

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTANCY**

**TOPIC: THE EFFECT OF PRESUMPTIVE TAX ON THE PERFOMANCE OF SMES IN ZIMBABWE. A CASE STUDY OF GLENVIEW COMPLEX, HARARE.**

**BY**

**VIOLA JINJA (B190742B)**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION. FACULTY OF COMMERCE.**

**JUNE 2023**

**RELEASE FORM**

Name of Student VIOLA JINJA

Title of Project The effect of presumptive tax on the performance of SMEs in Zimbabwe. A case study of Glenview complex, Harare.

Degree Title Bachelor of Accountancy (Honours) Degree.

Date ……………………………………..2023

The Bindura University of Science Education Library is hereby authorized to make copies of this project for private, academic, or scientific use only, and to lend or sell such copies.

Without the author's express written consent, neither the project nor a significant portion of it may be printed or otherwise replicated.

Signed…………………………………………………………………………

Permanent address:

Nyawaro Primary School

P O Box 806

Rusape

# **APPROVAL FORM**

**To be completed by the student.**

I attest that this dissertation complies with the formatting requirements outlined in the faculty handbook and dissertation typing instructions.

Signature of student ………………………… Date………………

**To be completed by the supervisor.**

This dissertation is acceptable for faculty submission. The compliance of this dissertation with the requirements of the faculty must be verified.

Signature of supervisor ……………………….. Date………………

**To be completed by the chair of the department.**

To the best of my knowledge, I certify that the necessary steps were taken and the preparation requirements for this dissertation were satisfied.

Signature of chair……………………………. Date………………

# **DEDICATION**

This study effort is devoted to my parents in appreciation of their monetary, moral, and inspirational care. I accept that their contributions were a major factor in the success of my academic activities.

# **ABSTRACT**

The purpose of this study is to investigate how presumptive tax affects the performance of SMEs in Harare's Glenview Complex. The study was conducted as a descriptive survey of SMEs in Harare's Glenview Complex with the following objectives:

* To examine how presumptive tax payments affect SMEs' profitability.
* To examine how presumptive tax payments affect SMEs' investment choices,
* To determine if there is a relationship between presumptive tax payments and performance. The target population was divided into five strata based on their involvement in cottage industries, restaurants, transport, hair salons, and bottle stores. Purposive sampling was used to select 184 SMEs as the sample size from the strata. Using Microsoft Excel and SPSS version 20, questionnaires were used to collect data, which was then analysed. The primary conclusions of the study demonstrated that presumptive tax has a negative effect on the profitability of SMEs. The research findings revealed that the majority of informal traders do not file taxes. The main reasons for this include high tax rates, low detection risk, low trust in the government, and the perception that other informal traders are evading taxes. The research recommends that the tax authorities establish a one-stop shop to simplify the registration procedure and perform follow-ups to improve sector compliance in order to compel the informal sector to register. It is advised that the revenue authority run a serious presumptive tax awareness campaign.

# **ACKNOWLEDGEMENTS**

I give the Almighty Lord Jesus Christ all the credit for steering my ship and for bestowing upon me wisdom, knowledge, insight, and understanding. God deserves all the glory for the innumerable favors, and I will always treat him with the respect he so richly deserves.

My supervisor, who gave much to make this dissertation successful, has my sincere gratitude. I also like to acknowledge the assistance my Industrial Attachment mentor provided in order for me to do this research.

# **TABLE OF CONTENTS**

[**TOPIC** 1](#_Toc137569130)

[**APPROVAL FORM** ii](#_Toc137569131)

[**DEDICATION** iii](#_Toc137569132)

[**ABSTRACT** iv](#_Toc137569133)

[**ACKNOWLEDGEMENTS** v](#_Toc137569134)

[**TABLE OF CONTENTS** vi](#_Toc137569135)

[**LIST OF TABLES** viii](#_Toc137569136)

[**LIST OF FIGURES** x](#_Toc137569137)

[**LIST OF ACCRONOMIES AND ABBREVIATIONS** xi](#_Toc137569138)

[**CHAPTER I** 1](#_Toc137569139)

[**INTRODUCTION** 1](#_Toc137569140)

[**1.0 Introduction** 1](#_Toc137569141)

[**1.1 Background of the study** 1](#_Toc137569142)

[**1.2 Problem statement.** 2](#_Toc137569143)

[**1.3 Study Objectives** 2](#_Toc137569144)

[**1.4 Study Questions** 2](#_Toc137569145)

[**1.5 Importance of the research** 3](#_Toc137569146)

[**1.5.1. To the Student** 3](#_Toc137569147)

[**1.5.2. To the Small and Medium enterprises** 3](#_Toc137569148)

[**1.5.3. To the University** 3](#_Toc137569149)

[**1.6 Assumptions** 3](#_Toc137569150)

[**1.7 Research delimitations** 3](#_Toc137569151)

[**1.8 Research limitations** 3](#_Toc137569152)

[**1.9 Definition of terms** 4](#_Toc137569153)

[**1.9.1. SMEs** 4](#_Toc137569154)

[**1.9.2. Tax** 4](#_Toc137569155)

[**1.9.3. Presumptive tax system** 4](#_Toc137569156)

[**CHAPTER II** 5](#_Toc137569157)

[**LITERATURE REVIEW** 5](#_Toc137569158)

[**2.0 Introduction** 5](#_Toc137569159)

[**2.1 Theoretical review** 5](#_Toc137569160)

[**2.2 The deterrence model** 5](#_Toc137569161)

[**2.2.1 The slippery model** 6](#_Toc137569162)

[**2.3 Empirical literature review** 6](#_Toc137569163)

[**2.3.0 Effects of Presumptive taxation system** 6](#_Toc137569164)

[**2.3.1 Profitability** 7](#_Toc137569165)

[**2.3.1.1 one of the major effects of presumptive tax on SMEs is it lowers their profits.** 7](#_Toc137569166)

[**2.3.1.2 A decrease in demand for SMEs.** 7](#_Toc137569167)

[**2.3.2 Investment decisions** 8](#_Toc137569168)

[**2.3.2.1 Effects of presumptive tax on income of SMEs:** 8](#_Toc137569169)

[**2.3.2.3 Effect of presumptive tax on the capacity of SMEs to announce new products:** 9](#_Toc137569170)

[**2.3.3 Payment of presumptive tax has a significant negative relationship with the performance of SMEs.** 9](#_Toc137569171)

[**2.4 Conceptual framework** 11](#_Toc137569172)

[**2.5 Justification of the study** 12](#_Toc137569173)

[**2.6 Gap analysis** 13](#_Toc137569174)

[**2.8 Chapter summary** 13](#_Toc137569175)

[**CHAPTER III** 14](#_Toc137569176)

[**METHODOLOGY** 14](#_Toc137569177)

[**3.0 Introduction** 14](#_Toc137569178)

[**3.1 Research design and justification** 14](#_Toc137569179)

[**3.2 Population** 14](#_Toc137569180)

[**3.3 Sample** 15](#_Toc137569181)

[**3.4 Sample size** 15](#_Toc137569182)

[**3.5 Sampling technique** 16](#_Toc137569183)

[**3.6 Research instruments** 16](#_Toc137569184)

[**3.7 Questionnaire** 16](#_Toc137569185)

[**3.7.1. Advantages of questionnaires** 16](#_Toc137569186)

[**3.7.2. Disadvantages of questionnaires** 17](#_Toc137569187)

[**3.9 Sources of data** 17](#_Toc137569188)

[**3.9.1. Primary data** 17](#_Toc137569189)

[**3.10 Data collection and appropriate procedures** 18](#_Toc137569190)

[**3.11 Data presentation and analysis** 18](#_Toc137569191)

[**3.12 Reliability** 18](#_Toc137569192)

[**3.13 Validity** 19](#_Toc137569193)

[**3.14 Chapter summary** 19](#_Toc137569194)

[**DATA PRESENTATION, INTERPRETATION, DISCUSSION AND ANALYSIS** 20](#_Toc137569195)

[**4.0 Introduction** 20](#_Toc137569196)

[This chapter discusses the presentation of data that was collected using the methods and techniques covered in the previous chapter. By skimming and selecting data, organizing and providing data in various ways that are understandable, and offering data, the clarification of gathered statistics was made ready achievable. Data was presented in tables and graphs using Microsoft Excel, and was presented and analyzed simultaneously while being accompanied with an explanation of the results. The chapter concludes with a review of the entire process of presenting and comprehending the material obtained in Chapter III. 20](#_Toc137569197)

[**4.1 Response Rate** 20](#_Toc137569198)

[**4.2 Business development** 21](#_Toc137569199)

[**4.2.1 years of business operation** 21](#_Toc137569200)

[**4.3 SMEs performance** 21](#_Toc137569201)

[**4.3.1 Lowering SMEs’ profits** 22](#_Toc137569202)

[**4.3.2 Reduce their efficiency** 23](#_Toc137569203)

[**4.3.3 Decrease in demand** 23](#_Toc137569204)

[**4.3.4 Limiting their potential to expand profit generation capability** 23](#_Toc137569205)

[**4.3.5 Reduce ability to grow operations through introduction of new products/services** 24](#_Toc137569206)

[**4.3.6 Affect the ability to replace won-out equipment and machinery** 25](#_Toc137569207)

[**4.3.7 Reduce their income** 25](#_Toc137569208)

[**4.4.1 Pearson Correlation Coefficient** 26](#_Toc137569209)

[**4.4.2. Pearson Correlation Coefficient** 27](#_Toc137569210)

[**4.5 Summary** 27](#_Toc137569211)

[**CHAPTER V** 28](#_Toc137569212)

[**5.0 Introduction** 28](#_Toc137569213)

[**5.1 Major findings summarized** 29](#_Toc137569214)

[**5.2 Conclusions** 29](#_Toc137569215)

[**5.3 Recommendations** 30](#_Toc137569216)

[(4) ZIMRA should make a serious attempt to collect current dues after announcing a one-time amnesty for all outstanding presumed debts. 30](#_Toc137569217)

[(5) ZIMRA needs to start educating the public about the presumptive tax education program, especially small businesses. This must be completed using a variety of media outlets, including local radio, television, and road shows as well as newspapers. 30](#_Toc137569218)

[(6) To help SMEs as they normalize their operations, the income expert should see to it that they are provided a protracted tax-free grace period. They can also set up a one-stop shop where their operations can be registered and regularized, saving time and money when it comes to carrying out compliance requirements. 30](#_Toc137569219)

[**5.4 Areas for further research** 30](#_Toc137569220)

[**5.5 Summary** 31](#_Toc137569221)

[**Reference** 31](#_Toc137569222)

[**Appendix 1: Questionnaire** 38](#_Toc137569223)

# **LIST OF TABLES**

[Table 1: Sample table 15](#_Toc137568985)

[Table 2: Reliability statistics 18](#_Toc137568986)

[Table 3: Questionnaire respond rate 20](#_Toc137568987)

[Table 4: Effect of presumptive tax on the profitability of SMEs 22](#_Toc137568988)

[Table 5: Effect of presumptive tax payment on the investment decisions of SMEs 24](#_Toc137568989)

[Table 6: Pearson Correlation Coefficient 1 26](#_Toc137568990)

[Table 7 Pearson Correlation Coefficient 2 27](#_Toc137568991)

# **LIST OF FIGURES**

[Figure 1: The conceptual framework 20](#_Toc134906373)

[Figure 2: Effect of presumptive tax on the profitability of SMEs 43](#_Toc134906374)

[Figure 3: Effect of presumptive tax on the investment decisions of SMEs 45](#_Toc134906375)

# **LIST OF ACCRONOMIES AND ABBREVIATIONS**

SMEs Small and Medium Enterprises

ZIMRA Zimbabwe Revenue Authority

SMEAZ Small- to- Medium Enterprise Association of Zimbabwe

# **CHAPTER I**

# **INTRODUCTION**

# **1.0 Introduction**

The study's background, problem statement, research objective, study questions, limits, and delimitations were primarily the subject of the study. A summary and descriptions of several key positions were provided at the study's conclusion.

# **1.1 Background of the study**

Presumptive tax has been implemented in various countries around the world, including Europe, Asia, and Africa. In Europe, it was introduced in Italy in the 1980s and has since been adopted by other countries, such as Spain, France and Portugal (Benedetti, Giannelli and Lippi 2016). In Asia, presumptive tax has been adopted by countries, such as India, Indonesia, and the Philippines, with the aim of increasing revenue collection and reducing the tax gap (Kumar and Goel, 2017).

In Africa, presumptive tax has been implemented in countries, such as Ghana, Kenya, and Tanzania, with the aim of formalizing the informal sector and increasing revenue collection (Abor & Quartey, 2010; Alhassan & Nketiah-Amponsah, 2018; Njagi & Mwega, 2016). However, the impact of presumptive tax on SMEs in these countries has been mixed, with some studies showing positive effects on revenue collection and others showing negative effects on business performance.

Presumptive tax, the 17th century in Milan, when the value of the land was used to estimate tax slightly than the actual produce from the land. Taxpayers' desire to maximize productivity in order to avoid the system, (Guevara, 2008).

According to Ayyagari, Thorsten, and Demirguc-Kunt (2005), presumptive tax, which differs from the standard tax system, offers a viable solution to the problem of tax evasion. According to Reinikka and Collier (2003), presumptive tax is calculated as gross income minus deductions, and small enterprises are not be eligible to significant initial capital grants or tax deductions intended for business expenses . As a result, they are deprived of the source of their growth and profitability.

The political and economic crises in Zimbabwe has caused the informal sector to expand, and the government was looking for ways to use it to raise taxes. One way they have done this is by introducing presumptive taxes on informal urban transport providers in 2005, following research by ZIMRA (2016). Later, the schedule was expanded to include other businesses, such as hair salons and cross-border dealers, but no analysis of their profitability was conducted. The schedule includes both lump-sum and ad valorem presumptive taxes, depending on the sector.

# **1.2 Problem statement.**

Small and medium-sized businesses (SMEs) are subject to a tax system known as presumptive tax, which is based on estimated income rather than actual income. In Zimbabwe, this tax system was implemented in 2005 with the intention of increase revenue collection and bringing the informal sector into the formal economy. However, the effect of presumptive taxation on the performance of SMEs in Zimbabwe has not been adequately studied. The purpose of this study is to investigate how presumptive taxation affects the performance of SMEs in Zimbabwe.

# **1.3 Study Objectives**

1. To examine how the payment of presumptive tax affect the profitability of SMEs.
2. To examine how the payment of presumptive tax affect investment decisions of SMEs.
3. To determine the relationship between payment of presumptive tax and performance of SMEs.

# **1.4 Study Questions**

1. How the payment of presumptive tax affect the profitability of SMEs?
2. How the payment of presumptive tax affect the investment decisions of SMEs?
3. What is the relationship between presumptive tax system and the performance of SMEs in Glenview Complex, Harare?

# **1.5 Importance of the research**

# **1.5.1. To the Student**

i. It will broaden the researcher's understanding of the tax system.

ii. To improve the researcher's research abilities.

# **1.5.2. To the Small and Medium enterprises**

SMEs can learn importance of submitting presumptive tax as per ZIMRA board for the government to be able to gather the targeted revenues for its expenditures. SMEs can also know the benefits of paying taxes like avoidance of tax penalties. This could then leave SMEs understanding Zimbabwean tax systems.

# **1.5.3. To the University**

The research will assist other students when undertaking their studies in relation to presumptive tax. The research can also be used as literature review by other students and also as the benchmark for other studies.

# **1.6 Assumptions**

1. There will be no any tax Act amendments during the research period.
2. The respondents shall be willing to provide true information concerning the research.
3. The whole population will be represented by a sample.

# **1.7 Research delimitations**

The study may rely on the perceptions and understanding of SMEs owners or other respondents about the presumptive tax in Glenview Complex, Harare, which may or may not be accurate or reliable. The study may focus only on the quantitative data generated from primary sources, based on which the researcher would derive the results.

# **1.8 Research limitations**

1. Limited sample size and representativeness: The study might be conducted on a small sample size of SMEs that may not be representative of the entire SME population in Glenview Complex, Harare Zimbabwe, limiting the generalizability of the findings.
2. Lack of control over external variables: the study may be affected by external variables such as economic conditions, political environment factors over which the researcher may have no control.
3. Bias: The study may be subject to biases arising from the personal or professional backgrounds of the researcher, leading to an inaccurate interpretation of the data or results.

# **1.9 Definition of terms**

# **1.9.1. SMEs**

Tusubura and Nkote (2013) states that, common definitions of SMEs are depending on the sales and ordinary one which is sum of employees. According to Small-Medium Enterprise Development Corporation, (SMEDCO) (2010), SMEs are firms that do not exceed one hundred employees and getting a turnover ceiling of USD830 000.

# **1.9.2. Tax**

This is a fee paid to the national or local government by companies or individuals for a consideration of commercial activities or social dealing between people, Act of Income Tax, Chapter (23:06).

# **1.9.3. Presumptive tax system**

It is a taxation theory where income tax is calculated using average income rather than actual income.

**1.10 Summary**

This chapter discusses the background of the study, its aims and objectives, the statement problem, its research questions, its relevance, its delimitations and constraints, and its underlying hypotheses. Thus, the definition of terms is completed.

# **CHAPTER II**

# **LITERATURE REVIEW**

# **2.0 Introduction**

Literature analysis looks at historic and current research in relation to industry reports to show the basis for further studies. It is used to establish an academic context for a particular area. It helps in identifying terminology, definition of key terms, developing models, and finding studies that supports the topic. The study area can be established. Missing gaps by previous researchers can also be identified through literature review. Most of the past empirical evidence and literatures that have already been done by previous researchers can also be included in the literature review.

# **2.1 Theoretical review**

Hypothetical previous researches have highlight the impacts that are affect SMEs’ performance during their course of operations. The researcher moves forward in examining other efforts that are being contributed in making up the economy by SMEs in developing Zimbabwe, as well as both positive and negative effects faced by SMEs from taxation. This section also has to highlight some procedures to follow in furnishing up challenges that affect small-to-medium businesses in their operations when complying with presumptive tax in their decisions-making and operational processes.

Tax revenue for government spending is a challenge for the authorities. However, taxpayers view paying taxes as a burden and are unwilling to comply. (Hofmann et al., 2008). The theories that follow provide a brief description of taxpayer attitudes toward compliance, as well as the responses of authorities to promote compliance. The deterrence and slippery models are the two basic theoretical approaches to understanding tax compliance.

# **2.2 The deterrence model**

According to Allingham and Sandro (1972), a taxpayer is a risk-averse, rational person who decides not to comply whenever the expected benefit outweighs the cost. The deterrence model employs both punitive and persuasive tactics. The punitive technique includes punishment for non-compliance. The penalty structure, which is a component of punishment, is one of the factors that influences a person's decision to avoid paying taxes. The deterrence model provides a persuasive approach uses educational resources to increase people’s understanding their tax obligations and the benefits of compliance in order to prevent non-compliance.

Additionally, incentives and advertising are used to promote tax compliance. According to Falkinger and Walther (1991: 68–79), a taxation system that focuses primarily on punitive measures is less effective in increasing compliance than one that also includes incentives. ZIMRA promotes compliance by having a taxpayer appreciation day and advertising its regulations in print and online media. They also punish non-compliance and raise interest rates.

# **2.2.1 The slippery model**

According to Kirchler (2008), the relationship between the taxpayer and the authorities has an impact on compliance. Kirchler (2008) argues that antagonistic and synergistic climates are caused by the authorities' authority and people's trust in them. Taxpayers and tax officials operate as rivals against one another in an antagonistic environment. The overall mentality is one of "cops and robbers," with the "robbers" (taxpayers) trying to evade taxes wherever they can and the "cops" (authorities) trying to identify as many noncompliant taxpayers as they can. (Wenzel, 2002). The informal sector in Zimbabwe tries to evade ZIMRA's compliance and enforcement department as much as possible in order to avoid enforcement.

The Equities and Exchange Theory, introduced by Guevara (2008), is based on the notions that taxpayers are reasonable and rational and that they determine what is fair based on the ratio of output to inputs between exchange transaction partners. If they believe the taxation is unfair, a taxpayer is non-compliant and refuses to pay taxes; if they believe the taxation is equitable, they are cooperative. The taxpayer, for example, expects benefits from their taxes, such as furniture operators, hair salon operators, and restaurant operators. If these alleged benefits are not present, the taxpayer will attempt to avoid paying taxes wherever possible.

# **2.3 Empirical literature review**

# **2.3.0 Effects of Presumptive taxation system**

Presumptive tax is a tax regime that Zimbabwe imposes on small and unregistered businesses as a strategy to increase the revenue base. This tax has the potential to impact SMEs' performance, notably their profitability and investment choices, even if it is intended to simplify the tax code and raise government revenue. With a focus on profitability and investment choices, this review of the literature intends to examine the existing research on the effects of presumptive tax on SMEs in Glenview Complex, Harare.

# **2.3.1 Profitability**

A type of tax known as presumptive tax is imposed on SMEs based on their expected turnover or other factors. It is often viewed as a strategy to boost tax collection, decrease tax evasion, and broaden the tax base. However, research suggests that presumptive tax may have a negative impact on the productivity and profitability of SMEs in Zimbabwe.

# **2.3.1.1 one of the major effects of presumptive tax on SMEs is it lowers their profits.**

By imposing a tax on SMEs based on their estimated turnover, it can result in smaller profit margins for SMEs. This can limit their ability to expand their businesses or invest in new equipment or technology. Additionally, presumptive tax can also result in inefficiencies in the tax system, as it can lead to a distortion of prices and create incentives for business owners to misstate their income.

In terms of profitability, presumptive tax can be seen as a burden on small businesses. SMEs operating in the informal sector often have low profit margins and may struggle to pay the tax, which could lead to reduced profitability and even business closure. For example, a study by Mujeyi and Chimucheka (2020) found that presumptive tax took an adverse effect on the profitability of SMEs in Zimbabwe.

# **2.3.1.2 A decrease in demand for SMEs.**

The tax creates a burden for business owners because it is levied irrespective of whether the industry is creating an income or not. As a result, SMEs may have to increase the cost of their products or services to offset the tax. This can lead to a decline in demand for their goods or services, which in turn affects their profitability. The study highlighted that SMEs were finding it difficult to comply with the tax regulations and were struggling to adjust their pricing strategies to account for the tax.

According to a study by Makate (2020), presumptive tax had a detrimental effect on the profitability and investment choices of SMEs in Zimbabwe. In particular, it made SMEs less profitable and raised their compliance expenses. The study also discovered a strong correlation between the amount of presumptive tax and the amount of time spent by SMEs on tax compliance.

Several studies have studied the impacts of presumptive tax on the profitability of SMEs in Zimbabwe. For instance, Kanyenze and Dube (2017) found that presumptive tax led to increased operating costs for SMEs, which in turn reduced their profitability. Similarly, Ncube, Moyo and Sibanda (2018) noted that the tax administration process was burdensome for SMEs, leading to lower net income. These findings suggest that presumptive tax can consume negative effects on the profitability of SMEs in Glenview Complex, Harare Zimbabwe.

## **2.3.2 Investment decisions**

Presumptive tax can also have a negative effect on SMEs' (small and medium-sized enterprises) investment decisions in Zimbabwe. For example, presumptive tax can make it more difficult for SMEs to access credit, as lenders may be reluctant to lend money to businesses that are subject to presumptive tax. Additionally, presumptive tax can make it more expensive for SMEs to invest in new equipment or technology, as they may have to pay a higher price for these items due to the tax.

# **2.3.2.1 Effects of presumptive tax on income of SMEs:**

Presumptive taxation has been argued to negatively affect the income of SMEs, particularly those in the informal business. According to Masunungure (2018), the presumptive tax scheme forces SMEs to incur a fixed cost regardless of their actual income, reducing the profit margins of small businesses. When taxed above their actual income, small businesses are forced to cut their expenses as they try to mitigate the tax pressure. This leads to reduced profits, affecting the operations of SMEs. This means that SMEs may have to continue using outdated equipment, which can affect their productivity and competitiveness.

Second, presumptive tax can also affect the ability of SMEs to replace worn-out equipment. With a reduced income, SMEs may not be able to afford the cost of new equipment or repairs. **2.3.2.2 Effect of presumptive tax on capital investment:**

It has been discovered that presumptive tax has an impact on SMEs' capacity to invest in important resources like new equipment. According to a study by Habtay and Taylor (2018), presumptive tax has a negative impact on SMEs' ability to replace outdated equipment because they must pay a set amount regardless of their profit margins. Small and medium-sized businesses are therefore less inclined to invest in capital goods, which may impede their long-term growth and profitability. This may result in a drop in production and a general lowering of the quality of the products and services provided by SMEs.

Third, presumptive tax can reduce the ability of SMEs to grow their operations through the introduction of new products. SMEs may find it difficult to generate unique items that can draw in new clients if they have less money to invest in research and development.

# **2.3.2.3 Effect of presumptive tax on the capacity of SMEs to announce new products:**

Presumptive tax has also been found to reduce the capability of SMEs to announce new products and expand their operations. According to Ncube (2019), SMEs are forced to cut their expenses on product development if they have to pay tax on their potential income, reducing their competitiveness. This can have negative consequences on the overall competitiveness of SMEs and limit their ability to expand their market share.

The impacts of presumptive taxation on the investment decisions of SMEs have also been explored. For example, Mhaka, Marandure, and Moyo (2018) found that SMEs faced constraints in accessing credit due to their inability to provide formal financial records, which were necessary to comply with the presumptive tax system. This lack of access to credit reduced their investment capacity and growth prospects. Similarly, Kashora and Shumba (2019) noted that SMEs faced challenges in attracting both local and foreign investment due to the complex and uncertain tax system in Zimbabwe.

The evidence from the review of the literature suggests that presumptive tax has a detrimental effect on the performance of SMEs in Zimbabwe. It adversely affects their ability to generate income, invest in critical assets, and introduce new products. Hence, this calls for the need for the government to reconsider, align and reform presumptive tax policies as they directly affect the growth and prosperity of SMEs.

# **2.3.3 Payment of presumptive tax has a significant negative relationship with the performance of SMEs.**

This tax policy has led to reduced profitability and cash flow constraints, which limits the ability of SMEs to invest in their businesses, introduce new products, and expand their operations (Kusakana & Ngirande, 2018).

Furthermore, the payment of presumptive tax has also led to increased informality among SMEs as they try to avoid the tax burden. As a result, the government is losing potential revenue, and SMEs are missing out on the aids of formalization, such as admission to recognition and government support programs (Masocha et al., 2019).

Overall, the evidence suggests that presumptive tax can have a negative impact on the profitability and investment decisions of SMEs in Zimbabwe. This suggests that the government should reconsider the presumptive tax system and find ways to reduce its negative impact on SMEs.

**There was another study done by Were (2011) in Nakawa finding out the effects of presumptive tax on small enterprises.**

The results reviewed that most SMEs were negatively affected by the presumptive tax system. A number of small businesses were also ignorant on the issue of taxes they have to pay to the body and also they were ignorant on how to compute taxes. The Ugandan revenue authority's subpar tactics of raising awareness were the source of the ignorance. The study's findings were then summarized, showing that presumptive income tax has a negative impact on the success of small company enterprises.

**Zivanai et al. did a study in 2014 to examine the efficacy of presumptive taxation and how it affected the success of SMEs in Zimbabwe.**

The effectiveness of the system for collecting presumptive taxes and how presumptive taxes impacted the viability of small and medium-sized firms were the main topics of their research. The study's findings revealed that the majority of SMEs, particularly commuter transport providers, were unaware of the presumptive tax and that the system was harming SMEs' ability to survive. It was then concluded by requesting ZIMRA to conduct some educational campaigns on SMEs about presumptive tax.

**In a study conducted by Muza and Mujere (2019), to examine the effect of presumptive tax on the performance of SMEs in Zimbabwe.**

It was discovered that the introduction of presumptive tax in Zimbabwe had a detrimental impact on SMEs' operations. According to the report, the tax significantly impacted the profitability, expansion, and survival of SMEs. The researcher stated that because microbusinesses make up the bulk of SMEs in Zimbabwe, the tax was particularly onerous for them. The report advised the government to evaluate its taxation policies and look into alternate revenue-raising options that wouldn't restrict the expansion of SMEs.

**A study by Zhou, Tarwirei and Makoni (2019), assessing the efficacy of presumptive tax on SMEs in Zimbabwe.**

The study showed that presumptive tax had a negative impact on SMEs as it discouraged formalization and compliance. They found that SMEs were more likely to avoid tax than obey due to complex that system and high tax rates.

**Kalonga and Chirara (2019), study on presumptive tax and poverty reduction in Zimbabwe.**

They originate that the presumptive tax scheme in Zimbabwe had a disproportionate impact on the poorest informal SMEs who struggled to pay the tax. This compounded their financial challenges and made it harder for them to grow or hire additional staff.

**In another study, Musvoto, Chipangura and Mutyambizi (2018), studying presumptive tax and access to credit by SMEs in Zimbabwe.**

They revealed that SMEs faced challenges in accessing credit due to the lack of formal financial records. The presumptive tax system further made it difficult for SMEs to maintain proper financial records, leading to difficulties in securing loans or funding for expansion.

Overall, empirical data points to a negative impact of presumptive tax on the performance of SMEs in Zimbabwe, leading to reduced compliance, hindering growth and worsening the financial challenges faced by small businesses.

# **2.4 Conceptual framework**

Figure 1 depicts in a schematic fashion the connection between the performance of SMEs and presumptive tax, characterized by staff size, capital asset, and asset growth, providing a conceptual framework for the study. The primary goal of tax strategy would be to strike a poise between requirement to raise funds and other taxation objectives. To accomplish so, policymakers can utilize the framework below to assist them create policies and examine the impact of presumptive tax policy.

**Independent variable Dependent variable**

**.** **Taxation rates**

**. Penalties and complexity**

**. Policies of the government**

**SMEs PERFORMANCE**

**. Profitability**

**• Capital Investing**

**• Asset Growth**

**Presumptive tax policy**

**Moderating variable**

Figure: The conceptual framework

**Source: Author**

# **2.5 Justification of the study**

Small and medium-sized entities (SMEs) need to be protected and given the freedom to survive, grow and remain competitive regardless of their size. Harash (2015) highlighted the importance of SMEs in the economy, as they are widely recognized as reliable contributors to national output. Previous studies indicated that most of the small and medium entities were working hard for economic improvement. They have also shown the effects of noncompliance with tax systems by small and medium enterprises. Past studies had also shown the reasons for non-compliance with tax protocols. These studies revealed that a number of SMEs were not complying with tax procedures due to reasons such as weak tax systems, unfair tax rates, and perceptions about the use of tax revenues by tax authorities. Non-tax compliance was mostly done by SMEs in developing countries.

This research analyzes previous studies and seeks to study the impact of presumptive tax system on SMEs, as well as the ways in which tax authorities can encourage taxpayers to pay their tax liabilities.

# **2.6 Gap analysis**

This study fills two gaps in the literature on presumptive tax. First, while most previous studies have been conducted in developed countries, this study focuses on SMEs in Zimbabwe, a developing country. Second, previous studies have been conducted in countries with a single currency, while this study will be conducted in a country with multiple foreign currencies.

# **2.8 Chapter summary**

This chapter reviewed the relevant literature on the effects of presumptive tax, and the effects of presumptive tax on the performance of SMEs in Zimbabwe. Finally, the chapter identified two gaps in the literature that this study will address.

.

# **CHAPTER III**

# **METHODOLOGY**

# **3.0 Introduction**

This chapter discusses the methods used to gather data for this study. The research instruments, sampling techniques, research design, data collection procedures, population under study, and data analysis are all discussed.

# **3.1 Research design and justification**

A research design can be thought of as a blueprint for gathering data and conducting research to answer specific research questions. It can also be referred to as a method for testing a hypothesis or providing answers to the questions that first sparked the investigation.

A descriptive survey design was used in this study because it seemed like a good way to answer the questions about how the presumptive tax system works. This is due to its ability to provide a clear picture of the phenomena under study by collecting data from a large number of people. It also gives an exposure to current situations on the emerging patterns. Knowledge and opinions of the researcher can also be supported through the data collection process.

The descriptive survey method requires a high level of knowledge and skills in data analysis in order to provide a detailed analysis of the data collected. It requires the researcher to spend a significant amount of time on the data analysis. To avoid spending too much time on the research, the researcher needs to acquire better skills from other literatures to conduct a strong and detailed analysis.

# **3.2 Population**

A population is a distinct group of people, whether that group is made up of an entire country or just a few individuals who share a certain trait. A population is the group of people from which a statistical sample is taken in statistics. Therefore, a population is any collection of people who have something in common. According to Glenview Council (2022), the Glenview Complex is home to 1000 SMEs.

# **3.3 Sample**

According to Chiromo (2009), a sample is a relatively small group that represents the entire population. In simple terms, a sample is a segment of the population. A sample must be made up of people who reflect the subjects and who are also the participants in the study (McMillan and Schumacher, 2010).

# **3.4 Sample size**

In this study, the researcher used the sample size calculation to select a sample of 184 respondents from SMEs operating in Glenview Complex, Harare, who would complete the questionnaire.

Necessary Sample Size = N z ^2\*p (1-p)

e^2

z^2\*p (1-p) + N-1

e^2

N = Population size (1000)

z= confidence level (90% or 0, 9)

p= sample proportion (50% or 0, 5)

e = Margin of error (30% 0r 0.03)

Source: (Qualtrics, 2020)

Table 1: Sample table

|  |  |
| --- | --- |
|  | **Sample** |
| **Cottage industry** | **54** |
| **Hairdressing saloon** | **30** |
| **Transport operators** | **30** |
| **Restaurants sector** | **40** |
| **Bottle store** | **30** |
| **Total** | **184** |

# **3.5 Sampling technique**

According to Gray (2011), sampling refers to a situation where the large population is used to select some representatives. This is characterized by looking for the most practicable process to select a sample from the available respondents during the time of collecting data.

In this study, the researcher will select SMEs under study using the random sampling technique. This techniques seems to bring equal chances of selecting the samples from the population, hence everyone among the population has an opportunity to be a part of the study.

# **3.6 Research instruments**

Research instruments are any procedure or device which can systematically be used in collecting data. Instruments were defined by Babbie (2007) as tools used in data gathering from human subjects. In this study, the researcher used one instrument, which is questionnaire.

# **3.7 Questionnaire**

A questionnaire is a paper with a designed set of questions to ask the right material for the purpose of analysis. The questions have to be well written and then distributed to the selected sample population, which are the respondents for subject area data gathering (Cohen 2011).

The researcher used self-administered questionnaires where owners and selected staff members could fill in their responses during their own time for better answers, since there will be enough time for them to think steadily without rushing. As supported by Cohen (2011), self-administered questionnaires are of paramount importance, for there will be an assurance that the intended group to receive the questionnaires had received them, and it also increases the response rate.

Questionnaires of 184 SME operators from Glenview Complex Harare's restaurants, liquor stores, hair salons, transportation companies, and cottage industries were used.

# **3.7.1. Advantages of questionnaires**

1. Feelings of the respondents will not be limited since there will unstructured (open ended) questions, and then time will be also saved by structured (closed ended) questions.
2. Results can be analyzed easily due to some identical stimuli responses being emanating from homogenous questions.
3. Since questionnaires can be filled in the absence of the researcher, there might be elimination of interviewer bias, for there will be no face-to-face responses.

# **3.7.2. Disadvantages of questionnaires**

1. There might be probability that some term cannot be understood by the respondents.
2. Some questionnaires could not be returned, and also some respondents might not even answer the questionnaires during the time of collection
3. Some of the questionnaires could be answered without proper attention and seriousness, but only for the sake of the researcher.

# **3.9 Sources of data**

# **3.9.1. Primary data**

Primary sources provide raw data which can be used firstly in making strategies. The researcher collects this type of information personally through the use interviews or questionnaires, Strese, Keller, Flatten and Brettel (2018).

The research was a new area of study based on a case study of SMEs at Glenview Complex, where few or if any previous researchers had embarked on. Chang, Witteloostuiin, Eden (2010) and Wagner (2007) believed that, primary data is the new research that has never been find out for in any period or particular way where the original research could answer current questions according to a specified operation.

Anderson and Eshima (2013) had also supported it by their note saying that if the required information cannot be established from external bases, primary research is appropriate in acquiring information from institutions and organizations.

Primary data provides the researcher with the exact data for good and effective analysis. The most significant point of primary data is that the problem at hand is directly linked to the findings, meaning the information will be up-to-date and visibly clear to the research problem (Cardon and Kirk, 2015).

In relative to Bagozzi and Yi (2012), the structure of primary data can be awkward because its overrides time when finding data, and also this system is costly in travelling, mainly when dealing with large group of population.

# **3.10 Data collection and appropriate procedures**

A case study of small and medium-sized businesses at Glenview Complex in Harare served as the study's foundation. The researcher was consider the primary means of collecting data. Steps to be taken by the researcher in data gathering are also part of the discussion.

The researcher had to present an introductory letter provided by the University being a pass for authorization by SMEs to conduct study in their premises. Questionnaires were administered personally after being delivered to the respondents. Completed questionnaires was collected and kept safe, waiting for the analysis and presentation.

# **3.11 Data presentation and analysis**

Gombarume and Mavhundutse (2014) agreed that, presentation of data have to be a clean soft form of analyzed data from as the rationale preliminary stage towards the certified analytical tools. The presentation is going to use tables and graphs as well as data summarization into percentages for easily indicating the data to be collected. The researcher was used the SPSS application on a likert scale when analyzing data. Descriptive statistics like mean, median, and mode will be used to assess the quantitative data obtained from the survey questionnaire. It will be tested whether there is a correlation between presumptive tax and SME performance using inferential statistics, such as correlation analysis and regression analysis.

# **3.12 Reliability**

This refers to the one’s measurement mistakes using the same research instrument constantly to produce certain results considering that the subject under measurement have not changed, Cardon and Kirk (2015). Reliability as a ration of accuracy was considered to be of paramount importance due to the fact that unchanged respondents can be on use during study and in other particular cases it might even match the supplied data with those previously reported.

There will be also an opportunity for observations since they are also reliable. Observing could be a source of reliable information because the one cannot only rely on third parties evidence, but there will be also prospects of noticing the routine of different service events in the time of occurrence.

Table 2: Reliability statistics

|  |  |
| --- | --- |
|  | |
| Cronbach's Alpha | N of Items |
| .946 | 12 |

# **3.13 Validity**

Validity can be taken as a normal measure of every research tool used for weighing the correctness. The researcher has to make a good relationship with the supervisor and also there should be a pilot test for ensuring validity of instruments, Shane (2018). Validity can be achieved by preventing the inclusion of leading questions when preparing a questionnaire. Absence of undue influence when answering a questionnaire should also be in place so as to attain validity from respondents.

Influenced responses by personal issues such as, mood, burden of labor, differences in management of dimension can cause some errors to happen. So measuring the exact thing that is intended to be measured, is the correct thing in research thus questions have to be presented with vital information in line with the study, Cardon, Gregoire, Stevens and Patel (2013). One statement or word might mean differently from one person to another, so there should also be enough care when choosing words and phrases for easy and straight understanding by the targeted population.

As put forward by Shane, (2018), validity have different kinds such as, face rationality, content rationality, internal and external rationality. Face rationality is where an instrument provides significant information dealing with sub-problems. Content validity was described as an instrument which measures under study situations. Internal and external validity will then interpret the available data and it also focuses on avoiding generalization from narrow samples and biased conclusions.

# **3.14 Chapter summary**

This chapter discusses the research methods used in the study. The researcher focused on a descriptive research design using questionnaires, as they are proficient in uncovering the side of respondents’ view about the issue in question for valid facts and findings.

**CHACTER IV**

# **DATA PRESENTATION, INTERPRETATION, DISCUSSION AND ANALYSIS**

# **4.0 Introduction**

# This chapter discusses the presentation of data that was collected using the methods and techniques covered in the previous chapter. By skimming and selecting data, organizing and providing data in various ways that are understandable, and offering data, the clarification of gathered statistics was made ready achievable. Data was presented in tables and graphs using Microsoft Excel, and was presented and analyzed simultaneously while being accompanied with an explanation of the results. The chapter concludes with a review of the entire process of presenting and comprehending the material obtained in Chapter III.

# **4.1 Response Rate**

SMEs operators in Harare's Glenview Complex were sent 184 questionnaires, as was described in the chapter before, of which 150 were completed successfully, producing an 81.52% response rate that was sufficient to move further with the study.

Table 3: Questionnaire respond rate

|  |  |  |  |
| --- | --- | --- | --- |
| **The type of response** | **Targeted** | **Actual** | **% of responses** |
| Hair saloons | 30 | 26 | 87% |
| Cottage industries | 54 | 45 | 83% |
| Restaurants operators | 40 | 34 | 85% |
| Transport operators | 30 | 23 | 77% |
| Bottle store operators | 30 | 22 | 73% |
| **Total** | **184** | **150** | **81.52%** |

*Source: Primary data*

# **4.2 Business development**

# **4.2.1 years of business operation**

Table 4: Years of business operation

|  |  |  |
| --- | --- | --- |
| Years | Frequency | percent |
| Below 1 year | 21 | 14% |
| 1 to 5 years | 35 | 23% |
| 6 to 10 years | 49 | 33% |
| 11 to 15 years | 25 | 17% |
| Above 15 years | 20 | 13% |
| **Total** | **150** | **100%** |

*Source: Primary data*

The results suggest that 70% of the respondents, or the majority of the enterprises, had been in operation for zero to ten years. Only 30% had been in operation for 11 years or more. This suggests that many SMEs do not last for longer than eleven years. They seem to cease operations after 15 years, which could be a result of challenging operating conditions, including high taxes and fierce competition, which endanger the viability of their businesses.

# **4.3 SMEs performance**

Figure 2: Effect of presumptive tax on the profitability of SMEs

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | very small extent | small extent | moderate extent | large extent | very large extent |
| lowering SMEs' profits | 5% | 11% | 17% | 40% | 27% |
| reduces their efficiency, | 4% | 6% | 10% | 57% | 23% |
| decrease in demand | 3% | 0% | 4% | 73% | 20% |
| limiting their potential to expand profit generation capability | 10% | 3% | 17% | 40% | 30% |

Table 4: Effect of presumptive tax on the profitability of SMEs

*Source: Primary data from Excel*

# **4.3.1 Lowering SMEs’ profits**

According to the survey, , 67% of respondents were positive that presumptive tax had a detrimental effect on their profitability, while 17% of participants were unsure and 16% claimed that presumptive tax had little to no effect on their profitability. This implies a negative correlation between SMEs' profitability and presumptive tax. The results presented above were in line with those of Were (2011), who found that small-scale vendors in Harare's Glenview Complex did not advance because they infringed on expected revenue. (2011) found that the profitability of small firms is negatively impacted by presumptive income tax.

# **4.3.2 Reduce their efficiency**

According to the study, 80% of respondents were certain that presumptive tax reduces their efficiency, resulting in a decrease in SMEs' profits, while 10% were uncertain. Another 10% said presumptive tax reduces their efficiency, resulting in a decrease in profits to a small or very small extent, implying an inverse relationship between presumptive tax and SMEs' profitability.

# **4.3.3 Decrease in demand**

According to the study, 93% of respondents were certain that the presumptive tax drove them to raise the pricing of their properties/facilities, resulting in a decline in demand and, as a result, profit earned by them, while 4% were unsure. Only 3% said presumptive tax forced them to raise the prices of their properties/facilities, resulting in a decrease in demand and, as a result, a very small profit earned by them. This suggests an inverse relationship between presumptive tax and SMEs' profitability.

# **4.3.4 Limiting their potential to expand profit generation capability**

According to the study, while 17% of respondents were unsure, 70% of respondents were positive that presumptive taxation has restricted SMEs' ability to innovate new business models and limited their ability to increase their capacity for profit generating. Another 13% claimed that presumptive taxation has made it difficult for SMEs to develop new business models, limiting their potential to increase their capacity for profit generating to a negligible or very modest degree. This establishes a conflict between presumptive tax and the profitability of SMEs.

*Figure 3: Effect of presumptive tax on the investment decisions of SMEs*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | very small extent | small extent | moderate extent | large extent | very large extent |
| reduce their income | 1% | 6% | 13% | 33% | 47% |
| affect the ability to replace own-out equipment | 7% | 15% | 20% | 33% | 25% |
| reduce ability to grow operations through introduction of new products | 6% | 13% | 23% | 27% | 31% |

Table 5: Effect of presumptive tax payment on the investment decisions of SMEs

*Source: Primary data from Excel*

# **4.3.5 Reduce ability to grow operations through introduction of new products/services**

Only 19% of respondents thought they still had enough money to pay for other operating costs. The majority (58%) agreed that the introduction of new goods and services had an effect on how they operated as a result of paying presumptive tax. Additionally, 23% weren't sure how new products or services will affect their business. This implied that the investments made by SMEs were underfunded after paying presumptive taxes. Mitra (1997) discovered in a research for the UN that the majority of Glenview Complex's small businesses were still having trouble even after paying presumptive tax. They agree with the study's findings that SMEs face viability problems after paying presumptive tax as a result.

# **4.3.6 Affect the ability to replace won-out equipment and machinery**

58% of respondents were positive that paying presumptive tax had an impact on their capacity to replace outdated gear and equipment, while 20% were doubtful of the impact. Only 22% of respondents thoughts they had enough money to update outdated gear and equipment.

# **4.3.7 Reduce their income**

80% were certain that paying presumptive tax reduced their income to the point where they were unable to implement new technology into their organization, while 13% were unsure how their income to do so was affected. Only 7% of respondents were unaffected. As a result, they concur with the findings of this study that SMEs face investment obstacles after paying presumptive tax.

To support these arguments, a study by Makate (2020) found that presumptive tax negatively impacted the profitability and investment decisions of SMEs in Zimbabwe. In particular, it reduced the profitability of SMEs and increased their compliance costs. The study also found that the level of presumptive tax was positively correlated with the time spent on tax compliance by SMEs.

In terms of profitability, presumptive tax can be seen as a burden on small businesses. SMEs operating in the informal sector often have low profit margins and may struggle to pay the tax, which could lead to reduced profitability and even business closure. For example, a study by Mujeyi and Chimucheka (2020) found that presumptive tax had a negative impact on the profitability of SMEs in Zimbabwe.

Kalonga and Chirara (2019) found that the presumptive tax system in Zimbabwe had a disproportionate impact on the poorest informal SMEs who struggled to pay the tax. This compounded their financial challenges and made it harder for them to grow or hire additional staff.

It was discovered that the introduction of presumptive tax in Zimbabwe had a detrimental impact on SMEs' operations. According to the report, the tax significantly impacted the profitability, expansion, and survival of SMEs. The researcher stated that because microbusinesses make up the bulk of SMEs in Zimbabwe, the tax was particularly onerous for them. According to the study's recommendations, the government should examine its taxation practices and look at alternative revenue-raising options that wouldn't restrict the expansion of SMEs (Muza and Mujere, 2019).

Several studies have examined the effects of presumptive tax on the profitability of SMEs in Zimbabwe. For instance, Kanyenze and Dube (2017) found that presumptive tax led to increased operating costs for SMEs, which in turn reduced their profitability. Similarly, Ncube, Moyo and Sibanda (2018) noted that the tax administration process was burdensome for SMEs, leading to lower net income. These findings suggest that presumptive tax can have negative effects on the profitability of SMEs in Glenview Complex, Harare Zimbabwe.

# **4.4.1 Pearson Correlation Coefficient**

|  |  |  |  |
| --- | --- | --- | --- |
| **Correlations** | | | |
|  | | Payment of presumptive tax | Profit |
| Payment of presumptive tax | Pearson Correlation | 1 | -.618\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 150 | 150 |
| Profit | Pearson Correlation | -.618\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 150 | 150 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

Table 6: Pearson Correlation Coefficient 1

**Source: SPSS**

Based on the correlation analysis, there is a significant negative relationship between payment of presumptive tax and profitability of SMEs in Glenview Complex, Harare. The Pearson correlation coefficient between PPT and P is -0.618(r =-0.618), which indicates a strong negative correlation. The p-value<0.01, which means that the correlation is statistically significant. The analysis suggests that there is no relationship between payment of presumptive tax and profitability of SMEs.

# **4.4.2. Pearson Correlation Coefficient**

|  |  |  |  |
| --- | --- | --- | --- |
| **Correlations** | | | |
|  | | Payment of presumptive tax | Investment |
| Payment of presumptive tax | Pearson Correlation | 1 | -.754\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 150 | 150 |
| Investment | Pearson Correlation | -.754\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 150 | 150 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

Table 7 Pearson Correlation Coefficient 2

Source: SPSS

Based on the correlation analysis, there is a strong negative relationship between payment of presumptive tax and investment decisions. The Pearson correlation coefficient between PPT and IN is -0.754 (r = -0.754), which indicates a very strong negative correlation. The p-value < 0.01, which means that the correlation is statistically significant. This indicates that there is no relationship between payment of presumptive tax and investment decisions.

# **4.5 Summary**

This chapter presented the results of the research, including the data analysis, interpretation, findings, conclusions, and recommendations. The results of the primary data analysis showed that presumptive tax has a negative impact on the profitability and investment decisions of SMEs in Glenview Complex, Harare, Zimbabwe. As a result, it is recommended that the government reduce the presumptive tax rate for SMEs to provide them with more money to invest in growth-related projects and spur company expansion.

# 

# **CHAPTER V**

**CONCLUSIONS, RECOMMENDATIONS, AND SYNTHESIS**

# **5.0 Introduction**

This chapter aims to provide a summary of the research's results, the implications that can be drawn from them, and the suggestions that may be made in light of those findings. This chapter also identifies areas that need more research.

# **5.1 Major findings summarized**

The majority of informal merchants, according to the study's findings, do not believe that their tiny industries would expand into larger ones because they are currently used as a means of survival and things are most likely to stay the same. The study's conclusions are as follows based on analysis of information from a questionnaire given to SMEs at the Glenview Complex in Harare and testing of hypotheses:

1. Presumptive tax led to reduced profitability among SMEs in Zimbabwe.

2. The tax burden has decreased SME's capacity to launch new items and expand their businesses.

3. The negative impact of presumptive tax can be addressed by implementing measures such as reducing the tax rate or simplifying the tax bureaucracy.

(a) Presumptive tax has a considerable impact on SMEs' profitability.

(b) Presumed taxes have a significant impact on SMEs' investment choices.

(c) Negative correlation exists between SME performance and presumptive tax payment.

# **5.2 Conclusions**

The results of this study indicate that the performance of SMEs in Zimbabwe has suffered as a result of the introduction of presumptive tax. The tax burden has led to reduced profitability, decreased ability to introduce new products and expand their businesses and also increased non-compliance.

Despite the strategic role they play in Glenview Complex, Harare, and the global economy as a significant economic stimulator in terms of facilitating the introduction of innovations, providing employment opportunities, and generally transforming the economy, SMEs still face a number of challenges, chief among them the high tax burden, particularly imposed by the state and local governments. The study's findings demonstrate that presumptive tax has a substantial impact on how well SMEs operate in Harare's Glenview Complex.

Prior to placing the financial burden on the SMEs, it is important to prioritize each SME's ability to pay. A smaller financial burden on SMEs means higher prospects for profitability, reinvestment, and growth of the SMEs, which benefits the general economy. This is especially true given that the development and influence of the SMEs are heavily reliant on their viability and reinvestment**.**

# **5.3 Recommendations**

To address the negative impact of presumptive tax on SMEs, the government of Zimbabwe should consider implementing measures such as reducing the tax rate, increasing the threshold for SMEs to qualify for the tax or simplifying the tax bureaucracy. This will improve the tax compliance among SMEs as well as increase their profitability and ability to introduce new products.

On the basis of the study's findings, the following suggestions are made:

(1) The number/amount of taxes and payments that they get from them should be reduced and combined into a single charge in order to enable SMEs to reinvest more of their profits into the company for growth.

(2) To encourage growth and expansion, the government should make sure that SMEs obtain tax benefits for the acquisition of new machinery, equipment, or cutting-edge technology.

(3) The government needs to look into factors that can affect the performance of SMEs like the establishment of a proper infrastructure that would sharply reduce their operating expenses

# (4) ZIMRA should make a serious attempt to collect current dues after announcing a one-time amnesty for all outstanding presumed debts.

# (5) ZIMRA needs to start educating the public about the presumptive tax education program, especially small businesses. This must be completed using a variety of media outlets, including local radio, television, and road shows as well as newspapers.

# (6) To help SMEs as they normalize their operations, the income expert should see to it that they are provided a protracted tax-free grace period. They can also set up a one-stop shop where their operations can be registered and regularized, saving time and money when it comes to carrying out compliance requirements.

# **5.4 Areas for further research**

It is possible to conduct more research on how to include the informal sector in national socioeconomic development policies and initiatives. This study will be able to shed light on how governments in developing nations feel about including the informal sector in national socioeconomic development programs and initiatives. Additionally, it would shed light on the difficulties and encounters of those who attempted or did so. Increased formalization will therefore be a sign that the government is failing to provide a formal environment that is supportive of the growth of SMEs.

# **5.5 Summary**

This chapter summarize the major findings, conclusion, recommendation and areas for further research.

# **Reference**

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. International Research Journal of Finance and Economics, 39, 218-228.

Alberto Gabriel Ndekwa (2014): Factors for improving tax compliance among Small and Medium Enterprises in Tanzania. The International Journal of Business & Management (ISSN 2321 – 8916)

Alhassan, A. L., & Nketiah-Amponsah, E. (2018). Taxation and small and medium enterprises (SMEs) performance: Evidence from Ghana. Journal of Entrepreneurship and Innovation in Emerging Economies, 4(1), 91-106.

Ali, Sjursen&Michelsen (2015) studied factors affecting tax compliance attitude in Africa, Evidence from Kenya, Tanzania, Uganda and South Africa.

Alm, J, Martinez-Vazquez, J. and Torgler, B. 2004. ‘Russian attitudes toward paying taxes–before, during, and after the transition,’ Unpublished paper, Andrew Young School of public Policy. Georgia State University.

Anderson, B. S., & Eshima, Y. (2013). The influence of firm age and intangible resources on the relationship between entrepreneurial orientation and firm growth among Japanese SMEs. Journal of Business Venturing, 28(3), 413–429.

Antonides, G. and Robben, H.S.J. (2015), “True positives and false alarms in the detection of tax evasion”, Journal of Economic Psychology, 16 (4), 617-40.

Aoki &Sandrno, A. (2014). Income tax evasion: A theoretical analysis. Journal of Public Economics, 1, 323 .338

Ayyagari, M. Thorsten, B and Demirguc-Kunt, A (2005). Small and Medium Enterprises across the globe: A New Database. World Bank policy research working paper No 3127.

Babbie, E.R (2007), the practice of social research 11th edition, Belmont, C A, Wadsworth.

Bagozzi, R. P., & Yi, Y. (2012). Specification, evaluation, and interpretation of structural equation models. Journal of the Academy of Marketing Science, 40(1), 8–34.

Balestrino, A and Galmarini, U (2005): On the redistributive properties of presumptive taxation. CESifo working paper no.1381, Category 1, Public Finance. Italy.

Baru, A. (2016), „The Impact of Tax Knowledge on Tax Compliance‟, Journal of Advanced Research in Business and Management Studies, (2)1, 22-30.

Benedetti, F., Giannelli, S., & Lippi, A. (2016). Presumptive taxation: A review of the literature. International Tax and Public Finance, 23(6), 1194-1232.

Best, M and Khan, J.V (2006), Research Methods In Education, Boston, Allyn and Bacon.

Bird, R, M and Wallace, S. 2005. Is It Really so Hard to Tax the Hard-to-Tax? The Context and Role of Presumptive. Taxes.” Elsevier

Bird, R.M. and Zolt, E. 2013.Introduction to Tax Policy Design and Development.Notes for a course on Practical Issues of Tax Policy in Developing Countries, World Bank. Retrieved from www1.worldbank.org/.../WBI%20Module%201(Bird&Zolt)

Cardon, M. S., & Kirk, C. P. (2015). Entrepreneurial passion as mediator of the selfefficacy to persistence relationship. Entrepreneurship Theory and Practice, 39(5), 1029–1050.

Cardon, M. S., Gregoire, D. A., Stevens, C. E., & Patel, P. C. (2013). Measuring entrepreneurial passion: Conceptual foundations and scale validation. Journal of Business Venturing, 28(3), 373–396.

Chang, S.-J., Witteloostuijn, A. V., & Eden, L. (2010). From the editors: Common method variance in international business research. Journal of International Business Studies, 41, 178–184.

Chiromo, A, S (2009), Research Methods and Statistics in Education, A Student Guide, Mbabane, AMADI press.

Chu, H. M., Kara, 0. &Benzing, C. (2008).An empirical study of Nigerian entrepreneurs: success, motivations, problems, and stress. International Journal of business Research,8(2), 102-116.

Cohen, L and Marion, L, (2011), Research Methods in Education, London, Routledge.

Coleman, C. (2017) Tax Refund versus Tax Return? Australian Tax Forum, 22(2): 49-54.

Dalu, T., Maposa, V. G. & Pabwaungana, S. (2013). Business district informal traders. African Journal of Economic and Sustainable Development, 2, 297-308.

Dube, G. and Casale, D. (2016). „The implementation of informal sector taxation: Evidence from selected African countries‟, e-Journal of Tax Research, 14(3), 601.

Dube, G., 2014. „ Informal sector tax administration in Zimbabwe‟. Public Administration and Development, 34(1), pp.48-62.

Elschner, C (2011). Special Tax regimes and choice of the Organisation Form. University of Mannheim. Germany.

Embuka A (2015). Presumptive tax: equalising the distribution of tax burden (11) in Finance News 15/06/15

Gandhi S. 2011. http://web.wordbank.org Presumptive Direct Taxes, retrieved on 08/07/2022

Gandhi S. 2011. Presumptive Direct Taxes. http://web.wordbank.org retrieved on 07/07/2022

Gombarume. F B and Mavhundutse. S (2014). Challenges Faced by Small to Medium Scale Enterprises: A Case Study of Chitungwiza, Zimbabwe Greener Journal of Business and Management studies, Vol. 4 (4), pp. 103-107.

Gordon K (1992), “Can capital income taxes survive in open economies” Journal of finance.

Gray, D, E, (2011) Doing Research in the Real World 2nd Edition, London Sage, Publication Ltd.

Guevara, MM (2008).Designing Presumptive Tax regimes. Philippines. www.synergeia.org.ph

Hanefah, M., Ariff, M., & Kasipillai, J. (2002). Compliance costs of Small and Medium Enterprises. Journal of Australian Taxation, 4(1), 73-97.

Hanson A, and Rohlin S, (2011). The effect of location based tax incentives on establishment location and employment across industry sectors. Public Finance Review.

Harash, E. (2015). The Role of Environmental Uncertainty in the Link between Accounting Information System and Performance Small and Medium Enterprises in Iraq. Global Journal of Management and Business Research, 15(2).

Hughes-hallets, A., Ruane, L., and Mirrlees, J., 2013. Principles for Modern and Efficient Tax Systems, Scottish government, Scottland, pp 55-69

Income Tax Act Chapter 23:06

Kalonga, F. & Chirara, I. S. (2019). Presumptive tax and poverty reduction in Zimbabwe. Journal of Economics and Behavioural Studies, 11(5), 12-20

Kanyenze, G. and Dube, T. P. (2017). The impacts of presumptive taxation on the informal sector in Zimbabwe. Tanzania Journal of Development Studies, 14(1), pp. 50-64.

Kashora, T. and Shumba, E. (2019). Barriers to investment in the Zimbabwean Small and Medium Enterprises Sector (SMEs). Journal of Economics and Behavioural Studies, 11(4), pp. 80-92.

Kiss, A. N., Fernhaber, S., & McDougall–Covin, P. P. (2018). Slack, innovation, and export intensity: Implications for small-and medium-sized enterprises. Entrepreneurship Theory and Practice, 42(5), 671–697.

Kumar, R, (2011, Research Methodology; A Step by Step guider for beginners 3rd edition, London, Sage Publication ltd.

Kumar, S., & Goel, R. (2017). Presumptive taxation: A review of the Indian experience. Journal of South Asian Development, 12(3), 328-348.

Kusakana, K., & Ngirande, H. (2018). An analysis of the tax compliance behaviour of SMEs in Zimbabwe. Journal of Economic Studies, 45(1), 114-129.doi: 10.1108/JES-04-2016-0075

Macmillan, J.H and Schumacher, S, (2010), Research in Education Evidence Based Inquiry 7 th Edition, New Jersey, Pearson Education Inc.

Makate, C. (2020). The Impact of Presumptive Tax on Small and Medium Enterprises: Evidence from Zimbabwe. Journal of Entrepreneurship, Management and Innovation, 16(3), 23-41.

Madhikeni, A., and Zhou, G., 2013. „Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe‟: American International Journal of Contemporary Research, Volume 3 (2):3-12.

Martinez-Vazquez, G. T., J, &Zhang, L. (201 1) “Public policies and FDI location: Differences between developing and developed countries,” FinanzArchiv: Public Finance Analysis, 6 67(2), 171-101.

Masarirambi C. (2013). An investigation into factors associated with tax evasion in the Zimbabwe informal sector: A survey of Mbare Magaba informal traders.

Maseko, N. (2014). The Impact of Personl Knowledge and compliance costs on tax compliance behaviour of SMEs in Zimbabwe. Elite Research Journal of accounting and Business Management. Vol 2(3) p26-37,

Masocha, R., Maiya, S., & Makaza, N. (2016). Tax compliance challenges faced by small and medium enterprises in Zimbabwe. European Journal of Research and Reflection in Management Sciences, 4(1), 16-23

Matkin D,(2010) Designing Accountable and Effective Economic Development Tax Incentives, Public Performance & Management Review, 34:2, 166- 188

Mhaka, T., Marandure, T. and Moyo, K. (2018). The impact of presumptive tax system on SMEs’ access to finance in the mining sector in Zimbabwe. Research in International Business and Finance, 46, pp. 19-26.

Morton J.F. (2011). Formalising the informal sector. Small business taxation in Eastern Europe Experience with Presumptive Taxation – 1999 to 2008. James Morton & Co Ltd, UK

Mujeyi, M. & Chimucheka, T. (2020). The impact of presumptive tax on the profitability of SMEs in Zimbabwe. Africa Journal of Business Management, 14(10), 228-237.

Musvoto, C., Chipangura, P. & Mutyambizi, T. (2018). Presumptive tax and access to credit by SMEs in Zimbabwe. Journal of Sustainable Development in Africa, 20(6), 69-82.

Muza, G., & Mujere, J. (2019). The impact of presumptive tax on the performance of small and medium enterprises in Zimbabwe. Journal of Small Business Management and Entrepreneurship, 6(1), 87-101.

Ncube, N., Moyo, D. and Sibanda, M. (2018). Tax collection system and small and medium enterprises in Zimbabwe: Challenges and prospects for sustainable economic development. Journal of Economics and Sustainable Development, 9(23), pp. 172-181.

Nkwe N (2013): Taxpayer’s attitude and compliance behaviour among SMEs in Botswana. Journal of Business and Management Horizons, Volume 1, No. 1.

Njagi, L. W., & Mwega, F. M. (2016). Presumptive taxation and its impact on small and medium enterprises in Tanzania. 8(7), 57-64.

Nwamuo, C., ‘Multiple Taxation and the Operations of Business Enterprises in Aba Metropolis’, Pyrex Journal of Business and Finance Management Research, vol. 3, no. 6, pp. 132-138, 2017.

Nyamwanza, T. Severino Mavhiki, Denver Mapetere, Lilian Nyamwanza. (2014) An Analysis of SMEs’ attitudes and Practices toward Tax Compliance in Zimbabwe. [Online] Sage Journals.

Ojeka A and Ojochugwu W, A (2012): Factors that affect tax compliance among SMEs in North Central Nigeria. International Journal of Business and Management, Volume 7, No. 12.

Riahi-Belkaoui, A. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. Journal of International Accounting, Auditing and Taxation, 13, 135-143.

Shane, S. (2018). Startup failure rates: The definitive numbers. https://smallbiztrends.com /2012/12/start-up-failure-rates-the-definitive-numbers.html

Shuttleworth, M. (2008):http://www.experiment-resourses.com/casestudy-researchdesign.hmtl#ixzzIZTrKejY5.

Slemrod, J and Yitzhaki, S (2004). Analyzing the standard deduction as a Presumptive tax, International tax and Public Finance1, 25-34.

Small Enterprise Development Corporation (2010): website contents www.sedco.co.zw, (Accessed 10 April 2022)

Small Enterprises Development Corporation (SEDCO 2010): website contents www.sedco.co.zw, (accessed 07/07/2022

Smulders, S., and Stiglingh, M., 2012. Annual tax compliance costs for small businesses: A survey of tax practitioners in South Africa. PhD Thesis, University of Pretoria. South Africa.

Stiglitz, J., 2013. Economics of the Public Sector, 3rd Edition, Norton, New York, 46- 49

Strese, S., Keller, M., Flatten, T. C., & Brettel, M. (2018). CEOs’ passion for inventing and radical innovations in SMEs: The moderating effect of shared vision. Journal of Small Business Management, 56(3), 435–452.

Tanzi V and H.H Zee (1999), “Taxation in a borderless world”. The role of information exchange.

Tapera, M (2010). Tax Kit for Business and Economics. 7 th Ed. Harare: Senbrook Printers.

Thuronyi, V (1996). Tax Law Design and Drafting (Volume 1; International Monetary Fund). Chapter 12.

Thomas K, D (2013). Presumptive collection, a prospect Theory approach to Increasing Small Business Tax Compliance. Draft article for 67 Law Review, USA

Tindimwebwa, K (1999). Taxation of the Informal sector and self-employed challenges and way forward. The case of Uganda, Paper prepared for CATA 20th technical conference held between 16th - 20th August 1999. Bolivia.

Tusubira, F. N., & Nkote, I. N. (2013), „Income tax compliance among SMEs in Uganda: Taxpayers proficiencies perceptive‟, International journal of business and social science,4(11)

Utaumire,B ,Mashiri ,E and Mazhindu, K (2013): Effectiveness of presumptive tax system in Zimbabwe: Case study of ZIMRA Region One. Research Journal of Finance and Accounting (Volume 4 no 7).

[www.smeaz.org](http://www.smeaz.org)

Zhou, T., Tarwirei, F. & Makoni, N. (2019). Assessment of the efficacy of presumptive tax on SMEs in Zimbabwe. International Journal of Economics, Commerce and Management, 7(6), 128-141.

Zimbabwe Revenue Authority (2014), ZIMRA annual report Zimbabwe Revenue Authority (2013), Harare: ZIMRA

Zimbabwe Revenue Authority (2015), ZIMRA annual report Zimbabwe Revenue Authority (2014), Harare: ZIMRA

Zimbabwe Revenue Authority (ZIMRA 2016): „Revenue collections against targets 2012- 2016.Available online at http://www.zimra.co.zw, accessed 27/08/17.

Zimbabwe Revenue Authority. (2018). Presumptive tax. Retrieved from https://www.zimra.co.zw/tax-types/presumptive-tax.

# **Appendix 1: Questionnaire**

**Guide:** Please tick the option which matches your opinion

**Section A**

1. **Business category**

|  |  |
| --- | --- |
|  | √ |
| Hair saloon |  |
| Cottage industry |  |
| Restaurant operators |  |
| Transport operators |  |
| Bottle store |  |

1. **For how long have you doing this business?**

|  |  |
| --- | --- |
| Below 1 year |  |
| 1 to 5 years |  |
| 6 to 10 years |  |
| 11 to 20 years |  |
| Above 20 years |  |

**Section B**

**PLEASE NOTE: use the responses of; 1 To very small extent, 2 To small extent, 3 Moderate extent, 4 To large extent and 5 To very large extent**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| N | **Questionnaire items** | 1 | 2 | 3 | 4 | 5 |
|  | **To what extent do the following affect the profitability of SMEs?** | | | | | |
| 1 | Presumptive tax has been a significant cost component, lowering SMEs' profits. |  |  |  |  |  |
| 2 | Presumptive tax paid by SMEs reduces their efficiency, resulting in a decrease in SMEs' profit. |  |  |  |  |  |
| 3 | Presumptive tax paid by SMEs has forced them to raise the pricing of their goods/services, resulting in a decrease in demand and, as a result, profit earned by them. |  |  |  |  |  |
| 4 | Taxes have limited SMEs' ability to invent new ways of doing business, limiting their potential to expand profit generation capability. |  |  |  |  |  |
|  | **To what extent do the following affect the investment decisions of SMEs?** |  |  |  |  |  |
| 1 | SMEs' ability to grow their operations through the introduction of new products/services is influenced by the presumptive tax they pay. |  |  |  |  |  |
| 2 | Presumptive tax paid by SMEs affect their ability to replace worn-out equipment and machinery. |  |  |  |  |  |
| 3 | Presumptive tax paid by SMEs reduces their income to the point that they are unable to adopt new technologies into their company. |  |  |  |  |  |

**Thank you for your valuable time**