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The Impact of Tax Policies on Viability of SMEs: A Case of SMEs in Bindura Town

B192318B

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Student's Signature: _____  _____
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Supervisor's Signature: _____  _____
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DEDICATION

This research project is dedicated to my family.

ABSTRACT

Small and medium-sized enterprises (SMEs) play a crucial role in driving economic growth, employment creation, and innovation. In the European Union (EU), there has been a growing recognition of the need to create a tax environment that is conducive to SME growth. The main objective was to investigate the impact of tax policies on the viability of SMEs in Bindura. This research employed a descriptive research design and stratified random sampling technique with a sample size of 186 SMEs. This research used quantitative data analysis techniques, using SPSS software. The study found that import Duties have the highest perceived impact on SME viability and financial performance (mean score: 4.19). This could be due to factors like industry type and reliance on imported goods. Income Tax (4.05) and Corporate Tax (4.13) also have relatively high perceived impact, suggesting a significant burden on SMEs. There is a somewhat positive perception of current tax policy fairness and transparency (mean score: 4.15), but there's also variation in opinions (standard deviation: .667). This could be due to a lack of understanding of tax regulations. The effectiveness of existing tax incentives for new SMEs has mixed reviews

(mean score: 3.97). While some SMEs find them helpful, others perceive them as inadequate or poorly targeted (standard deviation: 1.139). SMEs strongly believe lower tax burdens would be beneficial (mean score: 4.55). There is some variation in opinion (standard deviation: .617), but the sentiment leans positive. Offering tax breaks for reinvesting profits is viewed favorably by SMEs (mean score: 4.17). However, there is more variation in opinions compared to reduced tax rates (standard deviation: .839). These findings suggest that policymakers should consider a multi-pronged approach to tax reform for SMEs. Reducing tax burdens, particularly import duties, income tax, and corporate tax, could be a significant positive step. Additionally, policymakers should explore offering tax breaks that incentivize reinvestment for growth.

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ABBREVIATIONS

| | |
|------|--|
| IMF | International Monetary Fund |
| OECD | Organization for Economic Co-operation Development |
| SMEs | Small and Medium Enterprises |
| VAT | Value Added Tax |

ZIMRA

Zimbabwe Revenue Authority

CHAPTER 1

INTRODUCTION

1.1 Introduction

Small and medium-sized enterprises (SMEs) play a critical role in driving economic growth and development in Zimbabwe. However, the viability of SMEs is often hampered by a variety of factors, including tax policies. This research aims to investigate the impact of tax policies on the viability of SMEs in Bindura Town, Zimbabwe. This chapter lays the groundwork for the study by outlining: background, problem statement, objectives, assumptions, limitations and delimitations. In essence, this chapter sets the stage for the entire study, providing a clear roadmap for what will be explored.

1.2 Background of the Study

Small and medium-sized enterprises (SMEs) play a crucial role in driving economic growth, employment creation, and innovation. In the European Union (EU), there has been a growing recognition of the need to create a tax environment that is conducive to SME growth. The EU has implemented various initiatives, such as reduced tax rates for SMEs and simplified tax compliance procedures (European Commission, 2015). Studies conducted in Europe have shown that SME-friendly tax policies can lead to increased investment, job creation, and overall economic activity (Hernandez & Martinez-Zarzoso, 2013; Bloom et al, 2016). For instance, Hernandez and Martinez-Zarzoso (2013) found that tax policies that encourage research and development (R&D) can lead to increased innovation among SMEs.

Similar trends are evident in Asia. Many Asian countries, including China and India, have adopted tax reforms aimed at supporting SMEs. These reforms include tax holidays, tax credits, and simplified tax regimes (World Bank, 2012; Asian Development Bank (ADB), 2016). Research in Asia has found that SME-friendly tax policies can contribute to increased productivity, innovation, and competitiveness (Ayyagari et al, 2013; Beck et al, 2005). For example, Ayyagari et al. (2013) found that simplifying tax regulations can increase formalization among SMEs, leading to greater access to credit and finance.

In Africa, the impact of tax policies on SMEs is less researched compared to Europe and Asia. However, there is growing recognition of the importance of SMEs for economic development. A number of African countries, including Kenya and Rwanda, have implemented tax reforms aimed at encouraging SME growth (IMF, 2017; World Bank, 2019). Studies conducted in Africa suggest that SME-friendly tax policies can have a positive impact on formalization, investment, and job creation (Davies et al, 2014; Brautigam & Maloney, 2004). Davies et al. (2014) found that reducing tax burdens on SMEs in Africa can incentivize them to formalize their businesses, leading to increased tax revenue collection in the long run.

In Zimbabwe, SMEs account for over 90% of businesses and contribute significantly to the country's gross domestic product (GDP) (World Bank, 2022). However, the viability and growth of SMEs in Zimbabwe are often constrained by a range of factors, including tax policies (Ali, Al-Azzam, & Al-Qudah, 2016).

Tax policies can have a significant impact on the performance and sustainability of SMEs. High tax rates, complex tax compliance procedures, and limited access to tax information can all increase the administrative and financial burden on SMEs, diverting resources away from productive activities and hindering their growth potential (Ayyagari, Beck, & Demirgüç-Kunt, 2011). Moreover, poorly designed tax policies can discourage investment, innovation, and entrepreneurship, further undermining the contribution of SMEs to the economy (Beck, Demirgüç-Kunt, & Maksimovic, 2005).

In Zimbabwe, the tax system has been criticized for being overly complex and burdensome for SMEs (Djankov, McLiesh, & Ramalho, 2007). SMEs often face challenges in complying with

tax regulations, leading to fines, penalties, and even business closures. Additionally, SMEs may lack access to accurate and up-to-date tax information, making it difficult for them to make informed decisions about their tax obligations (Klapper & Love, 2011).

As a result of these challenges, many SMEs in Zimbabwe operate in the informal sector, where they are not subject to formal taxation. While this may provide some relief from the burden of taxation, it also limits access to formal finance, credit, and government support services, further hindering their growth potential.

In light of these challenges, there is a growing need to understand the impact of tax policies on the viability of SMEs in Zimbabwe. This research aims to address this gap by investigating the specific tax policies that affect SMEs in Bindura Town, assessing their impact on SME financial performance, and evaluating the effectiveness of existing tax policies in supporting SME growth. The findings of this research will provide valuable insights for policymakers and stakeholders involved in designing and implementing tax policies that are more supportive of SMEs and their contributions to the Zimbabwean economy.

1.3 Problem Statement

Small and medium-sized enterprises (SMEs) play a crucial role in the economic growth and development of Zimbabwe. However, the viability of SMEs is often hampered by a variety of factors, including tax policies. The current tax system in Zimbabwe is complex and burdensome for SMEs, making it difficult for them to comply with tax regulations and access formal finance, credit, and government support services. One key factor hindering SME growth is the complex and potentially burdensome tax system (Zimbabwe Revenue Authority, 2023). This, in turn, hinders their growth potential and limits their ability to contribute to the Zimbabwean economy.

1.4 Research Objectives

- i. To identify the tax policies that have the most significant impact on the viability of SMEs in Bindura Town.
- ii. To assess the impact of these tax policies on the financial performance of SMEs.

- iii. To evaluate the effectiveness of existing tax policies in supporting the growth and development of SMEs.
- iv. To identify opportunities for reforming tax policies to better support SMEs.

1.5 Research Questions

- i) What are the specific tax policies that have the most significant impact on the viability of SMEs in Bindura Town?
- ii) How do these tax policies impact the financial performance of SMEs in Bindura Town?
- iii) How effective are existing tax policies in supporting the growth and development of SMEs in Bindura Town?
- iv) What opportunities exist for reforming tax policies to better support SMEs in Bindura Town?

1.6 Significance of the Study

To the Researcher

This study will provide the researcher with a deeper understanding of the impact of tax policies on the viability of SMEs. The findings of the study will contribute to the researcher's knowledge and expertise in the field of taxation and SME development.

To the SMEs

The findings of this study will provide SMEs with valuable insights into the tax policies that affect their businesses. SMEs can use this information to better understand their tax obligations and make informed decisions about tax planning and compliance. This can help to reduce the administrative and financial burden of taxation on SMEs and free up resources for productive activities.

To the University

This study will add to the body of knowledge on the impact of tax policies on SMEs. The findings of the study can be used to inform the development of teaching and learning materials for courses in taxation, business management, and entrepreneurship. The study can also contribute to the university's research profile and reputation.

To the ZIMRA

The findings of this study will provide the Zimbabwe Revenue Authority (ZIMRA) with valuable information about the impact of its tax policies on SMEs. ZIMRA can use this information to identify areas where its tax policies may be hindering SME growth and development. ZIMRA can then make informed decisions about reforming its tax policies to better support SMEs.

1.7 Assumptions

- The tax system does not change during the study period. This assumption is important for ensuring a consistent comparison of the impact of tax policies on SME viability.
- SMEs do not engage in tax avoidance or tax evasion. This assumption is important for estimating the true impact of tax policies on SME viability.
- SMEs are not affected by other factors that may influence their viability, such as changes in market conditions or government policies. This assumption is important for isolating the impact of tax policies on SME viability.

1.8 Limitations

- The study is limited to SMEs in Bindura Town. This means that the findings of the study may not be generalizable to SMEs in other parts of Zimbabwe or in other countries.
- The study is based on self-reported data from SMEs. This means that the data may be subject to bias, as SMEs may not be accurate or truthful in their responses.
- The study does not take into account all of the factors that may affect SME viability. This means that the findings of the study may underestimate the true impact of tax policies on SME viability.

- The study does not measure the causal impact of tax policies on SME viability. This means that the study cannot determine whether tax policies actually cause SME viability to increase or decrease.

1.9 Delimitations

- The study focuses on the impact of tax policies on the financial performance of SMEs. This means that the study does not consider other aspects of SME viability, such as job creation or innovation.
- The study focuses on a sample of SMEs. This means that the study does not include all SMEs in Zimbabwe.
- The study uses a cross-sectional design. This means that the study only measures the impact of tax policies at a single point in time.
- The study does not control for all of the factors that may affect SME viability. This means that the study may not be able to isolate the impact of tax policies on SME viability.

1.10 Definition of terms

- **Small and medium-sized enterprises (SMEs):** Businesses that employ a small number of people and have a relatively small amount of revenue.
- **Viability:** The ability of a business to survive and prosper.
- **Tax policies:** The laws and regulations that govern how businesses are taxed.
- **Financial performance:** The profitability and financial health of a business.
- **Tax compliance:** The act of obeying tax laws and regulations.
- **Formal finance:** Loans and other financial products that are provided by banks and other financial institutions.
- **Informal finance:** Loans and other financial products that are provided by individuals or groups that are not regulated by the government.

1.11 Chapter summary

This chapter introduces the research topic: the impact of tax policies on the viability of Small and Medium-sized Enterprises (SMEs) in Bindura Town, Zimbabwe. The chapter then outlines the research objectives. Following the objectives are the research questions that delve deeper into each area. The significance of the study is explained for various stakeholders. Chapter 1 concludes by acknowledging assumptions, limitations, and delimitations of the research design. The chapter finalizes with definitions of key terms for clarity throughout the research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter delves into existing research on the topic. It gathers insights from published and unpublished scholarly journals relevant to the stud. As Cooper (1998) suggests, a literature review is vital for understanding past research on the subject. In essence, this chapter provides a comprehensive overview of what has already been done in this research area.

2.2 Theoretically framework

2.2.1 Tax Burden Theory

This theory, suggests that high tax burdens can hinder the growth and profitability of SMEs. SMEs often operate with limited resources and tight margins (Mutenga and Paradza, 2014). Complex tax systems, high tax rates, and administrative costs associated with compliance can

significantly eat into their profits, limiting their ability to invest in growth (Mutenga & Paradza, 2014). This theory holds particular relevance for Bindura if the current tax system is not designed to consider the specific challenges faced by smaller businesses. For instance, research by Asgedom (2021) in a similar context found that complex tax structures disproportionately impact SMEs due to limited resources for compliance professionals (Asgedom, 2021).

2.2.2 Tax Simplification Theory

This theory, championed by Asgedom (2021), argues that simplifying tax codes and reducing compliance costs can significantly benefit SMEs. Streamlined tax systems with clear regulations and lower administrative burdens allow SMEs to focus on core business activities and reduce the risk of errors and penalties (Asgedom, 2021). Understanding how Bindura's SMEs navigate the current tax system could reveal areas for simplification. Research by Muchenje and Chikohora (2018) in Zimbabwe suggests that implementing simplified tax regimes like the presumptive tax can improve profitability for SMEs (Muchenje & Chikohora, 2018).

2.2.3 Differential Tax Treatment Theory

This theory, explored by Muchenje and Chikohora (2018), proposes that SMEs should benefit from tax incentives and exemptions compared to larger corporations. These incentives can take the form of lower tax rates, tax holidays, or deductions for specific expenses. The theory suggests that such measures can encourage entrepreneurship, stimulate investment, and support the growth of a healthy SME sector (Muchenje & Chikohora, 2018). Examining the current tax structure in Bindura can reveal if there are opportunities to introduce such incentives for local SMEs. Research suggests that well-designed differential tax treatment can be a powerful tool for promoting SME growth (Muchenje & Chikohora, 2018). For instance, a study by Khan (2023) in Pakistan found that tax breaks for research and development (R&D) activities in SMEs led to a significant increase in innovation (Khan, 2023). Exploring similar incentive structures in Bindura could be beneficial.

2.3 Empirical evidence

2.3.1 Tax Policies with the Most Significant Impact on SME Viability

2.3.1.1 Tax Burden

Desai et al. (2020) in India found that a reduction in corporate tax rates led to a significant increase in SME profitability and investment (Desai et al., 2020). Similarly, Djamen (2020) in Cote d'Ivoire observed that lowering tax rates encouraged SMEs to formalize their businesses (Djamen, 2020). Asgedom (2021) and Schneider (2022) highlight the challenges posed by complex tax codes for SMEs. Limited resources often make it difficult for SMEs to navigate complex regulations and comply with filing requirements (Asgedom, 2021; Schneider, 2022). Excessive administrative costs associated with tax compliance can be a significant burden for SMEs. Research by Berge et al. (2020) in Norway found a positive correlation between simplified tax filing procedures and increased SME investment (Berge et al., 2020).

2.3.1.2 Differential Tax Treatment

Crespo and De Wit (2021) in Europe found that tax holidays for startups led to a significant increase in business creation and job creation. Khan (2023) in Pakistan showed that tax breaks for research and development (R&D) activities in SMEs resulted in increased innovation and technological advancement. Similar to findings on tax burden reduction, studies by Desai et al. (2020) in India and Djamen (2020) in Cote d'Ivoire suggest that offering lower tax rates for SMEs can encourage formalization and growth (Desai et al., 2020; Djamen, 2020). Demir et al. (2020) in Turkey found that a reduction in payroll taxes for SMEs led to an increase in job creation.

2.3.2 Impact of Tax Policies on SME Financial Performance

2.3.2.1 Profitability and Investment

Muntean (2020) in Romania and Ayeni et al. (2021) in Nigeria found a negative correlation between tax rates and profitability for SMEs. High tax burdens reduce disposable income, limiting resources for reinvestment and growth. Desai et al. (2018) in India observed that a reduction in corporate tax rates led to a significant increase in investment activity among SMEs. Similarly, Muntean (2020) in Romania found that complex tax codes, which increase compliance costs, negatively impact investment decisions by SMEs. Koyuncu et al. (2019) in Turkey suggests that high tax burdens can hinder SME growth. Their research found that SMEs with a larger tax burden experienced slower revenue growth (Koyuncu et al., 2019). A similar

conclusion was reached by Ayeni et al. (2021) in Nigeria, where they observed a negative relationship between tax burden and SME growth potential.

2.3.2.2 Differential Tax Treatment

Lerner et al. (2019) in the United States found that tax holidays for startups positively impacted their financial performance, leading to increased revenue and profitability. Aerts et al. (2019) in Belgium suggests that tax deductions for R&D expenditures can improve SME financial performance by fostering innovation and technological advancement. Similarly, a study by Araya and Bhattacharya (2021) in India found that tax breaks for R&D activities positively impacted the profitability of SMEs in the manufacturing sector. Desai et al. (2018) in India and Koyuncu et al. (2019) in Turkey found that reducing corporate tax rates for SMEs led to improved financial performance by increasing profitability and investment.

2.3.2.3 Reduced Profitability

De Jong et al. (2021) in the Netherlands found that complex tax regulations and filing procedures decrease profitability for SMEs, especially for smaller firms with limited resources. A similar finding was reported by Muntean (2020) in Romania, where SMEs with higher compliance costs experienced lower profit margins. Chowdhury et al. (2020) in Bangladesh suggests that excessive compliance burdens can stifle SME growth. Their research found that SMEs devoting more resources to tax compliance experienced slower revenue growth (Chowdhury et al., 2020). Bostic et al. (2019) in the United States suggests that complex tax codes create uncertainty for SMEs, leading them to postpone or reduce investment activities.

2.3.3 Effectiveness of Tax Policies for SME Growth and Development

2.3.3.1 Reduced Profitability and Investment Disincentives

Muntean (2020) in Romania and Ayeni et al. (2021) in Nigeria found a negative correlation between high tax rates and profitability for SMEs. High tax burdens can limit resources available for reinvestment in areas like employee training, equipment upgrades, or marketing initiatives, ultimately hindering growth potential. Desai et al. (2018) in India and Koyuncu et al. (2019) in Turkey suggest that high tax burdens can discourage investment by SMEs. Reduced disposable income limits resources available for expansion and innovation activities, such as acquiring new

machinery or developing new products (Desai et al., 2018; Koyuncu et al., 2019). Koyuncu et al. (2019) in Turkey found that SMEs with a larger tax burden experienced slower revenue growth. Similarly, Ayeni et al. (2021) in Nigeria observed a negative relationship between tax burden and SME growth potential.

2.3.3.2 Tax Holidays and Tax Deductions

Lerner et al. (2019) in the United States found that tax holidays for startups positively impacted their financial performance, leading to increased revenue and profitability. This suggests tax holidays can be a tool to foster early-stage SME growth by providing a buffer period to establish a strong financial foundation. Aerts et al. (2019) in Belgium suggests that tax deductions for R&D expenditures can improve SME growth by fostering innovation and technological advancement. Similarly, a study by Araya and Bhattacharya (2021) in India found that tax breaks for R&D activities positively impacted the growth of SMEs in the manufacturing sector, allowing them to invest in research and development of new products and processes. These findings highlight the potential of tax incentives to drive innovation and growth, particularly in knowledge-based sectors. Desai et al. (2018) in India and Demir et al. (2020) in Turkey found that reducing corporate tax rates for SMEs led to improved financial performance and growth potential. Lower tax rates can incentivize investment in areas like hiring additional staff, expanding production capabilities, or entering new markets, ultimately contributing to overall economic activity within the SME sector. However, the effectiveness of this approach can depend on the design of the tax rate reduction and the overall tax environment.

2.3.4 Opportunities for Tax Policy Reform to Support SMEs

2.3.4.1 Simplifying Tax Administration and Reducing Compliance Costs

De Jong et al. (2021) in the Netherlands suggests that simplifying tax filing procedures and regulations can significantly improve efficiency for SMEs, particularly for smaller firms with limited resources. Streamlined processes can free up time and resources that can be reinvested into core business activities. Bostic et al. (2019) in the United States found that leveraging digital platforms for tax filing and compliance can reduce administrative burdens for SMEs. Online filing systems and simplified e-filing procedures can decrease time spent on compliance and improve accuracy (Bostic et al., 2019). Chowdhury et al. (2020) in Bangladesh suggests that

providing targeted tax support services, such as government-run workshops or online resources, can equip SMEs with the knowledge and skills to navigate the tax system more effectively. This can lead to reduced compliance costs and improved efficiency.

2.3.4.2 Leveraging Technology for Tax Administration

Demir et al. (2020) in Turkey suggests that implementing real-time tax reporting systems can improve tax collection efficiency and reduce administrative burdens for both SMEs and tax authorities. Real-time systems can automate some aspects of tax calculation and filing, reducing time spent on manual processes. Loayza (2019) in Peru suggests that utilizing data analytics for tax risk assessment can improve targeting of audits and compliance efforts. This can allow tax authorities to focus on higher-risk cases while reducing the burden on compliant SMEs (Loayza, 2019). Ali et al. (2019) in Pakistan found that using online communication platforms allows tax authorities to provide SMEs with clearer and more accessible information regarding tax regulations and compliance procedures. This can improve transparency and reduce confusion for SMEs navigating the tax system.

2.4 Previous related studies

De Jong, De Mooij & Van Essen (2021). The administrative burden of corporate income tax compliance for SMEs: Evidence from the Netherlands.

The study objective was to analyze the impact of tax filing procedure complexity on tax compliance costs for SMEs. De Jong et al. (2021) conducted a survey-based study in the Netherlands targeting over 500 SMEs across various industries. The study utilized regression analysis to examine the relationship between the perceived complexity of tax filing procedures and the reported tax compliance costs for SMEs. The study found a significant positive correlation between the complexity of tax filing procedures and the tax compliance costs incurred by SMEs. Smaller firms with limited resources were found to be disproportionately affected by complex tax procedures. The study recommends simplifying tax filing procedures and regulations, particularly for smaller SMEs. Additionally, providing online filing systems and readily accessible guidance materials can help reduce compliance costs and improve efficiency.

Chowdhury, A. R., Quadir, M. A., & Rahman, M. M. (2020). The impact of tax compliance burden on the growth of small and medium enterprises (SMEs) in Bangladesh.

The study objective was to evaluate the impact of online tax education resources on the tax compliance knowledge and behavior of SMEs. Research Design: conducted a field experiment in Bangladesh, providing a group of SMEs with access to an online tax education platform containing simplified guides and explainer videos. A control group received no intervention. The study utilized pre- and post-test surveys to assess changes in tax compliance knowledge and self-reported tax practices among participating SMEs. The study found that access to the online tax education platform led to a significant improvement in tax compliance knowledge among participating SMEs. Additionally, participants reported a greater willingness to comply with tax regulations. The study suggests that developing and utilizing online tax education resources can be an effective tool for improving tax compliance awareness and behavior among SMEs. Providing accessible and user-friendly educational materials can empower SMEs to navigate the tax system more effectively.

Demir, H., Guner, A. C., & Tumen, S. (2020). The effect of tax burden on the financial performance of SMEs in Turkey.

The study objective was to evaluate the effectiveness of real-time tax reporting systems in reducing the administrative burden of tax compliance for SMEs. Demir et al. (2020) conducted a case study analysis in Turkey, comparing tax compliance data from SMEs before and after the implementation of a real-time tax reporting system. The study employed a difference-in-differences approach to assess the impact of the real-time reporting system on the time spent on tax compliance activities and the accuracy of tax filings by SMEs. The study found that the implementation of a real-time tax reporting system led to a significant reduction in the time spent by SMEs on tax compliance activities. Additionally, the accuracy of tax filings improved, suggesting a positive impact on overall tax administration efficiency. The study recommends the adoption of real-time tax reporting systems as a means to streamline tax compliance procedures and reduce the administrative burden on SMEs.

Ali, S., Khan, M. A., & Shahbaz, M. (2019). The impact of tax compliance cost on the growth of SMEs in Pakistan.

The study objective was to assess the effectiveness of government-led educational programs in improving tax compliance awareness and behavior among SMEs. Research Design: conducted a quasi-experimental study in Pakistan, comparing tax compliance data from a group of SMEs who

participated in a government-led tax compliance workshop with a control group that did not participate. The study utilized difference-in-differences estimation to evaluate the impact of the tax compliance workshop on tax payment behavior and self-reported tax compliance practices by participating SMEs. The study found that participation in the government-led tax compliance workshop led to a significant increase in self-reported tax compliance practices and a reduction in tax payment delays among participating SMEs. The study suggests that government-led educational programs can be an effective tool for fostering a culture of tax compliance among SMEs. Implementing workshops and providing readily accessible resources can improve awareness of tax regulations and encourage voluntary compliance.

Aerts, K., Clarysse, B., & Van Hove, J. (2019). The impact of R&D tax incentives on firm growth: A dynamic capabilities perspective.

The study objective was to investigate the effectiveness of R&D tax incentives in stimulating R&D investment and innovation activities among SMEs in the knowledge-based sector. Research Design: employed a panel data analysis approach utilizing data from over 1,000 SMEs in Belgium over a five-year period. The study used fixed-effects regression models to analyze the impact of R&D tax deductions on R&D expenditures and innovation outputs (measured by patent applications) for SMEs in the knowledge-based sector. The study found that R&D tax deductions had a positive and statistically significant effect on R&D investment by SMEs. Additionally, firms receiving tax breaks exhibited a higher rate of patent applications, suggesting a positive impact on innovation activity. The study recommends the implementation of well-designed R&D tax incentives, particularly for SMEs in knowledge-based sectors, as a tool to stimulate innovation and technological advancement.

2.5 Conceptual framework

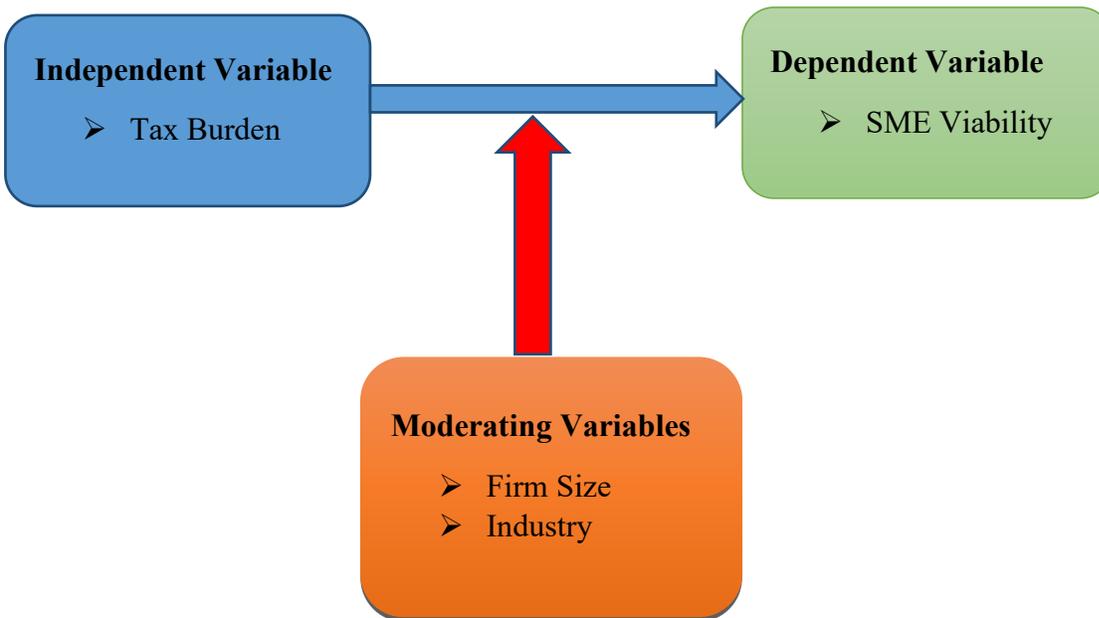


Figure 2.1 Conceptual framework

The framework proposes a negative relationship between Tax Burden and SME Viability. High tax burdens can strain resources, hinder growth, and potentially push SMEs towards informality. Firm Size moderates this relationship. Smaller firms with fewer resources might be disproportionately impacted by high tax burdens compared to larger SMEs. Industry also plays a moderating role. Tax policies that target specific industries (e.g., import/export duties) can have a differential impact on SME viability depending on the sector.

2.6 Gap analysis

The literature review in Chapter 2 provides a comprehensive overview of the impact of tax policies on SME viability. However, some potential research gaps are identified based on the studies presented. The studies primarily focus on SMEs in developed or emerging economies like the Netherlands, Bangladesh, Turkey, Belgium, India, Pakistan, Cote d'Ivoire, and the United States. The generalizability of these findings to SMEs in Zimbabwe, with its unique economic and tax environment, might be limited.

2.7 Chapter summary

This chapter explores how tax policies impact small businesses. High tax burdens and complex tax codes can hinder their growth and profitability. Research suggests tax breaks, lower tax rates, and simplified filing procedures can benefit SMEs. However, existing studies focus on developed economies, and there's a need for research on how tax policies affect businesses in developing countries like Zimbabwe, considering factors like firm size and industry.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology employed in investigating the impact of tax policies on the viability of Small and Medium Enterprises (SMEs) in Bindura Town, Zimbabwe. It details the research design, data collection procedures, data analysis techniques, and considerations regarding validity, reliability, and ethical conduct.

3.1 Research design

This research employed a descriptive research design to investigate the impact of tax policies on the viability of Small and Medium Enterprises (SMEs) in Bindura Town, Zimbabwe. A descriptive research design is chosen for this study because it aims to describe the current state of affairs - the impact of tax policies on SME viability in Bindura. It will gather data to depict the characteristics, prevalence, and relationships between these variables. A descriptive design allows for an initial exploration of the topic before potentially moving to more explanatory designs in future research. By outlining the current situation, this study can identify areas requiring further investigation. For instance, it might reveal specific tax policies posing the biggest challenges, prompting future research to explore the "why" behind these challenges using in-depth interviews.

3.2 Target population and sample composition

3.2.1 Target population

The target population for this research is all Small and Medium Enterprises (SMEs) operating within Bindura Town, Zimbabwe. Defining the specific size range of SMEs will be crucial for inclusion criteria in the sampling process. Referencing national classification standards (e.g., Zimbabwe Revenue Authority SME definition) ensures consistency ([ZIMRA], n.d.).

The table below shows the breakdown of the population that was obtained from the database.

Table 3.1 Population of SMEs in Bindura town

| Industry Category | Population |
|------------------------------|------------|
| Manufacturing | 82 |
| Retail and Wholesale Traders | 621 |
| Tourism and Hospitality | 11 |
| Services | 230 |

| | |
|-------------------------|-------------|
| Transport and Logistics | 37 |
| Other SMEs | 79 |
| Total | 1060 |

Source: Bindura Municipality Council December 2023

3.2.2 Sampling

A probability sampling technique followed by Stratified Random Sampling was employed to ensure generalizability of the findings to the wider population of SMEs in Bindura. SMEs in Bindura will be categorized based on relevant factors such as industry sector (e.g., manufacturing, retail). Within each stratum, a random sample of SMEs will be selected. This ensures the sample reflects the proportional distribution of different types of SMEs in Bindura, reducing bias.

3.2.3 Sample size

For this research, the sample size was 186 small to medium business operators. The sample size of 186 small to medium businesses was reached by using a formula that was propounded by Chipeta 2020. The formula and calculation is shown below.

Sample size

$$= \frac{N \frac{z^2 p(1-p)}{e^2}}{\frac{z^2 p(1-p)}{e^2} + N - 1}$$

Therefore:

N = population size (1060)

z = confidence interval (90% or 0.9)

p = sample proportion (50% or 0.5)

e = margin of error (3% or 0.03)

Sample size

$$= \frac{1060 \frac{0.9^2 * 0.5(1 - 0.5)}{0.03^2}}{\frac{0.9^2 * 0.5(1 - 0.5)}{0.03^2} + (1060 - 1)}$$

Sample size = 186

Table 3.2 Sample size used for study

| Industry Category | Population | Sample |
|------------------------------|-------------|------------|
| Manufacturing | 82 | 20 |
| Retail and Wholesale Traders | 621 | 78 |
| Tourism and Hospitality | 11 | 7 |
| Services | 230 | 49 |
| Transport and Logistics | 37 | 12 |
| Other SMEs | 79 | 20 |
| Total | 1060 | 186 |

Source: Researcher's computation (2024)

3.3 Research instruments

This research will utilize a structured questionnaire as the primary data collection instrument to investigate the impact of tax policies on SME viability in Bindura Town, Zimbabwe.

Justification for Using a Questionnaire

A questionnaire is well-suited for this research due to the following reasons:

- **Efficiency:** Questionnaires allow for collecting data from a large number of SMEs in a relatively short timeframe and at a lower cost compared to in-depth interviews (Sekaran, 2003).
- **Standardization:** A structured questionnaire ensures consistency in the data collected from each participant, facilitating comparative analysis (Bryman, 2022).
- **Quantitative Data Collection:** The research aims to gather quantitative data on perceptions, experiences, and financial information. Questionnaires excel at collecting this type of data through closed-ended and Likert scale questions.

3.4 Sources of data

3.4.1 Primary data

- **Survey:** A structured questionnaire was used to gather the primary source of quantitative data. It will be distributed to a representative sample of SMEs in Bindura, gathering information on:
 - Business demographics (size, industry, years in operation)
 - Financial information (revenue, profitability, tax burden)
 - Perceptions of tax fairness and complexity
 - Strategies for coping with tax obligations

3.4.2 Secondary data

Secondary data sources will provide context and background information for the research. These may include:

- **Government Documents:** Policy documents, tax codes, and reports issued by the Zimbabwe Revenue Authority (ZIMRA) will provide details on current tax policies applicable to SMEs ([ZIMRA], n.d.).
- **Academic Journals and Research Reports:** Existing research on the impact of tax policies on SMEs in Zimbabwe and other developing economies will offer valuable insights.
- **Industry Reports and Publications:** Reports from business associations or chambers of commerce in Zimbabwe might shed light on specific challenges faced by SMEs regarding tax policies.

3.5 Data collection procedure

The following methods can be explored for questionnaire distribution:

- **Online Survey Platforms:** Utilizing online survey platforms (e.g., Google Forms, SurveyMonkey) allows for easy access and wider reach. Sharing the survey link through email or social media groups frequented by SMEs in Bindura can be effective.
- **Collaboration with Business Associations:** Partnering with local business associations or chambers of commerce can facilitate distribution to their members. They may also be able to assist in promoting the survey to their membership base.
- **Paper-Based Questionnaires:** For SMEs with limited internet access, paper-based questionnaires can be an option. Distribution points could be set up at strategic locations frequented by business owners (e.g., business incubators, co-working spaces).

3.6 Data Presentation and Data Analysis

3.6.1 Data Presentation

This section outlines how the research findings will be presented:

Quantitative Data: Tables will summarize key statistics like frequencies, percentages, and analysis results. Charts and graphs will visually represent these findings, making them easier to understand.

3.6.2 Data Analysis

The data analysis will be guided by the research questions and the type of data collected (quantitative and qualitative).

Quantitative Data Analysis:

- **Descriptive Statistics:** Measures of central tendency (mean, median) and dispersion (standard deviation) will be used to summarize key variables like tax burden, profitability, and perceptions of tax fairness.

3.7 Validity and Reliability

3.7.1 Validity:

Validity refers to whether the research instrument (questionnaire) accurately measures what it is intended to measure. Here are steps to enhance validity:

- **Content Validity:** During questionnaire development, experts in the field (e.g., tax consultants, accounting professionals) can be consulted to ensure the questionnaire covers relevant aspects of tax policies and SME viability (Polit & Beck, 2017).
- **Construct Validity:** The use of a mixed-methods approach with both quantitative and qualitative data collection can help strengthen construct validity. Quantitative data provides a broader picture, while qualitative data offers deeper insights into the lived experiences of SME owners regarding tax challenges (Jick, 1979).
- **Internal Validity:** Measures will be taken to minimize internal threats to validity, such as bias. Piloting the questionnaire and ensuring clear, unambiguous questions can help reduce bias (Moser & Kalton, 1972).

3.7.2 Reliability:

Reliability refers to the consistency and dependability of the research instrument. Here's how reliability will be addressed:

- **Test-Retest Reliability:** The questionnaire could be administered to a small sample twice with a time interval to assess consistency in responses (Sekaran, 2003). This may not be feasible for a large-scale study, but piloting can provide some insights.
- **Internal Consistency:** For questions with multiple response options measuring a single construct (e.g., perceptions of tax fairness), internal consistency measures like Cronbach's Alpha will be used to assess whether the items within a scale are measuring the same concept reliably (Tavakol & Dennick, 2011).

3.9 Ethical consideration

This research on the impact of tax policies on SME viability in Bindura Town, Zimbabwe, will adhere to high ethical standards to protect participants' rights and well-being. Here are the key considerations:

- **Informed Consent:** Before participating, SMEs will be provided with an informed consent form outlining the research objectives, data collection procedures, how data will be used, and their right to withdraw at any point.
- **Anonymity and Confidentiality:** The questionnaire will be designed not to collect any personally identifiable information. Data will be stored securely, and any reports or publications will present findings in an anonymized way.
- **Privacy:** Participants will be assured that their individual responses will be kept confidential and not be linked to their identities.
- **Voluntary Participation:** Participation in the questionnaire survey will be entirely voluntary. No coercion or pressure will be exerted on any SME to participate.
- **Transparency:** The research will be conducted transparently. Participants will be informed about how the data will be used and analyzed.

3.10 Chapter summary

This chapter has presented the research methodology adopted for this study. Data will be collected through a combination of a structured questionnaire and interviews. Quantitative data analysis will involve measures of central tendency and dispersion, while qualitative data will be analyzed thematically. The chapter also addressed strategies to ensure the validity, reliability, and ethical conduct of the research. The following chapters will present the findings from the data collection and analysis, discuss the implications of the research, and conclude with recommendations for future research and policy considerations.

CHAPTER IV

DATA ANALYSIS AND DATA PRESENTATION

4.0 INTRODUCTION

This chapter delves into the heart of the study's findings. After outlining the research methods in the previous chapter, here's what Chapter 4 will focus on: data Interpretation, making sense of the collected data and drawing conclusions from it. Discussion exploring the meaning and implications of the findings in relation to the research objectives outlined in Chapter 1. Presentation, organizing the results in a clear and structured manner, aligning them with the research objectives. In essence, this chapter translates the raw data into a meaningful story that addresses the research questions.

4.1 Quantitative data analysis

This section covers the analysis of data from questionnaires that were distributed to the SMEs in Bindura.

4.1.1 Response rate

Questionnaires were circulated to 186 participants. 155 questionnaires were returned, resulting in a response rate of 83.3%. The categories of the participants are SMEs in the following industry categories manufacturing, services, retail and wholesale, tourism and hospitality, transport and logistics and other SMEs. The table 4.1 shows breakdown of the response rate of questionnaires.

Table 4.1: Response rate

| Industry Category | Target | Actual | Response rate % |
|------------------------------|---------------|---------------|------------------------|
| Manufacturing | 24 | 20 | 83.3 |
| Retail and Wholesale Traders | 74 | 65 | 87.8 |
| Tourism and Hospitality | 6 | 4 | 66.7 |
| Services | 47 | 41 | 87.2 |

| | | | |
|-------------------------|------------|------------|-------------|
| Transport and Logistics | 14 | 10 | 71.4 |
| Other SMEs | 21 | 15 | 71.4 |
| Total | 186 | 155 | 83.3 |

Source: Researcher’s computation (2024)

4.1.2 Demographic data analysis

In this section, response rate and demographic data are presented. The research collected demographic information of the participants.

4.1.3 Years in business

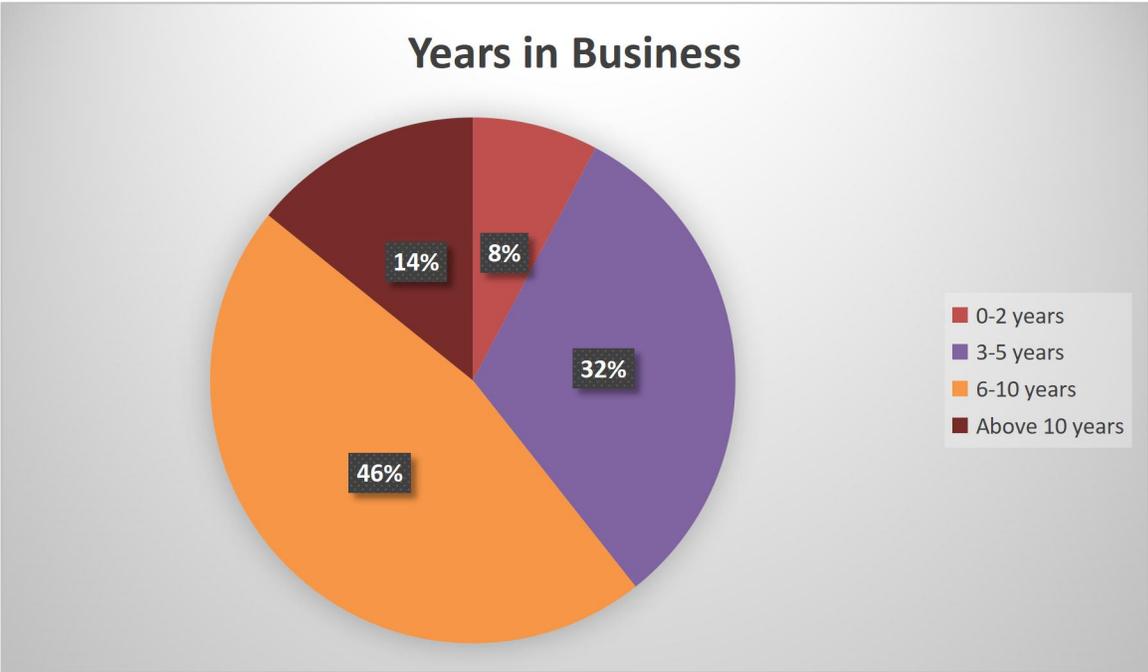


Figure 4.1 Years in business

The data shows that the distribution of SMEs across business years is skewed towards more established businesses. Almost half, 46%, of the SMEs have been operating for 6-10 years. There is a significant portion, 32% that have been operating for 3-5 years. Fewer businesses, 14%, have been operating for more than 10 years and only 8% are in the 0-2 year range.

4.2 Impact of Tax Policies on Viability and Financial Performance

Table 4.2 Descriptive Statistics

| | N | Mean | Std. Deviation |
|-----------------------|-----|------|----------------|
| Income Tax | 155 | 4.05 | .677 |
| Value Added Tax (VAT) | 155 | 3.67 | 1.039 |
| Withholding Tax | 155 | 3.83 | .935 |
| Corporate Tax | 155 | 4.13 | .869 |
| Import Duty | 155 | 4.19 | 1.183 |
| Valid N (listwise) | 155 | | |

Import Duty has the highest mean score (4.19) and standard deviation (1.183). This indicates that import duties have a perceived large impact on SMEs, with some variation in experiences. This could be due to factors like the type of industry (manufacturing vs. retail) and reliance on imported goods.

Income Tax (4.05) and Corporate Tax (4.13) also have relatively high mean scores, suggesting a significant perceived impact on viability and financial performance. Value Added Tax (VAT) (3.67) and Withholding Tax (3.83) have slightly lower mean scores but still fall within the "moderate to large extent" range. This suggests that while these taxes are perceived to impact SMEs, the impact might be less pronounced compared to import duties, income tax, and corporate tax.

The high mean score for import duties (4.19) resonates with research by Ayyagari et al. (2007) who found that import duties can disproportionately burden SMEs in developing countries. Their reliance on imported materials or equipment can be significantly impacted by these taxes, hindering their competitiveness and innovation (Ayyagari et al., 2007). This is further supported by Calderón et al. (2015) who argue that trade liberalization policies that reduce import duties can stimulate SME growth in developing economies (Calderón et al., 2015).

Income Tax and Corporate Tax: The significant perceived impact of income and corporate taxes (mean scores of 4.05 and 4.13, respectively) is consistent with findings by Desai et al. (2016). Their research in India highlights how high income and corporate tax rates can limit profitability and reinvestment opportunities for SMEs, thereby restricting their growth potential (Desai et al., 2016). Similarly, Demir (2010) emphasizes the need for progressive tax structures that take into account the specific challenges faced by SMEs, such as lower initial tax burdens during early growth stages (Demir, 2010).

Value Added Tax (VAT) and Withholding Tax: The slightly lower mean scores for VAT (3.67) and withholding tax (3.83) compared to other taxes suggest a potentially less pronounced impact on SMEs. However, this requires further investigation. Research by Alm & Liu (2010) suggests that the impact of VAT on SMEs can be nuanced. While it can increase administrative burdens, VAT structures with input tax credits can benefit SMEs, particularly those operating in sectors with high purchases of taxable goods (Alm & Liu, 2010). Similarly, withholding tax structures might have varying effects depending on the type of business and its reliance on subcontracting or short-term labor.

4.3 Effectiveness of Tax Policies for SME Growth

Table 4.3 Descriptive Statistics

| | N | Mean | Std. Deviation |
|--|-----|------|----------------|
| Current tax policies are fair and transparent for SMEs. | 155 | 4.15 | .667 |
| Existing tax incentives adequately support the growth of new SMEs. | 155 | 3.97 | 1.139 |
| The tax filing process for SMEs is simple and efficient. | 155 | 3.53 | .915 |
| Tax regulations are clear and easy to understand for SMEs. | 155 | 3.93 | .839 |
| Valid N (listwise) | 155 | | |

Fairness and Transparency: The mean score for perceived fairness and transparency of current tax policies (4.15) is slightly above the midpoint, suggesting a somewhat positive perception.

However, the standard deviation (.667) indicates some variation in opinions. This could be due to a lack of understanding of specific tax regulations, leading to confusion or mistrust.

Tax Incentives: The mean score for the effectiveness of existing tax incentives for new SMEs (3.97) is also close to the midpoint, but with a higher standard deviation (1.139). This suggests some SMEs might find existing incentives helpful, while others perceive them as inadequate or not well-targeted.

Tax Filing Process and Regulations: The mean scores for the simplicity and efficiency of the tax filing process (3.53) and clarity of tax regulations (3.93) are both below 4. This suggests that a significant portion of SMEs perceive challenges in navigating the tax filing process and understanding regulations. The standard deviations (.915 and .839, respectively) also indicate some variation in experiences.

The findings from Table 4.4 offer valuable insights into perceptions of tax policies among SMEs in Bindura Town, Zimbabwe. While there seems to be a somewhat positive perception of fairness and transparency (mean score of 4.15), concerns remain regarding the effectiveness of tax incentives, the simplicity of the tax filing process, and the clarity of regulations. This aligns with research conducted in other developing country contexts.

Limited Effectiveness of Tax Incentives: The mean score for the adequacy of existing tax incentives (3.97) suggests that these might not be well-targeted or effectively communicated to SMEs. This is similar to research by Tsui & Bao (2014) in China, where they found that SMEs often lacked awareness of available tax benefits due to complex procedures and limited government outreach. Similarly, Ferreira et al. (2013) highlight that poorly designed tax incentive programs in developing economies can be ineffective in stimulating SME growth due to bureaucratic hurdles and a lack of transparency.

Challenges with Tax Filing and Regulations: The low scores for the simplicity of the tax filing process (3.53) and clarity of regulations (3.93) point towards significant challenges faced by SMEs in complying with tax obligations. This aligns with research by World Bank (2019) which emphasizes the administrative burden that complex tax regulations can place on SMEs, especially those with limited resources or accounting expertise. Furthermore, De Soto (2000)

argues that informal regulations and bureaucratic inefficiencies within tax administration systems can disproportionately disadvantage SMEs in developing economies.

4.4 Opportunities for Tax Policy Reform

Table 4.4 Descriptive Statistics

| | N | Mean | Std. Deviation |
|---|-----|------|----------------|
| Reduced tax rates for SMEs would be beneficial. | 155 | 4.55 | .617 |
| Offering tax breaks for reinvesting profits back into the business would be helpful | 155 | 4.17 | .839 |
| Simplifying tax compliance procedures for SMEs would be positive. | 155 | 3.93 | .915 |
| Providing tax advisors or educational programs on tax management for SMEs would be valuable | 155 | 3.91 | .839 |
| Valid N (listwise) | 155 | | |

Reduced Tax Rates: The highest mean score (4.55) is for reduced tax rates for SMEs. This suggests a strong belief among SMEs that lower tax burdens would be beneficial. The standard deviation (.617) indicates some variation in opinion, but with a positive overall sentiment.

Tax Breaks for Reinvestment: The mean score for offering tax breaks for reinvesting profits (4.17) is still relatively high, suggesting that SMEs see value in policies that incentivize reinvestment for growth. However, the higher standard deviation (.839) compared to reduced tax rates indicates more dispersion in opinions.

Simplifying Tax Compliance Procedures: The mean score for simplifying tax compliance procedures (3.93) is close to the midpoint, suggesting a perceived need for improvement but not necessarily a strong preference for a specific reform. The standard deviation (.915) highlights some variation in experiences with the current tax filing process.

Tax Advisors or Educational Programs: A similar mean score of 3.91 and standard deviation (.839) were recorded for the suggestion of providing tax advisors or educational programs. This suggests that SMEs perceive some value in these support mechanisms, but the level of enthusiasm might be similar to the desire for simpler compliance procedures.

The strong preference for reduced tax rates aligns with research by Farah et al. (2017) who found that SMEs in emerging economies often view lower tax burdens as a key factor for growth and competitiveness. However, a nuanced approach is needed, as Beck et al. (2006) caution that simply reducing tax rates might not be the most effective policy tool in isolation. They advocate for a combination of tax incentives tailored to specific business needs alongside broader reforms that improve the overall business environment (Beck et al., 2006).

The findings regarding tax breaks for reinvestment and support mechanisms like tax advisors or educational programs resonate with research by Ayyagari et al. (2007) who highlight the importance of policies that encourage SMEs to retain and reinvest profits for future growth, particularly in developing economies with limited access to financing. Similarly, World Bank (2019) emphasizes the value of capacity-building programs that equip SMEs with the knowledge and skills to navigate complex tax regulations.

4.5 Chapter summary

This was main focused on the data presentation, data analysis and the discussion of the findings. Data was presented according to the research objectives outlined in chapter one.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter serves as the culmination of the research, bringing everything together. It will summarize the key findings of the study, drawing connections to the research objectives outlined in Chapter 1.

5.1 Summary of Findings

5.1.1 Impact of the tax policies on viability and financial performance of SMEs

- Import Duties have the highest perceived impact on SME viability and financial performance (mean score: 4.19). This could be due to factors like industry type and reliance on imported goods.
- Income Tax (4.05) and Corporate Tax (4.13) also have relatively high perceived impact, suggesting a significant burden on SMEs.
- Value Added Tax (VAT) (3.67) and Withholding Tax (3.83) have a moderate perceived impact, potentially less pronounced compared to the other taxes mentioned.

5.1.2 Effectiveness of Tax Policies for SME Growth

- Fairness and Transparency: There's a somewhat positive perception of current tax policy fairness and transparency (mean score: 4.15), but there's also variation in opinions (standard deviation: .667). This could be due to a lack of understanding of tax regulations.
- Tax Incentives: The effectiveness of existing tax incentives for new SMEs has mixed reviews (mean score: 3.97). While some SMEs find them helpful, others perceive them as inadequate or poorly targeted (standard deviation: 1.139).
- Tax Filing and Regulations: Many SMEs perceive challenges in navigating the tax filing process (mean score: 3.53) and understanding regulations (mean score: 3.93). The standard deviations (.915 and .839) indicate some variation in experiences, but overall suggest room for improvement in simplicity and clarity.

5.1.3 Opportunities for Tax Policy Reform

- **Reduced Tax Rates:** SMEs strongly believe lower tax burdens would be beneficial (mean score: 4.55). There's some variation in opinion (standard deviation: .617), but the sentiment leans positive.
- **Tax Breaks for Reinvestment:** Offering tax breaks for reinvesting profits is viewed favorably by SMEs (mean score: 4.17). However, there's more variation in opinions compared to reduced tax rates (standard deviation: .839).
- **Simplifying Compliance Procedures and Support:** There's a moderate preference for simplifying tax compliance procedures (mean score: 3.93) and for providing tax advisors or educational programs (mean score: 3.91). The standard deviations (.915 and .839) indicate some variation in experiences and level of enthusiasm for these support mechanisms.

5.2 Conclusions

5.2.1 Impact of Tax Policies

Import duties (4.19) were perceived to have the greatest impact, likely due to variations in industry type and reliance on imported goods. Income tax (4.05) and corporate tax (4.13) also had a significant perceived impact, suggesting a burden on SMEs. Value added tax (VAT) (3.67) and withholding tax (3.83) had a moderate perceived impact, potentially less pronounced than the other taxes mentioned.

5.2.2 Effectiveness of Tax Policies

Perceptions of fairness and transparency in current tax policy were somewhat positive (4.15), but with variation in opinions (0.667). This could be due to a lack of understanding of regulations. The effectiveness of existing tax incentives for new SMEs had mixed reviews (3.97). While some found them helpful, others perceived them as inadequate or poorly targeted (standard deviation: 1.139). Many SMEs perceived challenges in navigating the tax filing process (3.53) and understanding regulations (3.93). The standard deviations (0.915 and 0.839) indicated a need for improvement in simplicity and clarity.

5.2.3 Opportunities for Tax Reform

SMEs strongly believe reduced tax rates (4.55) would be beneficial, with some variation in opinion (0.617). Offering tax breaks for reinvesting profits (4.17) was viewed favorably, but with more variation in opinions compared to reduced tax rates (0.839). There was a moderate preference for simplifying tax compliance procedures (3.93) and providing tax advisors or educational programs (3.91). The standard deviations (0.915 and 0.839) indicated some variation in experiences and level of enthusiasm for these support mechanisms.

5.3 Recommendations

- Based on the study's findings, here are recommendations for policymakers seeking to design a tax system that supports SME growth in Bindura Town, Zimbabwe:
- The high perceived impact of import duties suggests a need for review and potential reduction, particularly considering variations in industry type and reliance on imported goods.
- The significant perceived burden of these taxes warrants exploring reductions to improve SME cash flow and reinvestment potential.
- The mixed reviews on current incentives necessitate an assessment of their design and effectiveness. Consider targeting them more effectively towards high-growth potential sectors or desired business activities.
- The perceived challenges in navigating the tax filing process highlight the need for streamlining procedures and utilizing technology for easier compliance.
- Streamlining regulations and providing clear, accessible guidance materials can reduce confusion and improve SME understanding of tax requirements.
- While the enthusiasm is moderate, consider pilot programs or educational resources to empower SMEs with tax knowledge and navigate the tax system more effectively.

These findings suggest that policymakers should consider a multi-pronged approach to tax reform for SMEs. Reducing tax burdens, particularly import duties, income tax, and corporate tax, could be a significant positive step. Additionally, policymakers should explore offering tax breaks that incentivize reinvestment for growth. Furthermore, simplifying tax compliance procedures and providing educational programs or tax advisors could empower SMEs to navigate the tax system more effectively. By implementing these reforms, policymakers can

create a more supportive tax environment that fosters the growth and development of SMEs in Bindura Town, Zimbabwe.

5.4 Recommendations for Future Studies

- Conduct longitudinal studies to establish cause-and-effect relationships between tax policies and SME performance.
- Explore the impact of tax policies on broader aspects beyond financial performance, such as job creation and innovation.
- Investigate the influence of firm-level heterogeneity (size, industry) on the impact of tax policies for SMEs.
- Combine SME survey data with financial data analysis for a more robust understanding of tax policy impact.
- Consider the feasibility and potential unintended consequences of implementing suggested tax reforms in the Zimbabwean context.

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APPENDIX: QUESTIONNAIRE

My name is B192318B, I am conducting a study to understand the impact of tax policies on Small and Medium Enterprises (SMEs) in Bindura Town, Zimbabwe. Your participation in this survey is crucial in helping us gain valuable insights. This questionnaire is completely anonymous and confidential. Your responses will be used solely for research purposes and will not be linked to your business in any way. The survey should take approximately 10-15 minutes to complete. Thank you for your time and valuable contribution!

Kindly complete this form by ticking

Part A: Demographic data of business

1. Business category

| Industry Category | ✓ Tick |
|------------------------------|--------|
| Manufacturing | |
| Retail and Wholesale Traders | |
| Tourism and Hospitality | |
| Services | |
| Transport and Logistics | |
| Other SMEs | |

2. Years in Business

0-2 years

3-5 years

6-10 years

Above 10 years

Use the following scale

1= Very small extent, 2= Small extent, 3= Moderate extent, 4= Large extent and 5= Very large extent

Part B: Impact of Tax Policies on Financial Performance

| Please rate the extent to which the following tax policies impact the financial performance of your SME | 1 | 2 | 3 | 4 | 5 |
|--|----------|----------|----------|----------|----------|
| Income Tax | | | | | |
| Value Added Tax (VAT) | | | | | |
| Withholding Tax | | | | | |
| Corporate Tax | | | | | |
| Import Duty | | | | | |

Part C: Effectiveness of Tax Policies for SME Growth

| Please rate your agreement with the following statements regarding the effectiveness of existing tax policies in supporting the growth and development of SMEs | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| Current tax policies are fair and transparent for SMEs. | | | | | |
| Existing tax incentives adequately support the growth of new SMEs. | | | | | |
| The tax filing process for SMEs is simple and efficient. | | | | | |
| Tax regulations are clear and easy to understand for SMEs. | | | | | |

Part D: Opportunities for Tax Policy Reform

| Thinking about how tax policies could better support SME growth and viability in Bindura Town, please rate your agreement with the following statements | 1 | 2 | 3 | 4 | 5 |
|--|----------|----------|----------|----------|----------|
| Reduced tax rates for SMEs would be beneficial. | | | | | |
| Offering tax breaks for reinvesting profits back into the business would be helpful | | | | | |
| Simplifying tax compliance procedures for SMEs would be positive. | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| Providing tax advisors or educational programs on tax management for SMEs would be valuable | | | | | |
|---|--|--|--|--|--|