

AN ASSESSMENT OF TAX COMPLIANCE AMONG SOWETO MARKET TRADERS IN LUSAKA.

(Paper ID: CFP/1366/2019)

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ABSTRACT

The study aims at doing an assessment of tax compliance among Soweto market traders in Lusaka. Globally, tax compliance among informal sector is unaccounted for and a major problem as many countries fail to come up with ways to cut non-compliance. Small and Medium Enterprises (SMEs), particularly marketeers are now one of the major sources of employment and play a vital role in the development and growth of the Zambian economy, but their contribution to the national treasury is affected by tax compliance.

Several scholars have analyzed theories that relate to tax compliance such as economic deterrence theory which states that taxpayer's behaviour is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs, Becker (1968). This implies that if detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial non-compliance. The

theoretical principles of economic deterrence have also been widely adopted by tax

administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.

The presentation on the topic covered two chapters, in chapter one the presentation was on the introduction and covered the background of the research, statement of the problem, research objectives, significance of the study, conceptual framework, research questions and theories related to the topic.

The discussions in chapter two is on literature review which covers the global view of the topic, the regional view of the topic and the local view of the topic.

Chapter three looked at research methodology, data collection methods and tools. This chapter is a description of the research design, study population, sample size, sampling procedure, data collection procedures and data analysis tools that were used in the study.

Chapter Four covered the presentation of data of the findings drawn from the objectives and research questions of the study. Chapter five looks at the Analysis of Data, conclusion and recommendations.

INTRODUCTION

1. Overview

Globally, tax compliance among informal sector is unaccounted for and a major problem as many countries fail to come up with ways to cut non-compliance. Small and Medium Enterprises (SMEs) whose majority are marketeers are now the major source of employment and they play a very vital role in the development and growth of the Zambian economy, but their contribution to the national budget is affected by tax compliance by some businesses. Many studies have been undertaken and have identified numerous problems being associated with small businesses such as lack of finance and access to it, lack of market information, lack of managerial skills, lack of proper government policy promoting the formation of small scale enterprises and most all lack of information on tax compliance thereby making the sector contribute less to the development of the nation. Little attention however, has been paid to entrepreneurship which is the underlying factor to the development of many businesses nevertheless continue to contribute to the national treasury.

1.1 Background

When do informal workers comply with taxation and does compliance foster greater national development? A long line of scholars suggests that taxation reinforces the social contract between citizens and the state. Governments have an incentive to provide goods and services to encourage citizens to pay taxes. In turn, by paying taxes, citizens experience ownership over government activities and feel entitled to demand greater representation of their preferences in the

policy arena, Moore et al (2002). While these theoretical claims originally were based on historical experiences in developed countries, these linkages increasingly are observed in a range of developing countries as well, Prichard (2015).

However, it remains unclear whether these relationships are equally relevant for those in the informal sector, who constitute more than two-thirds of the labor force in developing countries, ILO (2018). Along with a lack of social protection and employment benefits such as sick or paid leave, informality long has been synonymous with evading taxation, Gerxhani (2004). Yet, taxes are not always levied with the objective of formalizing unregistered micro and small businesses. In fact, informal workers in developing countries pay a variety of taxes and fees to local authorities simply to be allowed to operate their businesses. In some countries, the national revenue agency even has applied special informal economy “presumptive” taxes that are based on the presumed, rather than actual, income of a worker given the type of work that an individual performs, Dube and Casale (2016). More generally, the large size of the informal sector represents a potentially very sizeable source of tax revenue for developing country governments, especially in Africa where the informal economy contributes about 38 percent of GDP, IMF (2017).

1.2 Statement of the Problem

Tax compliance can be described as the process of fulfilling the tax payer’s civil obligation for tax payment and filing of tax returns including the provision of necessary documents and explanations required by the ZRA in a timely

manner ZRA (2017). Achieving high levels of voluntary tax compliance and/or maintaining current compliance rates as well as increasing the marginal levels are issues of concern to fiscal policy makers in developed and developing countries alike. This is the case because, irrespective of the nature of the economy, the principal objective of taxation is one and the same: to raise revenue towards the financing of public goods and services, and funding of governments BoZ (2018). Small scale enterprises being profit generating establishments are also expected to pay their dues. Since the individual SME's pays a very small amount of tax compared with what the larger establishment would pay, tax authorities tend to give the larger corporations more attention.

Particularly in Zambia, tax compliance among traders is seemingly an issue which require attention. Thousands of transactions take place in market places and government continue to provide social services in these places but, little is realized in terms of taxes. The question to ask is do people just don't want to be tax compliant or there are no convenient ways of allowing traders remit taxes due to them, ILO (2002).

From an equity perspective, there have been arguments for an almost total exemption from direct taxes for the informal sector, particularly those taxes paid to central government, Fox (2012) argue that informal sector taxes tend to be regressive, threatening the viability of the smallest enterprises (considering that most of them might already be paying local taxes such as trading licenses, operating permits or user fees). Informality may be the only viable alternative for many people in developing countries who have been 'excluded' from participating in the formal sector. In such cases, attempts to tax these enterprises may not only result in inequity,

Carroll (2011) but may also destroy informal jobs.

While this may be true for the smaller enterprises, there is evidence that those in the informal sector are not always poor, Gurtoo & Williams (2009) Not taxing these informal enterprises similarly gives rise to inequities and dissatisfaction among those with similar or lower incomes in the formal sector, Fjeldstad & Heggstad (2011). There is a dearth of empirical evidence on the equity implications of presumptive taxes in countries where they have been implemented. The few existing studies have mostly just highlighted that the lack of tax-free thresholds in many presumptive tax systems, a feature common to most personal income tax (PIT) systems, is likely to result in inequity, Memon, (2013).

Economic efficiency refers to the optimal allocation of resources in the economy. Taxes may distort economic decisions resulting in misallocations and a loss of welfare over and above the revenues collected—the excess burden of taxation Rosen (1995). By not paying taxes, informal enterprises are therefore escaping the distortionary effects of taxation, and bringing these firms into the tax net may actually hinder their operations through tax-induced behavioral changes that result in reduced output, Alm et al (2004).

1.3 Objectives

1.3.1 General Objective

To explore tax compliance levels among the marketeers at Soweto market.

1.3.2 Specific Objectives

- i. To assess the knowledge marketeers have on tax compliance.

- ii. To determine the level of knowledge by marketeers on types of taxes applicable to traders.
- iii. To establish the knowledge on possible consequences of marketeers not remitting taxes.

1.4 Research Questions

The research questions were used to propose the following prompts in order to find the best means possible to gather data;

- i. What is the level of knowledge of traders about tax compliance?
- ii. What is the knowledge of marketeers on type of taxes applicable to them?
- iii. What is the knowledge on the consequences for non-tax compliance by traders?

1.5 Conceptual framework

The informal sector consists of firms and individuals who are not fully registered and regulated, and therefore not in the standard tax net resulting in non-tax compliance. Taxing the informal sector can be through registration and formalisation to push these firms and individuals into the tax net, or it can be through taxing them indirectly. In most countries there are several types of business registration and varying degrees of formalisation. Formalisation can encourage business growth, create a better business environment, and help build a culture of tax compliance. An economic modelling study suggests that full enforcement of taxation on the informal sector would increase labour productivity and output through reducing

economic distortions. However, it is unlikely that taxing the informal sector through formalisation of all firms would bring in significant tax revenues at least in the short- and medium-term. In general, a firm's decision about whether to formalise is based on an analysis of the costs which can include higher taxes and benefits such as growing the business through official advertising and access to credit markets. For some firms, especially small firms and micro-enterprises, formalisation would not be beneficial, even if it were cheap and straightforward. Simplifying and lowering the cost of registration has little or no effect on getting small firms to formalise, according to a review of econometric evidence Bruhn & McKenzie, (2014).

To tax firms while they remain informal, the guidance literature, based on econometric analyses and literature reviews, suggests taxing the goods and services that they buy and sell through sales or value-added taxes or through presumptive or withholding taxes. Another approach is to delegate the role of collecting tax to trade unions, and to business or other associations. Tax administrations may need to reorganise, as the informal sector can be difficult to reach through large bureaucracies Joshi & Ayee, (2008).



Source: researcher (2019)

1.8 Theoretical Framework

Economic deterrence

The economic deterrence theory states that taxpayer's behaviour is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs, Becker (1968). This implies that if detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance. Although the model has been criticized for focusing exclusively on the coercive side of compliance, at the expense of the consensual, Sandmo (2005), there is some evidence to support the relevance of deterrence strategies to addressing noncompliance, Evans (2009). For example, the fear of getting caught, or the probability of detection, has been found in

some contexts to be an effective strategy to induce truthful behaviour. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.

1.1.0 Ethical Consideration

Pera and Van Tonder (1996) define ethics as "a code of behaviour considered correct. It is crucial that all researchers are aware of research ethics. Ethics relate to two groups of people; those conducting research, who should be aware of their obligations and responsibilities, and the researched upon, who have basic rights that should be protected. The study therefore had to be conducted with fairness and justice by eliminating all potential risks. The respondents must be aware of their rights. Ethical issues observed in a study may include informed consent, right to anonymity and confidentiality, right to privacy, justice, beneficence and respect for persons, Brink & Wood (1998).

1.1.2 Chapter summary

Chapter one has laid the foundation on the background of tax compliance among entrepreneurs or marketeers and the significance of their contribution to the national treasury. It has been noticed that ignoring this important sector of the economy could lead to loss of much needed revenue for budget financing. It is also argued the main reason why most African budget run on deficit, is partly due to low tax compliance. Objectives have been set and these are expected to guide the researcher throughout the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter outlines the literature from which the research questions have been expanded. The in-depth explanation starts with global view of how four Nations on the global market treat tax compliance among traders or marketeers. Then another looks on how the regional or four African nations endeavour to ensure tax compliance among traders or marketeers. Another look at local or Zambian taxation especially in the informal sector in markets and to see how best this can tax compliance is conducted

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries of the world. According to World Bank Annual Bulletin (2011), Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are with SMEs, which also create 4 out of 5 new positions. However, access to finance is a key constraint to SME growth; without it, many SMEs languish and stagnate.

An important question, given the inherent difficulties in collecting taxes from the informal sector, is why then do governments engage in this practice? The most obvious, and it seems the most common motivation, is to raise revenue. The informal sector's contribution to GDP in

developing countries is large, and in some cases, growing, Schneider et al (2010). For instance, in sub-Saharan Africa, the informal sector's contribution to GDP rose from 24.1 per cent in the 1990s to 31.3 per cent in the 2000s, while in Latin America the increase was from 13.6 per cent in the 1990s to 24 per cent in the 2000s, Charmes (2012). However, the focus on the share of GDP as an indicator of revenue potential may obscure the fact that this sector has numerous small enterprises with low incomes Djankov et al. (2002; Phiri). Therefore, segmenting this sector into firms that cannot be expected to pay taxes and those that can is a challenging but important consideration in informal sector tax policy, IMF (2007).

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

The research methodology for primary data took and used administered questionnaire with closed ended questions because the target population was not that literate. This research design is more elaborate and its findings more reliable for this kind of study

3.2 Research Design

Kothari (2004) observed that research design is making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money. Again, it is a blue print that facilitates smooth functioning of all research operations.

This research is a combination of both exploratory and descriptive research designs.

Exploratory Research- It has conducted with the purpose of gaining better insight into a problem. While in descriptive Research, the researcher has no control over the variables he can only report what has happened and what is happening. This design refers to a set of methods and procedures that describe variables. It contains review and fact verdict enquiry of different kinds. Descriptive studies portray the variables by answering who, what, and how questions, Babbie (2002).

The research design used in this study was the descriptive design. The major purpose of descriptive research is description of the state of affairs as it exists. Descriptive survey is the method of collecting information by interviewing or administering a questionnaire to a sample of individuals, orodho (2003). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety education or social issues.

3.3 Sources of Data

Apart from the secondary source of data such as books, magazines, internet websites, newspapers and so on, primary data was also collected through questionnaires. The study used primary data, which was captured through a prearranged questionnaire. The questionnaire included both closed and open-ended questions and had two sections. The first part deals with general information on the participants. While the second section sought information on issues that relate to tax compliance of marketeers at Soweto Market of Lusaka.

3.4 Target Population

The target population is the entire aggregation of respondents that meet the designated set of criteria, Burns & Grove (1997).

The researcher is targeting marketeers or traders at Soweto market. The target number of marketeers is 10,000 most them established with trading stands but not forgetting those that are mobile.

3.5 Sample Size

Ideally one may want to study the entire population. However, usually it is impossible or unfeasible to do this and therefore one must settle for a sample. Sampling is defined by Burns and Grove (2015) as a process of selecting respondents who are representative of the population being studied. The sampling theory was developed to determine mathematically the most effective way to acquire a sample that would accurately reflect the population under the study. According to Polit and Beck (2012), a sample is a subset of a population comprising those selected to participate in a study and sampling is the process of selecting a portion to represent the entire population.

The research used a non-probability sampling procedure known as convenience sampling to get respondents for the study. In other words, under non-probability sampling the organizers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be typical or representative of the whole, Kothari (2004).

As Rescoe (1975) states that Sample sizes larger than 30 and less than 500 are appropriate for most

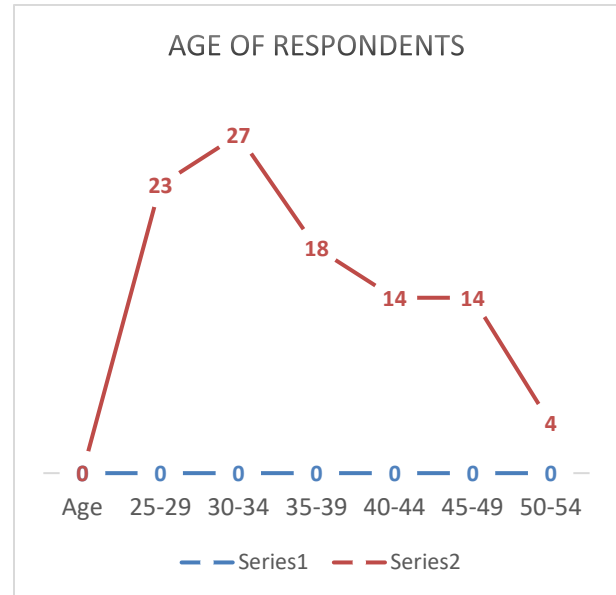
research. Having in mind these limitations, the sample size that consisted of 100 questionnaires.

Table 3.5.1

Background	Frequency	Percent
Characteristics		
Age		
25-29	23	23.0
30-34	27	27.0
35-39	18	18.0
40-44	14	14.0
45-49	14	14.0
50-54	4	4.0
Marital status		
Single	15	15.0
Married	56	56.0
Divorced	18	18.0
Widowed	11	11.0
Education		
No Education	15	15.0
Primary	73	73.0
Secondary	5	5.0
Tertiary	7	7.0
TOTAL	100	100.0

Chart 3.5.2

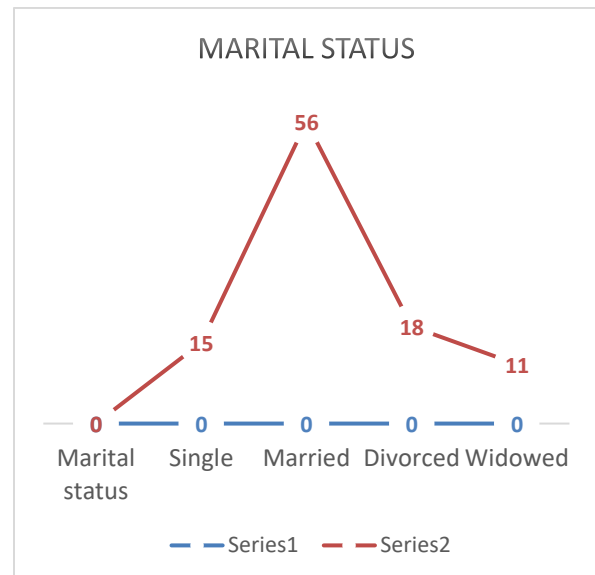
Age of respondents



From the chart above, 100 marketeers responded to questionnaires.

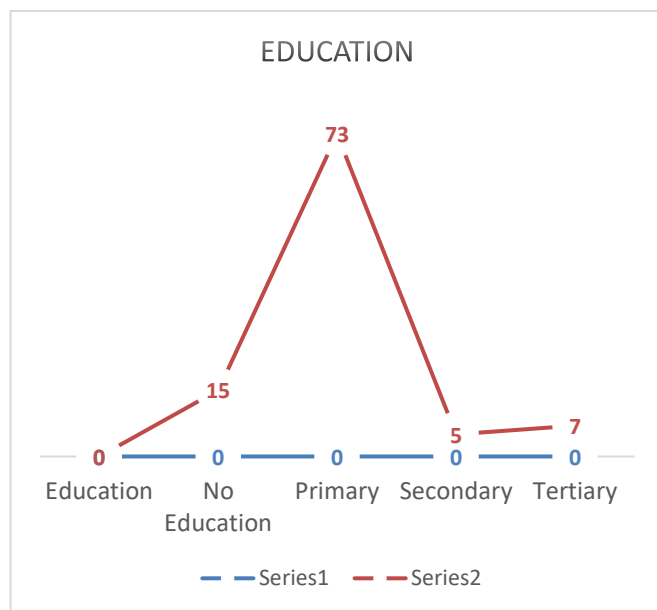
Chart 3.5.3

Marital status



The chart above clearly shows that 100 marketeers participated in answering the questionnaires.

Chart 3.5.4
Education



The chart showing education background of marketeers also illustrate that 100 participants successfully answered the questionnaire.

3.6 Data Analysis Tools

The researcher has examined the completed questionnaire. The information for each item on the questionnaire has been processed and reported through a descriptive narrative. These have been accomplished by use of frequencies. The results have been presented in charts, graphs and tables. Quantitative and Qualitative analysis techniques have been applied. Tabular presentation of the data has been made.

Data collection and analysis tools are defined as a series of charts, maps, and diagrams designed to collect, interpret, and present data for a wide range of applications and industries. Various programs and methodologies have been developed for use in nearly any industry, ranging from manufacturing and quality assurance to

research groups and data collection companies, Kothari (2004).

Data analysis was used to examine the data and test the hypothesis of this study. This was so to provide a single number that summarizes the relationship between two variables and produces single summary statistics describing the strength of the association and the tools used were Excel, SPSS, tables, and charts used to analyses data. Data analysis is a three linked sub-processes data reduction, data display and conclusion drawing verification' while Cooper and Shindler (2003) describes it as the reduction of accumulated data to a manageable size, business research, the study often demands the analysis of the relationship between two variables.

3.7 Data Collection Methods

Data collection is a systemic way of gathering information, which is relevant to the research purpose or questions, Burns & Grove (1997).

Data collection refers to the gathering of information to serve or prove some facts, the difference between primary and second research collection is that primary research data collection involves conducting research oneself, or using the data for the purpose it was intended for. Secondary research data, on the other hand, was collected by a third party or for some other purpose, Shindler (2003). Primary data can be collected by someone in the organization. This person has to have a clear plan for conducting research, including specific research questions and methodology. The data that is collected is used for its intended purpose.

Although there are many different ways to classify designs, one that gives a clear overview

of the various procedures is based on three methods of generating primary data: experimentation, observation, and survey.

Secondary data might actually be the product of another research, or might have been collected by someone else. Unlike primary data, secondary data is not tightly controlled by the researcher. The process has already happened, or the data was collected for a different purpose.

To determine the data sources for the research project, an assessment must first be made of the amount and type of data presently available. These data are called secondary data.

Which data you use depends entirely on your resources and your purposes. Each has its benefits and drawbacks. The researcher used both primary and secondary data.

3.8 Triangulation

The researcher often used Triangulation method to indicate that more than two methods are used in a study with a view to double (or triple) checking results. This is also called "cross examination". The idea is that one can be more confident with a result if different methods lead to the same result. If an investigator uses only one method, the temptation is strong to believe in the findings. If an investigator uses two methods, the results may well clash. By using three methods to get at the answer to one question, the hope is that two of the three will produce similar answers, or if three clashing answers are produced, the investigator knows that the question needs to be reframed, methods reconsidered, or both.

Triangulation is a powerful technique that facilitates validation of data through cross

verification from more than two sources. In particular, it refers to the application and combination of several research methodologies in the study of the same phenomenon.

- I. It can be employed in both quantitative (validation) and qualitative (inquiry) studies.
- II. It is a method-appropriate strategy of founding the credibility of qualitative analyses.
- III. It becomes an alternative to traditional criteria like reliability and validity.
- IV. It is the preferred line in the social sciences.

By combining multiple observers, theories, methods, and empirical materials, researchers can hope to overcome the weakness or intrinsic biases and the problems that come from single method, single-observer and single-theory studies.

The whole purpose of triangulation in qualitative research is to increase the credibility and validity of the results. For this study, data collection methods were through questionnaires, interviews and desk research which had to be administered, they were scrutinized, to check for consistency in the responses. The quantitative data gathered collected were recorded using numerical codes to enable the researcher enter data quickly and fewer errors.

3.9 Limitation of the Study

Since no study of Income generation at Soweto has been undertaken before this study raised suspicion and was other considered it sensitive in giving out strategic information about their

marketing. Even within a relatively narrow scope, the research had insufficient time and financial resources to perfectly cover all facets of the study.

Because of the reasons stated above there might been biasness or an effect on the findings of study. Also, the respondents can be biased to the data when they are not experts on them. In an attempt to eliminate biasness in the study, each respondent was spoken to and encouraged to be independent as a possible and the researcher ensured that no leads were given prior respondents answering the questionnaires.

The study was guided by fundamental ethical consideration that relate to responsible research in the human sciences. Specific concerns that were addressed are validity, participation, sharing and results.

CHAPTER 4

PRESENTATION AND DESCRIPTION OF THE RESULTS

4.0 INTRODUCTION

This chapter is about presentation and description of results. The purpose of the study was an assessment of tax compliance among Soweto market traders or marketeers of Lusaka.

4.1 Background information of respondents

Table 1

Percentage of SME's by background characteristics. The findings below show that the

majority 27 percent (27%) of SME were between the ages of 30-34. The study also shows that most of the respondents were married, which covered 56 percent as compared to 15 percent and 18 percent of the single and divorced SME's respondents respectively. The study further shows that the majority of the SME's respondents were those who reached primary level of education at 73 percent and it further show that 15 percent had no education.

Background Characteristics	Frequency	Percent
Age		
25-29	23	23.0
30-34	27	27.0
35-39	18	18.0
40-44	14	14.0
45-49	14	14.0
50-54	4	4.0
Marital status		
Single	15	15.0
Married	56	56.0
Divorced	18	18.0
Widowed	11	11.0
Education		
No Education	15	15.0
Primary	73	73.0
Secondary	5	5.0
Tertiary	7	7.0
TOTAL	100	100.0

Chart 1

Age of respondents

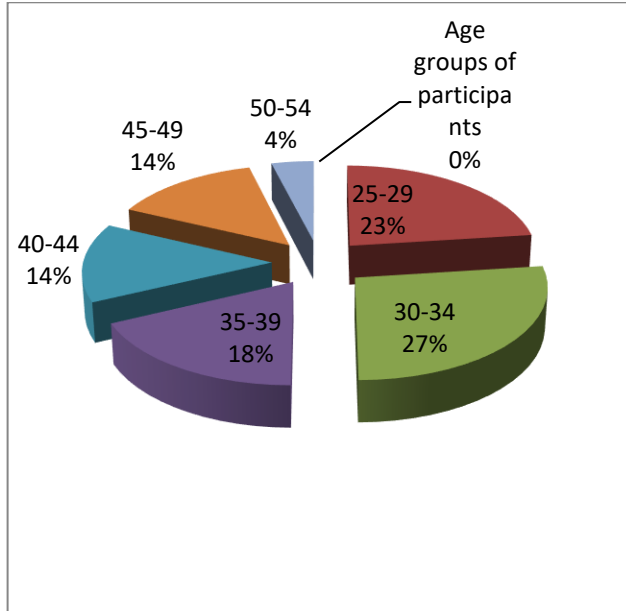


Chart 3

Education background of respondents

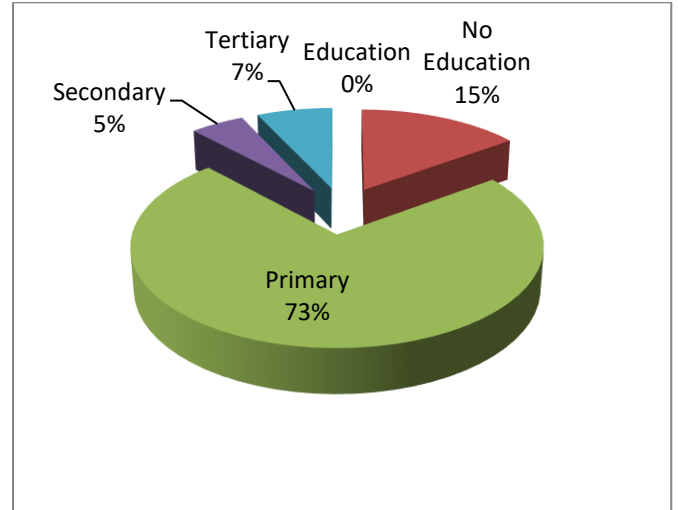
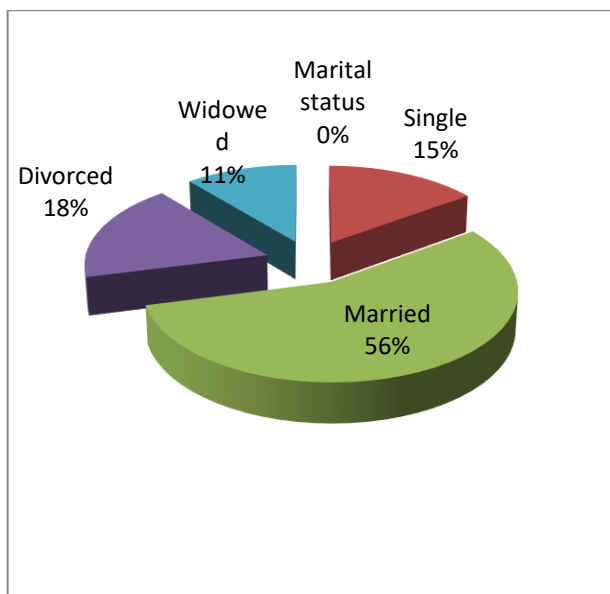


Chart 2

Marital status



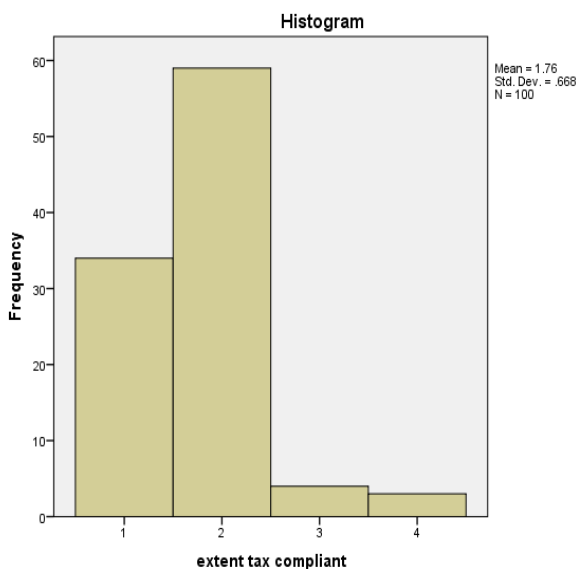
4.2 The level of knowledge of traders about tax compliance

Table 2

		Value	Count	Percentage
Standard Attributes	Label	extent tax compliance		
Valid Values	1	low	34	34.0%
	2	moderate	59	59.0%
	3	high	4	4.0%
	4	very high	3	3.0%

Table 3
Histogram 1

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
extent tax compliant	.300	100	.000	.732	100	.000
a. Lilliefors Significance Correction						



4.3 To determine the level of knowledge traders have on types of taxes applicable to them.

Table 4

Level of knowledge				
		Value	Count	Percent
Standard Attributes	Label	Tax contribute		
Valid Values	1	VAT	6	6.0%
	2	no knowledge about tax	30	30.0%
	3	provisional tax	2	2.0%

4	PAYE	5	5.0%
5	Withholding tax	3	3.0%
6	Base tax	54	54.0%

Table above shows that 54% of marketeers expressed knowledge on base tax while 30% of marketeers expressed lack of knowledge on any tax applicable to them. The remaining percentage of marketeers expressed knowledge in VAT, PAYE, Provisional, and withholding tax representing 6%, 5%, 2% and 3% respectively.

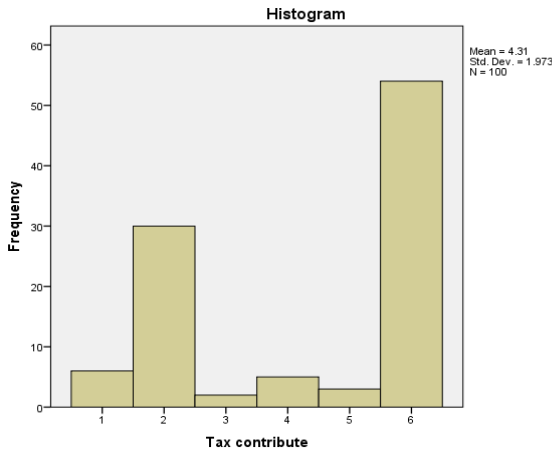
Table 5

Correlations			
		Tax contribute	level of education
Tax contribute	Pearson Correlation	1	-.053
	Sig. (2-tailed)		.601
	N	100	99
level of education	Pearson Correlation	-.053	1
	Sig. (2-tailed)	.601	
	N	99	99

Correlation refers to the existence of a relationship between two variables such that a change in one of the variables is accompanied by a change in the other variable. The changes are moving in opposite directions as we have a positive figure on one variable and a negative figure on the other therefore, we have negative correlation.

This simply means that there is less or no relationship between level of education and knowledge about tax applicable to traders. In other words, the increase in one variable does not affect the other.

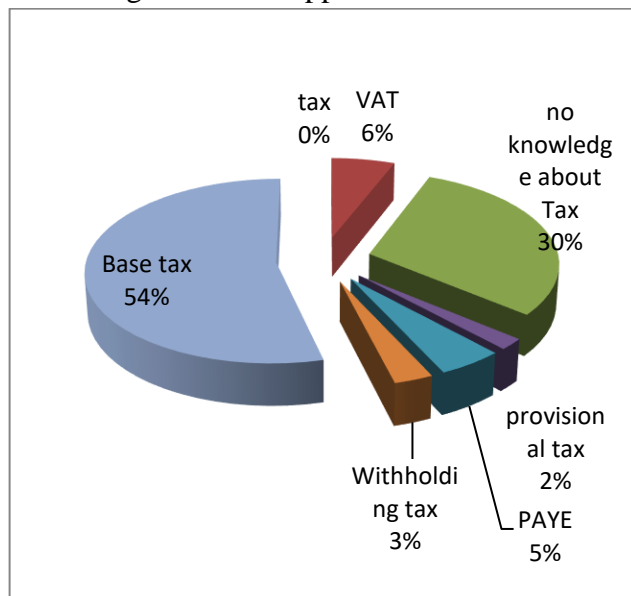
Histogram 2



The actual shape of the distribution for each group can be seen in the Histogram shown above. This is the extent to which the distribution is normal or not.

The pie chart below further illustrates the distribution of data on the knowledge traders have on taxes applicable to them.

Chart 4
Knowledge about tax applicable to them



4.4 To establish the reasons why traders at Soweto market pay tax to ZRA

Table 7 below shows that only a total of 23 percent SMEs pay tax because they want to support the government in running all its affairs. While 25 percent of the respondents pay tax as a result of contributing to National development, and only 52 percent of the SMEs paid tax in order not to be punished by the authorities in case of tax avoidance.

Regarding marital status, the respondents who paid tax due to supporting the government were; 28.6 percent of the married and 20 percent were single. And for those who paid tax as a result of contributing to the national development, it showed that 44.5 percent of the respondents who paid tax due to wanting to contribute to the national development were widowed and 30.4 percent of the SMEs trading at Soweto market that paid tax for national development are those who were married. And only 5.6 percent of the respondents who were divorced paid tax for national development. The respondents who paid tax for fear of punishment were 77.8 percent of the divorced and only 41.1 percent of the married respondents paid tax as a result of avoiding punishment by the authorities.

In terms of education it showed that 6.7 percent of the SMEs who had no education paid tax as a result of supporting the government and 86.7 percent of the respondents who had no education paid tax for reason being fear of punishment by the authorities. It further shows that 38.4 percent of SMEs who ended school at primary level paid tax to avoid punishments. For those who ended school in secondary level, the table shows that 80.0 percent paid tax in order not to receive

punishment as compared to 20 percent who paid for supporting the government. The highest level

of education was tertiary which showed us that 100 percent of the SMEs with tertiary level of education paid tax for fear of punishment.

To summarize the table below showing the bivariate relationships between background characteristics and Reasons to why people pay tax and their p-values, there is a significant relationship between Education of a respondent and the reasons for paying tax since the p-value (Pr=0.002) is less than 0.05, meanwhile the age of the respondent is not related to the reasons why SMEs pay tax.

Percentage distribution of respondents by reasons to why they pay tax.

Table 7

Background Character-istics	Support gov't	National develop-ment	Avoid punish-ment	Total
Age				
25-29	26.1	21.7	52.2	23
30-34	29.6	18.5	51.9	27
35-39	16.7	38.9	44.4	18
40-44	7.1	42.9	50.0	14
45-49	28.6	7.1	64.3	14
50-54	25.0	25.0	50.0	4

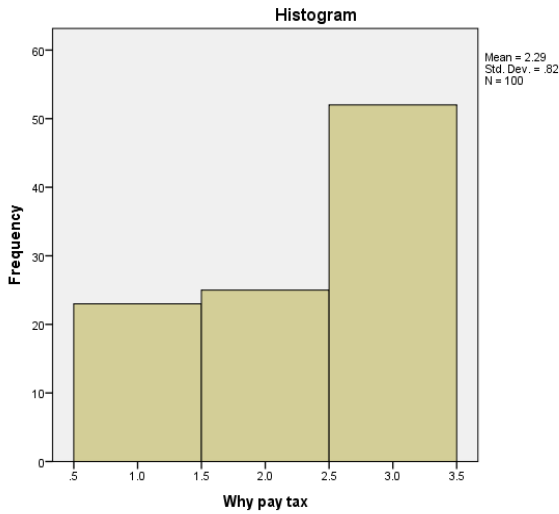
Marital status				
Single	20.0	13.3	66.7	15
Married	28.6	30.4	41.1	56
Divorced	16.7	5.6	77.8	18
Widowed	9.1	44.5	45.5	11
Education				
No Education	6.7	6.7	86.7	15
Primary	28.8	32.9	38.4	73
Secondary	20.0	0.0	80.0	5
Tertiary	0.0	0.0	100.0	7
TOTAL	23.0	25.0	52.0	100

Table 8

Reasons for paying tax

Standard Attributes	Label	Value	Count	Percent
Valid Values	1	support Governm ent	23	23.0%
	2	National Develop ment	25	25.0%
	3	Avoid punishme nt	52	52.0%

The table above shows some reasons why marketeers pay tax to Zra and the responses where 23% on support the Government, 25% on national development and 52% on avoiding punishment.

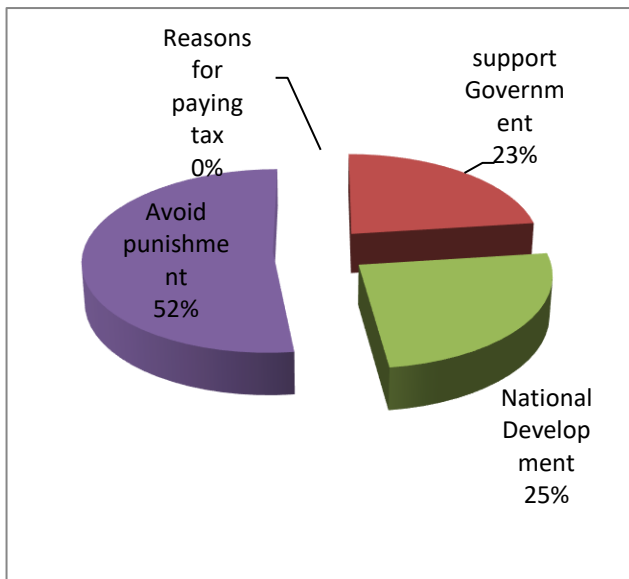


Histogram 3

The histogram reinforces by illustrating graphically the responses given by marketeers on the reasons they pay tax as 3.0 represent (52%) avoiding punishment, 2.0 represent (25%) national development and 1.0 represent (23%) support Government.

Chart 5

Reasons for not paying tax



The pie chart shows further graphically the reasons for not paying tax by marketeers.

Table 10

Reasons for not paying tax				
		Value	Count	Percent
Standard Attributes	Labels	Reasons for not paying tax		
Valid Values	1	Firms no registered	43	43.0 %
	2	tax not inclusive	15	15.0 %
	3	Mobility of businesses	15	15.0 %
	4	poor record of transactions	21	21.0 %
	5	not willing to pat tax	6	6.0 %

Histogram 4

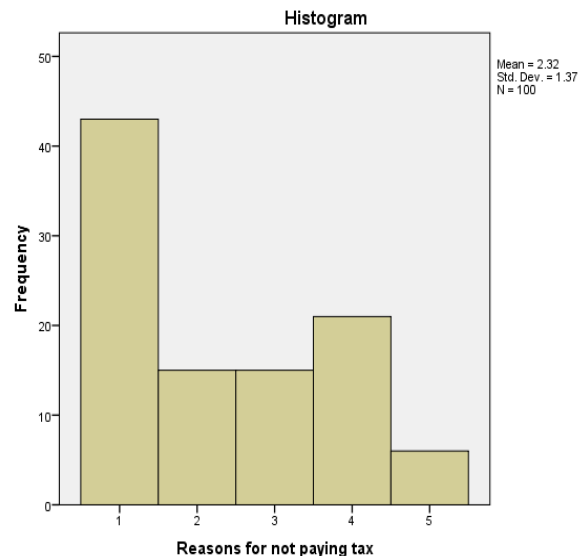
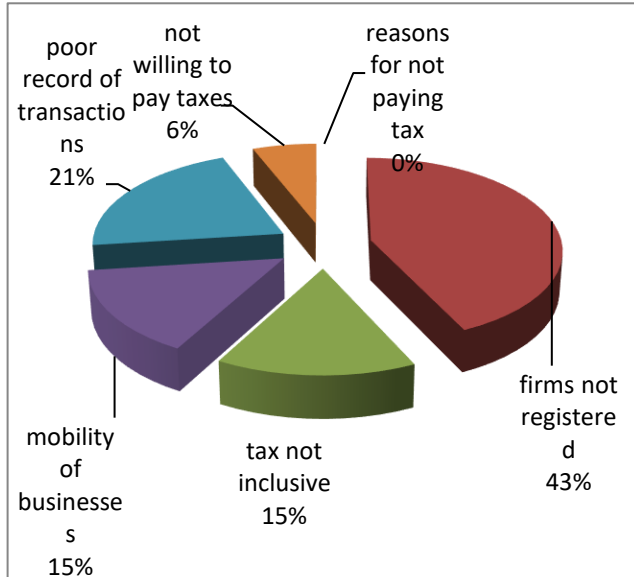


Chart 6

Reasons for not paying tax



4.6 Knowledge on the consequences for non-tax compliance by traders to ZRA

Table 11

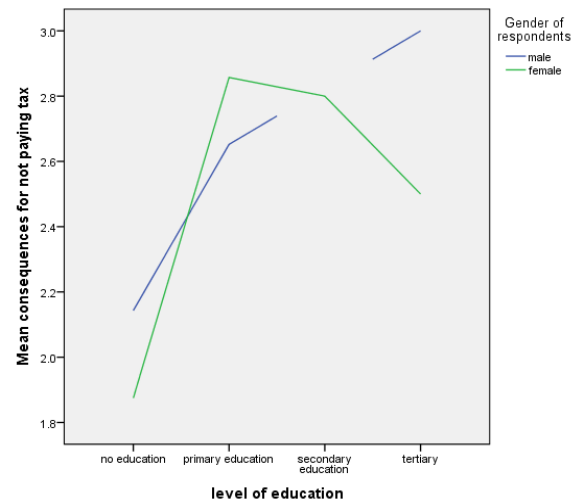
consequences				
		Value	Count	Percentage
Standard Attributes	Label	consequences for not paying tax		
Valid Values	1	prosecuted	12	12.0%
	2	business closed	9	9.0%
	3	no knowledge	79	79.0%

Table 12

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sign.	Statistic	df	Sign.
consequences for not paying tax	.476	100	.000	.517	100	.000

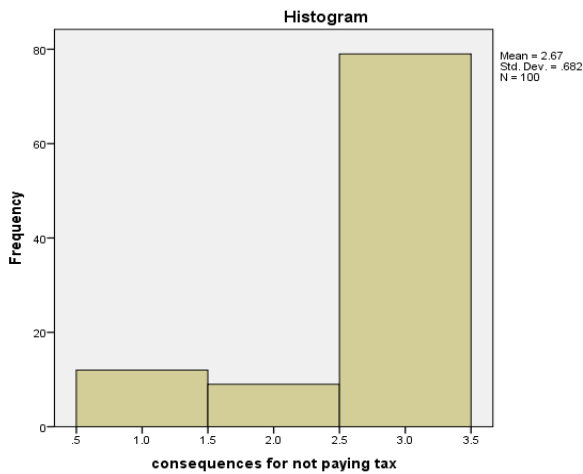
a. Lilliefors Significance Correction

Line graph 1

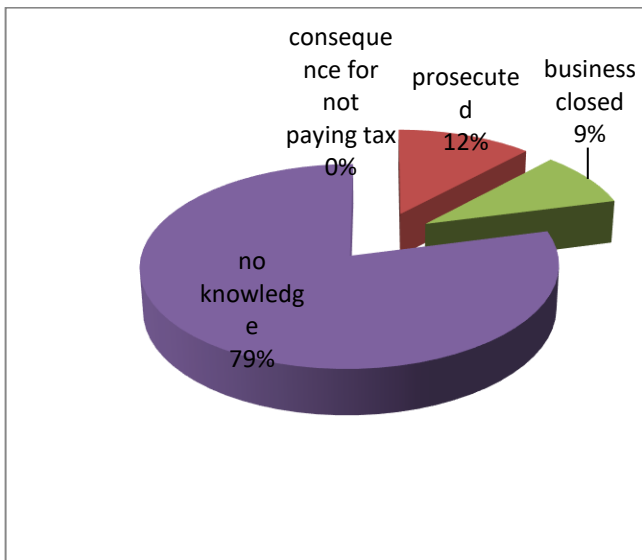


From the line graph, it is clearly showing that both males and female traders show level of understanding on consequences for not paying tax as their level of education increases. But more females are likely to pay taxes than men.

Histogram 5



Knowledge on the consequences for not paying tax



CHAPTER FIVE

DISCUSSION OF FINDING

5.0 Introduction

The discussion of the findings in this study focused on the objectives and the generated research questions. The study’s expectations were firstly; determine the level of knowledge of traders about tax compliance. Secondly, the study set out to ascertain the knowledge traders have on type of taxes applicable to them. Thirdly, it was intended to examine the knowledge on the consequences for non-tax compliance. The study dealt with the objectives and research questions, but it also looked at questions raised in the gathered literature from other authors that wrote about tax in Zambia, Africa and other parts of the world.

5.1 Discussion

The study’s views were:

On background information the findings where that the majority 27 percent (27%) of SME were between the ages of 30-34. The study also shows that most of the respondents were married, which covered 56 percent as compared to 15 percent and 18 percent of the single and divorced SME’s respondents respectively. The study further shows that the majority of the SME’s respondents were those who reached primary level of education at 73 percent and it further show that 15 percent had no education.

The base tax which is paid through Zamtel mobile lines often attract data charges which is a hindrance to tax payment. At the same time, marketeers who are illiterate may not read the prompts of the software.

Marketeers do not pay attention to matters of tax compliance because mostly, their businesses are not registered by ZRA.

Most marketeers have no knowledge about consequences of non-tax compliance.

Most of the marketeers have no knowledge about taxes applicable to them and some them look at counsel levy as the only tax they should pay.

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It is also worth mentioning that most of the traders at Soweto market are not tax compliant, hence there is need to educate the marketers on the importance of paying taxes to the national treasurer. SMEs with knowledge on the importance of tax rarely avoid paying tax, knowledge to be gained through education processes would enhance good attitudes toward tax-compliance and, thereby increase tax collections by the government from the marketeers. Whereas, the Zambia Revenue Authority have designed and maintained

programmes for taxpayers' education, these have not impacted as was being expected.

Social-demographic Characteristics of the Participants revealed that most of them were aged 30-34 years. In this study, respondent's level of education was associated with the knowledge on the importance of paying tax to the national treasury. The level of education attained, affects SME's on their knowledge toward the payment of tax. The more educated one is, the more knowledgeable they are on the importance of tax. An educated person is likely to be more knowledgeable concerning the pros and cons of tax compliance and avoidance respectively compared to marketeers who are not educated.

Further, the SMEs were more familiar with VAT which they confessed they heard more about because it was paid every time, they purchased tools and accessories for use at their open air make shift premises or factories, as compared to other tax imposed on them by the authorities. The study further showed that the non-collection of taxes from SME's was because of many firms are not registered which was 43% of the respondents.

When the respondents were asked whether or not they paid tax for fear of being punished by the ZRA; the majority of them agreed. In the study's view, the respondents were aware of their wrong doing, but it was difficult to establish what shaped this negative attitude in them. On the same debate Simbyakula (1990) says that when taxes are not fully paid, civil penalties of fines or forfeitures or criminal penalties such as incarceration may be imposed on the erring individuals or institutions by government.

Others who have written on tax-compliance have chosen to relate the complexities of non-

compliance with corruption taking the Centre stage. According to United Nations Development Programme / UNDP – Report (2007) the term corruption was linked to human rights because it limited an individuals or groups or society access to public goods and services from public money raised from tax.

Moyo (2009) considered the problem of non-compliance with tax in developing countries like Zambia as a consequence of not providing transparency and accountability by the respective governments. Transparency and accountability can be done through a process of telling the people about good spending. For instance, Ghana uses a tracking model called Public Expenditure Tracking Survey (PETS) which is used to show how public money is spent over a given period.

Finally, it was world order that every government of a country, Zambia included required more public money. However, if this were to succeed, it was a pre-requisite that the people or tax-payers should be better trained broadly in their outlook, able through wider understanding of their major civic responsibilities in maintaining law and order. However, there was need for greater transparency, participation and co-operation with the intention to include persons from both the formal and informal sectors of businesses. The public, who are the tax-payers, should be allowed to scrutinize where and how the donated money is spent and request responsibility from government.

5.2 CONCLUSION

The study was however, concerned that although the tax department were aware of defects in the

tax education system for the self-employed or informal taxpayers; not much was being done to reverse the trend. There must be a process of adjustment at play to, through educational interventions that would try to find the expressions of the SMEs in relation to their interests and abilities in the larger satisfaction of the group on taxation issues.

5.3 RECOMMENDATIONS

1. Members of the community within which the marketeers operate from should be engaged as trainers of their colleagues by the Zambia Revenue Authority. This will address the challenges Zambia Revenue Authority officers encountered in creating rapport with traders when discussing taxation issues.
2. Stiffer penalties should be put in place to deter would be defaulters.
3. Traders should be educated on the consequences of being non-tax compliant as it was indicated that more traders have no knowledge about the subject.
4. Zambia Revenue Authority should include record keeping techniques such as booking-keeping in tax education programmes for SMEs. This will enable SMEs to successfully compile and submit records their business incomes in order that the tax office can assess what has to be paid each year.
5. The delivery methods used by the Zambia Revenue Authority should include face-to-face interaction with learners as it enables them to ask questions for clarity; instead of the current method of distributing pamphlets only.
6. ZRA and local counsel should come up with one tax which will cover for levy and base tax.

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