policies, thereby rendering their support as generally failed.
- Stakeholder involvement and strategic frameworks are encouraged

Tax compliance factors

- Optimal tax rates and low tax penalties can positively impact SMEs.
- Tax incentives play a crucial role in moulding tax compliance behaviour.

Factors affecting tax compliance decisions

- SMEs in Harare face unique business conditions, which leads to high tax burdens
- Perceptions of tax fairness, quality of service and the government's spending priorities impact tax compliance decisions

Online tax systems and compliance

- There's a positive relationship between computer literacy in online tax filing and the tax compliance of SMEs in Harare, Zimbabwe.
- The adoption of online systems, however, remains below average

5.2 Conclusions and recommendations

Tax policies and the performance of SMEs.

This study found that effective tax policies play an important role in shaping SME performance. However, the government of Zimbabwe faced challenges in communicating, implementing the policies to SMEs, which may have crippled the efficiency of the policies

Tax compliance factors

This research found that fair tax rates and low penalties positively influence SME tax compliance. This justification behind this, is the ability of entities to pay lower tax rates, thus avoiding tax avoidance and evasion.

This study also found that simplified tax procedures encourage good tax compliance behaviour. Reason behind this is the reduction in the administrative burden, meaning less effect on SMEs' operational efficiencies, thus making them more willing to comply.

Policy makers should consider these factors when designing tax systems and policies, because this will allow them to tailor the tax systems to the SMEs such that they become mutually beneficial.

Compliance Burden and the business conditions

This study also found that SMEs already face unique business conditions, such as limited resources and informality, such that incurring high compliance costs to the burden, could probably affect SMEs disproportionately. Addressing these challenges requires a simplified approach and targeted support.

Online tax systems

In the modern world, due to computer literacy and access to online tax systems impact compliance. The government of Zimbabwe can encourage the SMEs to adopt online filing, which can enhance tax compliance rates.

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APPENDIX: QUESTIONNAIRE

BINDURA UNIVERSITY OF SCIENCE EDUCATION FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

I am in my final year at Bindura University of Science Education doing Bachelor of Accountancy (Honors) Degree. I am seeking for a permission to conduct a survey for my research with a title, **The impacts of taxes on the performance of SMEs in Harare Zimbabwe**. Your contribution is greatly appreciated in order to make accurate conclusions and recommendations. The degree demands me to fulfil its requirements and the data contained in the questionnaire is for scholarly purpose and extreme level of confidentiality will be employed.

I would like to appreciate your valid contribution in advance.

Yours faithfully

B190576A

Cell number: 0786450983

QUESTIONNAIRE TO THE SME OWNERS

SECTION A: GENERAL INFORMATION

Dear Sir/Madam,

Your participation in this study would be very much appreciated. The information you provide will contribute towards developing a better understanding of the effects of taxes and tax policy on SME performance in Harare. I request that you answer the questions below with honesty and integrity, to your best ability.

Please put a tick in the appropriate box, as your most befitting answer, of all the options.

1. What is your gender?

☐

Male

☐

Female

2. What is your age range?

☐

18-25 years

☐

26-35 years

☐

36-45 years

☐

46-55 years

☐

55-65 years

☐

66+ years

3. What is your level of education?

☐

Ordinary Level

☐

Advanced Level

☐

Diploma

☐

Undergraduate Degree

☐

Master's Degree

☐

PhD

4. How long have you been running your business?

☐

5-10 years

☐

11-15 years

☐

16+ years

5. What is the business ownership structure?

☐

Sole trading

☐

Partnership

SECTION B: SPECIFIC QUESTIONS

This section is meant to collect data on the impacts of the government and tax policies on the performance of your business

a) Tax Policies and government impact

1. *Note: 1= Strongly negative; 2= Negative; 3= Neutral; 4= Positive; 5= Strongly positive)

Question	1	2	3	4	5
How would you rate the impacts of the current tax policies on the performance of your business?					

2. Tick in the box, on taxes have a significant impact on your business performance?

☐

Corporate Income Tax

☐

Intermediate Money Transfer Tax (IMTT)

☐

Presumptive Tax

☐

Value Added Tax (VAT)

☐

Withholding Tax

☐

Capital Gains Tax

☐

Customs Duty

☐

Excise Duty

3. From your understanding, how do taxes affect each of the following key performance indicators.

Please Note: (1= Great Negative impact; 2= Slight negative impact; 3= No effect; 4= Slight positive effect; 5= Great positive effect)

Key Performance Indicators	1	2	3	4	5
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Customer satisfaction					
Employee engagement					
Brand reputation					
Operational efficiency					
Innovation rate					
Quality of Products/ Services					
Market Share					
Social Responsibility					
Training and development					
Process improvement					

b) Tax Incentives and Investment Behaviour

1. Have tax incentives influenced your decisions to invest in business expansion or innovation? ☐ Yes ☐ No
2. If yes, please provide an example of such an investment.
.....

c) Tax system complexity and compliance

1. (1= Very simple; 2= Simple; 3= You can't rate it; 4= Complex; 5= Very Complex)

	1	2	3	4	5
How complex do you find the current tax system.					

2. Have you ever been deterred from complying with tax obligations, due to the complexity of the tax system? ☐ Yes ☐ No

d) Challenges in achieving Tax Compliance

1. What are the main challenges you face in achieving tax compliance?

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2. In your opinion, how have these challenges affected your operational efficiency?

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e) Government Fiscal Capacity and support of SMEs

1. 1= Very poor; 2= Poor; 3= You cannot rate it; 4= Good; 5= Excellent

	1	2	3	4	5
How would you rate the resources and support provided to Small and Medium Enterprises, by the Government of Zimbabwe?					

2. Can you state examples of how the government's fiscal capacity has affected the support available to your business?

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f) Effectiveness of Current Tax Policies

1. Do you believe that the current tax policies have been effective in supporting the sustainability and expansion of SMEs? ☐ ☐

2. Could you provide empirical examples to support your answer?

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g) Financial records

Would you allow me access to your financial records? They could help in providing valuable insights into the effects of tax policies on your operations.

☐ Yes

☐ No

THANK YOU VERY MUCH FOR YOUR PARTICIPATION!

QUESTIONNAIRE FOR TAX EXPERTS

SECTION A: GENERAL INFORMATION

Dear Sir/Madam,

Your participation in this study would be very much appreciated. The information you provide will contribute towards developing a better understanding of the effects of taxes and tax policy on the performance of Small to Medium Enterprises in Harare. I request that you answer the questions below with honesty and integrity, to your best ability.

Please put a tick in the appropriate box, as your most befitting answer, of the options.

1. What is your gender?

☐

Male

☐

Female

2. What is your age range?

☐

25-35 years

☐

36-45 years

☐

46-55 years

☐

56-65 years

☐

66+ years

3. What is your level of education?

☐

Undergraduate Degree

☐

Master's Degree

☐

PhD

4. Are you affiliated to any professional body?

☐

Yes

☐

No

5. How long have you been a tax accountant?

☐

5-10 years

☐

11-15 years

☐

16+ years

6. Have you worked in the taxation field, outside Zimbabwe, for four years or more?

☐ Yes

☐ No

if yes, please specify the number of years on the space.....

SECTION B: STRUCTURED QUESTIONS

a) Tax policy and government impacts

1. (1=Very bad; 2=Bad; 3= Satisfactory; 4=Good; 5=Very good)

	1	2	3	4	5
How would you describe the current tax environment for SMEs in Harare?					

2. What are the most significant challenges faced by SMEs in Harare, in your opinion?

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3. Can you give examples of how tax policies have impacted performance of SMEs?

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4. What government measures have been effective in supporting fiscal capacity?

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b) Tax incentives, and tax compliance and investment behaviour

1. Is tax evasion a significant issue amongst Harare based SMEs?

☐ Yes

☐ No

2. What tax incentives are available for SMEs in Harare, currently?

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3. How could the tax incentives influence the growth and investment behaviour of the SMEs in Harare?

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4. How does tax compliance affect the day-to-day operations of SMEs?

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c) Fiscal Capacity, Performance Variables and Demographics

1. (1= Very ineffective; 2= Ineffective; 3=Neutral; 4= Effective; 5=Very effective)

	1	2	3	4	5
How would you rate the effectiveness of tax incentives in improving SME fiscal capacity?					

2. Rate the influence of the following tax related factors on the performance of an SME, particularly considering the Harare business environment.

(1= Strongly negative; 2= Negative; 3= Neutral; 4= Positive; 5= Strongly positive)

	1	2	3	4	5
Tax rates					
Tax compliance costs					
Governmental support programs					
Access to tax advice					

3. Could you suggest any ways in which tax policy can improve the fiscal capacity of SMEs?

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THANK YOU FOR YOU PARTICIPATION!

QUESTIONNAIRE FOR POLICYMAKERS

SECTION A: GENERAL INFORMATION

Dear Sir/Madam,

Your participation in this study would be very much appreciated. The information you provide will contribute towards developing a better understanding of the effects of taxes and tax policy on SME performance in Harare. I request that you answer the questions below with honesty and integrity, to your best ability.

Please put a tick in the appropriate box, as your most befitting answer, of all the options.

1. What is your gender?

☐

Male

☐

Female

2. What is your age range?

☐

18-25 years

☐

26-35 years

☐

36-45 years

☐

46-55 years

☐

55-65 years

☐

66+ years

3. What is your level of education?

☐

Undergraduate Degree

☐

Master's Degree

☐

PhD

4. How long have you been involved in tax policymaking?

☐

5-10 years

☐

11-15 years

☐

16+ years

SECTION B: STRUCTURED QUESTIONS

a) Impacts of tax policy

1. Do you believe that the current tax policies provide enough support to SMEs?

☐ Yes

☐ No

2. (1= Strongly disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly agree)

On a scale of 1 to 5, how would you agree with the statement below:

	1	2	3	4	5
The tax rates applicable to SMEs are fair and they encourage development					

3. What changes to the current tax policies would you suggest, to improve SME support?

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.....

b) Tax incentives and compliance

1. Do you believe that the tax incentives currently offered to SMEs, are enough to promote compliance?

☐ Yes

☐ No

2. *(1= Very ineffective; 2= Ineffective; 3=Neutral; 4= Effective; 5=Very effective)

	1	2	3	4	5
How would you rate the effectiveness of tax incentives in improving tax compliance?					

3. Please evaluate the following statements about tax compliance and the challenges faced by SMEs

*(1= Strongly disagree; 2= Disagree;3= Neutral; 4= Agree;5= Strongly agree)

	1	2	3	4	5
SME tax compliance is hindered by the complexity of tax laws					
Lack of knowledge about the benefits of taxation leads to non-compliance					
SMEs in Harare have adequate access to tax advisory services					

c) Fiscal capacity and performance

1. How do you think the fiscal capacity of SMEs in Harare influences their contribution to the national economy?

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2. What initiatives are being considered by the government, to enhance the government's fiscal capacity, to improve its support towards SMEs?

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3. Should the government consider reducing tax rates to boost SME performance?

☐ Yes

☐ No