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An Analysis of Determinants of tax compliance by Small and Medium Enterprise in

Harare

BY

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APPROVAL FORM

The undersigned certify that they have supervised the student Registration Number R12390R dissertations title **"***An Analysis of Determinants of Tax Compliance by Small and Medium Enterprises in Harare***"** Submitted in partial fulfilment for the requirements of the Bachelor of Honours in Accounting.

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DEDICATION

This research is dedicated to my husband Mosie and my two kids Yolander and Nicole. Thank you for being there for me during my time of study.

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I would like to express my indebtedness to the following people without whose assistance this project could not have been a success.

ABSTRACT

This research carried out an analysis of the determinants of tax compliance by Small and Medium Enterprises (SMEs) in the Magaba area, Harare. The main objectives of the study were to assess the level of tax compliance among SMEs in Harare and establish SMEs tax determinants that affect their level of compliance. The study used both qualitative and quantitative information. Primary data was collected through the use of questionnaires which were given to SMEs in the Magaba area, Harare to fill and through face to face interview with 4 owner SMEs who were randomly selected. The results indicated that the level of compliance among SMEs was very low. The study then concluded that most SMEs were not voluntarily willing to pay tax The study recommended that the tax authorities should make an effort to educate the SMEs about issues concerning tax. However the researcher also recommended that stiffer penalties should be given to those who evade paying tax. The area that is recommended for further study is the determination of how tax calculations should be simplified and redrafted to suit the ordinary laymen.

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List of acronyms

GIZ   Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Germany

OECD   The Organisation for Economic Co-operation and Development (OECD)

SMEs   Small and Medium Enterprises.

ZIMRA   Zimbabwe Revenue Authority.

Contents

CHAPTER 1

INTRODUCTION

1.1   Introduction

This chapter provides background information regarding tax compliance by SMEs in Harare. The topics covered in the chapter include background of the study, statement of the problem, the objectives of the study, main research question, sub research questions and justification of the study. Other sub-topics covered include significance of the study, delimitations, and limitations of the study and definition of terms.

1.2   Background of the study

A study undertaken by a research firm, Global Financial Integrity revealed Zimbabwe could have lost $12 billion in the past 30 years through illegal financial outflows that include secret financial deals, tax avoidance and illegal commercial activities. The Policy Officer for economic governance Chikumbu (2014) whilst addressing delegates at a workshop on debt, extractives and illicit outflows organized by the Zimbabwe Coalition on Debt development in Harare, African Forum and Network on Debt and development(AFRODAD) said transparency in Fiscal and an improvement in taxation systems were critical in curbing huge losses. The research carried out by the Global Integrity revealed that revenue amounting to billions could have been lost in the past thirty years mainly due to corrupt activities that include tax evasion and avoidance and other commercial transactions that were not legal said Chikumbu (2014).

Since 2000 the Zimbabwean economy has been facing challenges. Some of these challenges have remained chronic such as the liquidity crunch and the continuous closure of companies. This has persisted into the multi-currency regime era which began in 2009. Mangudhla and Mambo (2013:2) reported that a July 2013 National Social Security Authority (NSSA) Harare Regional Employer Closures and Registrations Report for the period July 2011 to July 2013 showed 711 companies in Harare closed down, rendering 8 336 individuals jobless". This has reduced the number of companies and employees from which government used to raise its revenue through tax.

The unemployment level in Zimbabwe has been pegged at more than 87% and as a result of job losses about 5.4 million Zimbabweans are employed in the informal sector Moyo (2013). Thus, the informal sector and SMEs has become the major employer in the country. SMEs, primarily formed by the retrenched workers are now filling the gap in revenue collection by government. According to Maseko 2014 SMEs represent 95% of enterprises that generate over 50% of private sector employment and when the country is suffering from a debilitating liquidity crunch this has become a major concern, considering that the sector is not fully compliant with tax collection by ZIMRA. There are a number of challenges related to revenue collection from SMEs by government. According to the Minister of SMEs Nyoni (2014) a FINSCOPE survey report indicated that 85% of Micrco, Small and medium Enterprises are informal and almost US7.4 billion is circulating in the informal sector. The government is planning to seriously engage big

companies on the possibility of opening micro finance institutions to capacitate SMEs in order for them to start making a meaningful contribution to the fiscus through tax collection. Through formalizing SMEs, which constitute 95 percent of informal sector, ZIMRA will be able to put them on the radar of the taxman. According to Tshuma (2014) ZIMRA officials adopted a more radical approach which included raiding offices of SMEs for search and seizure of documents, raising assessments instantly and garnishing clients' accounts to boost tax collection from these entities. This means that full tax compliance by SMEs has the potential to increase tax collection by ZIMRA.

However, as noted from above SMEs in Zimbabwe evades paying tax through various ways which include paying bribes, keeping two different sets of records, and even relocating to new premises to avoid tax authorities Nyamwanza et al (2014). To encourage SMEs tax compliance, Zimra's tax regime provides that SMEs be granted 50% special initial allowance in the first year and 25% in each of the next two years (Chimhangwa, 2014). This allowance is meant to facilitate growth of SMEs and as well as encouraging micro enterprises to formalize their business transactions.

According to a report by the ZIMRA Board Chairman Performance Report the fourth quarter of 2013 brought in net collections of US$401.1 million against a target set by Ministry of Finanace and Economic Development of US$457.4 million which resulted in a negative variance of 12%, Moyo (2013). The marginal negative variance was due to the reduction in the industrial capacity utilization from around 44.6% in 2012 to 39.6% in 2013, CZI Manufacturing Survey as cited by Moyo (2013). It is clear from the statistics that the actual collections against targets for the period

under review were not tallying, hence the negative variance of 12%. Thus, ZIMRA should improve tax compliance by SMEs which have become the main employer and a lot of cash is circulating in the informal sector and SMEs.

1.3   Statement of the problem

SMEs constitute 95 percent of the informal sector, in which approximately US7.4 billion is circulating when the country is facing challenges of liquidity crunch. It is paramount that the government improves its revenue collection from SMEs in order for it to boost its income against shrinking collections from the manufacturing sector. As argued by Nyamwanza et al (2014), it is apparent that SMEs are not complying or are failing to meet their ZIMRA obligations and the situation is made worse by the heavy penalties charged by the ZIMRA authorities. It is therefore paramount that in light of the need for increased tax collection by government SMEs should be encouraged to pay due by them to government. Equally important however, is the need to understand why SMEs are not complying with tax payments. This study seeks to investigate and analyze SMEs tax compliance determinants with a particular focus on those based in Harare.

1.4   Main Research Question

What are the determinants of tax compliance by Small and Medium Enterprises (SMEs) operating in Harare?

1.5   Research questions

1.5.1   What is the level of tax compliance among SMEs in Harare?

1.5.2   What are the SMEs tax perceptions and how they affect their tax compliance decisions?

1.5.3   What are the SMEs tax determinants that affect their level of compliance?

1.5.4   What are the tax procedures for SMEs which promotes voluntary compliance?

1.6   Research Objectives

1.6.1   To assess the level of tax compliance among SMEs in Harare.

1.5.2   To find out SMEs tax perceptions and how they affect their tax compliance decisions.

1.5.3   To establish SMEs tax determinants that affect their level of compliance.

1.5.4   To propose tax procedures for SMEs which promotes voluntary compliance

1.7   Significance of the study.

To the researcher:

Successful completion of the study will enable the researcher to fulfill the part of the requirements of the Bachelor of Commerce Honors degree in Accounting she is doing with Midlands State University (MSU). The study will help the researcher to enhance her understanding tax system in Zimbabwe.

To the SMEs

The research will help SMEs operators in their understanding of the tax system and improve their levels of tax compliance

To ZIMRA

The research will assist ZIMRA to appreciate challenges faced by SMEs in complying with the current tax regime. This will help in developing and redesigning suitable tax system for SMEs. The research will add to an existing body of knowledge and tax system and compliance challenges in the economy.

1.8 Delimitations of the study:

The study will be limited to the opinions and views of SMES in Harare. The focus of the study shall cover the period 2010-2014 a period covering the multicurrency system. It is limited to public available information since some information pertaining to tax issues cannot be readily available from ZIMRA offices for confidentiality purposes.

1.9   Limitations of the study:

Time will be a limiting factor, as the researcher is a fully employed civil servant. Some SMEs operators will be likely to become suspicious and as a result may not give accurate data and information. The study is not sponsored and so financial resources will likely to be a constrain with regards to data gathering, printing, typing, and traveling by the researcher. To mitigate some of these limitations the researcher will apply for a study leave in order to concentrate on literature review and data gathering exercise**.**

1.10   Definition of terms

S M E s :

Small and medium enterprises or small and medium-sized enterprises (SMEs), small and medium-sized businesses (SMBs), and variation of these terms are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in Europe and by international organizations such as the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors.

1.13 Summary

This proposal covered the background to the study, statement of the problem, aim of the study, research objectives, research questions, significance of the study, delimitations and scope, limitations of the study and definition of terms. The next chapter will be on Literature review which covers what other authors say about the study in question.

CHAPTER 2

LITERATURE REVIEW

2.0   Introduction

This chapter reviews literature on the concept of SMEs and the determinants of their tax compliance. Topics covered include, the level of tax compliance among SMEs, the SMEs tax perception and how they affect their tax compliance and the tax procedures for SMEs which promote voluntary compliance.

2.1   Level of compliance among SMEs

In simple terms tax compliance refers to the fulfilment of tax obligations that is as the way they are specified by the rule of law, Usang (2012) further states that it is a contribution that is compulsory which is imposed by the legislature that does not put into consideration the amount of services rendered to the tax payer in return. Tapera (2010) outlined the various types of taxes namely corporate tax, income tax, custom duty, sales tax, fines, fees special assessments, VAT among others. It is also vital to mention that the government charges tax in order for it to raise revenue and to bring about social protection policies for those who are marginalised in society

Evidence has shown that in any country the high compliance costs associated with paying tax can lead to increased tax avoidance and evasion, Mohd (2010). Even though SMEs constitute some 90% of businesses and plays an important role in the country's economic growth and employment SMEs appear to be underrepresented in terms of their registration for tax Nyoni (2014). Compliance costs could be as a result of how complex the tax system is inefficient tax

administration, or other factors. SMEs could be evading paying tax with the intention of doing so or unintentionally.

In the United States the income tax payers cited that the most serious problems they face is a complex system where the tax system is excessively complex, the filing and administrative costs increases and this has an effect on voluntary compliance, Oline, (2013). If the tax system can be simplified this may be the route that will effectively reduce non compliance among SMEs. According to Oline (2013) SMEs taxpayers are affected more than large companies taxpayers since the more complex the system is, the more it becomes expensive to comply with the tax laws thereby reducing compliance within the tax payers.

In most developing countries, including Zimbabwe full SMEs tax compliance has remained a challenge. A research by Nyamwanza et al (2014) noted that some SMEs are operating illegally because they are not registered and others evade the tax bracket through various ways such as bribing tax officials who are corrupt, preparing accounting records that are different the other one to be used when visited by ZIMRA and the other one that will be containing the correct information, and some would even relocate to different new premises to avoid the tax authorities.

The research also found out that the tax authorities were making very little effort to foster voluntary compliance among SMEs and the research further found out that corruption levels among ZIMRA officials were very high, Nyamwanza et al (2012). It was also noted in the research that most of the SMEs did not have enough knowledge on issues pertaining to tax issues. The research further pointed out that the tax authorities should carter for the SMEs by providing tax education that is formal to the SMEs in order to improve their comprehension and interpretation of their obligations of tax thereby tax compliance will be increased.

According to GIZ (2010) being tax non-compliant is demonstrated in different forms. An example would be not being able to submit tax returns as and when they are required, total failure in submitting tax returns by the SMEs within the stipulated time that is required by the tax authorities. It can also come in the form of overstating deductions, understating income, failing to make a payment of the amount of money that would be required by tax authorities when assessed for tax by due date and in other instances failing to comply may mean failing out rightly to pay levied taxes. Studies have shown that the problem of tax evasion is a widespread one. Tax rates were also recognised as one of the causes of evading paying tax especially by SMEs that are in the less developed economies. GIZ (2010) also pointed out that tax rates that are high increases the burden of the taxpayers' thereby reducing their income that is disposable which will in turn increase the probability of evasion of tax by SMEs.

It is against this background that there is need for authorities to understand SMEs tax compliance determinants in order to put in place the right SMEs preferential taxes in order to improve tax compliance and tax collection.

2.2   SMEs Tax Perceptions and Their Effect on Tax Compliance Decisions

Tax compliance by SMEs is a function of their perception towards paying tax. A survey carried out by Palil and Mustapha (2011) in the United Kingdom found that 10% of SMEs thought that there was corporate or income tax evasion amongst businesses and that a large proportion of SMEs 93% stated that tax evasion was unacceptable. 69% of the SMEs were of the view that businesses which regularly evaded paying income tax would be caught therefore they were of the view that they should not evade paying taxes. The survey also found out that four for every Five

SMEs which is about 79 % agreed that the Department of taxes treated them fairly when dealing with them.

However the issue is completely different from developing countries that have completely a different opinion. World Bank (2012) carried out a research about the tax perceptions on tax compliance in developing and transition economies in Asia Africa, Latin America and the Middle East for the period 2006 and 2011. The survey found that there was need to broaden the tax base and to ensure fairness and inclusion especially for the SMEs of which many of them are operating in the informal sector. The survey found that the SMEs were of the opinion and perception that the burden of tax in these less developed economies was a deterring factor in preventing SMEs from formalisation in particular the burden of complying with paying taxes. The cost and time associated with preparing the tax returns, filing them, the payment process and having to find time to interact with the tax authorities was regarded as being heavier than having to pay tax itself thereby fostering a mind that will encourage evasion of tax World Bank (2012)

SMEs that operate in Zimbabwe are subjected to income tax and other direct taxes either as an individual or as corporate tax payers. The Finscope Micro, Small and Medium Enterprises (MSMEs) Survey Zimbabwe 2012 depicted that 85% of the MSMEs are informal and according to the Minister of Small and Medium Enterprises and Cooperative Development Nyoni (2014), the informal sector comprises of entities that are not registered and regulated of which the owners and operators decides to avoid registration and thereby taxation and she further went on to state that it was the aim of the Ministry to spearhead the formalization process of SMEs in order to enable them to pay taxes and get licenses and pay the associated fees due to them which will become desirable for the public purse.

It is mandatory to comply with tax regulations. According to Engelschalk as cited by Maseko (2014), complying with tax legislature is usually associated with having to be faced with heavy costs that will end up burdening operations of SMEs particularly when the SME have to maintain proper and sufficient books of accounting for managing and tax purposes.

According to Torgler as cited by Usang (2012) Tax morale is a very important aspect that is related to tax non compliance. Tax morale is defined as a motivation that comes from within inside a person to pay tax. Usang (2012) further went on to stress the relevance of understanding the observed level of compliance. The factors that are important to understand tax morale would include moral rule and sentiments, fairness and the relationship with the government, Torgler as cited by Usang (2012)

According to James, Murphy and Reinhart as cited by Usang (2012) the tax laws that are implemented cannot cope with all the eventualities that arise and they have to be supplemented by administrative procedures and decisions and also more importantly for it to work it has to have a reasonable degree of people willing to comply to paying taxes themselves. A more appropriate definition of compliance could therefore mean people who would be in agreement with complying with tax laws and administration without being subjected to threat or the application of enforcement agencies.

Tax compliance can be analysed in terms of tax evasion and tax avoidance. The two terms can be clearly distinguished in terms of their legal means, with avoidance referring to legal measures that are taken to reduce tax liability and evasion referring to illegal means. According to a GIZ

report (2010) tax avoidance takes place in a legal context of the tax system. Firms and individuals will take advantage of the tax code to exploit the system loopholes to their advantage so as to reduce the tax liable to the tax payer. An example would be where the financial statements are prepared in such a way as to minimise the liability of tax by using tax deductions and taking advantage of tax credits where they do not apply, whereas tax evasion refers to illegal practices that are used to escape from paying tax. This means that taxable income and profits liable to be taxed are concealed from the tax authorities, the amount or source of income are misrepresented or a situation where tax reducing factors such as deductions, exemptions or credits are overstated deliberately, Chiumya as cited by the GIZ report (2010)

Tax non compliance also takes place in the informal sector where all the activities take place informally, this means that the SMEs will not only be evading tax but they will be operating without being registered.

2.2.1   Tax Morale

The willingness by taxpayers to pay tax differs greatly from country to country across the world. It cannot be simply left out to depend on the tax burden, but it can be explained by the highest levels of the feasibility levels of auditing, penalties and risk of aversion. The levels of high tax compliance results from tax payers who would have fostered a self enforcement culture of tax compliance, Alm et al as cited by the GIZ report (2010). The willingness to pay taxes is influenced by among other factors, quality of the service in return for taxes, Tax system and perception of fairness, transparency and accountability of public institutions, level of corruption and high compliance costs.

2.2.2 Quality of the service in return for taxes

Generally when citizens pay tax they expect some kind of services or benefits in return of the taxes they would have paid. If the government fails to provide the basic infrastructure, public goods and services or if they do not provide for them sufficiently the tax payers will not be willing to pay tax, Brautigam as cited in GIZ (2010)

2.2.3 Tax system and perception of fairness

Studies carried out suggested that tax rates that are high encourage tax evasion. The intuition being that tax rates which are high increases the burden of paying tax and thereby leaving the taxpayer with a low disposable income, Lumumba *et al* (2010). However the tax rate level is not the only factor that influences people's decision about paying taxes, the overall structure of the tax system has an impact as well. If tax rates charged on corporate profits is relatively low and the tax payer will be facing high rates of tax on their personal income they may consider their tax burden to be unfair and choose to declare only part of the income they would have got.

2.2.4 Transparency and accountability of public institutions

Lack of transparency whereby the government would be operating in such a way that it would be not easy for taxpayers to see what actions are performed and not being able to account for the use of public funds contributes to the public not being able to trust both the tax system and the government. This, in turn, increases the willingness to evade taxes Kirchler et al as cited by Usang (2012).

2.2.5 High level of corruption

According to Smulder (2012) if there are high levels of corruption and citizens cannot be certain as to whether the money they would have paid for taxes will be used to finance public goods and services their desire to pay tax will decrease and they will not comply in paying tax. If the cost of bribing tax officials is lower than the potential benefit from complying with tax, the tax payer will consider evading tax.

2.2.6 Compliance costs

Compliance costs which are costs that the taxpayer has to bear to gather the necessary information like preparing and maintaining books of accounts and filling out tax forms can be other reasons for not complying with tax legislation. The World Bank's 2009 World Development Indicator for "time to prepare and pay taxes" showed huge differences between countries. While preparing and paying taxes requires 210 hours on average in high income countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. A situation like this will lead businesses worrying more about the administrative burden associated with complying with tax than about the actual tax burden of complying. In the situation above it can be concluded that compliance costs are high and the probability of finding SMEs complying with tax laws will be low. Small and medium sized enterprises (SME) are the ones that suffer from high compliance costs than large companies. A research done on South African firms on the regulatory costs of doing business revealed that taxes, in particular VAT, are perceived as the most difficult set of regulations followed by labour regulation SBP as cited by GIZ (2010).

2.3 Tax Determinants That Affect SMEs Level of Compliance

SMEs tax compliance has become an important issue, especially in developing economies, such as Zimbabwe. This is so because governments are faced with the task of improving efficiency in tax revenue collection to finance their budgets. Lumumba et al (2010) further explained that the prevalence tax evasion and non-compliance in developing countries hinders economic growth and exacerbate other socio-economic challenges. High tax rates are identified as one of the causes of tax evasion, especially by SMEs with limited access to finance and low profits margins. It is important to note that a higher tax rate increases the taxpayers' burden and thereby reducing their income that is disposable thereby increasing the probability of evading tax, Lumumba et al (2010).

Barbuta-Misu as cited by Maseko (2014) put classification of tax compliance determinants into three non-economic factors and seven economic. He pointed out the seven economic determinants of complying with tax as the level of income actually earned by the taxpayer, the rates of tax charged by the tax authorities, fines and penalties imposed on SMEs for non compliant, benefits of tax and the probability of tax audit. He categorised the non economic tax determinants as attitude that is associated with paying taxes, personal and social values and an understanding of the fairness of the tax system

A research by Anyaduba and Modugu (2013) revealed that the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of tax audits and penalties have a tendency to significantly influence tax compliance in Nigeria.

Since SMEs are the majority business taxpayers in most developing countries, a clear

understanding of their tax compliance determinants is crucial since SMEs tax compliance levels directly impact on the governments' tax revenue collection (Maseko, 2011). SMEs are the majority business taxpayers in most developing countries (OECD 2009) and as such their compliance levels directly impact on government tax revenue collections. In the case of Zimbabwe SMEs represent over 95% of enterprises that generate over 50% of private sector employment (RBZ 2009).

According to Maseko (2014) many SMEs operators do not fully comply with tax system due to lack of awareness of what needs to be done. He further explained that even when there is awareness of the regulations, individual tax payers' perceptions of potential costs and benefits are often distorted. This in turn discourages tax payers from paying their dues. It is noted that often authorities would try to close loopholes on tax compliance through legislation, such as making it compulsory for small businesses such as SMEs to formally recruit their employees so that they can pay Pay as You Earn (PAYE). Whilst such measures are instructive it is equally important for the authorities to comprehend SMEs tax determinants in order for them to put in place the appropriate tax regime with some incentives for SMEs to formalize their operations and pay taxes. Maseko (2014) noted that previous studies by scholars such as Yong and Hooper 2011 identified the following as determinants of tax compliance that is tax rates, tax audits, perception on government spending, role of tax authority and tax administration, simplicity of tax returns; probability of detection; awareness on offenses and penalty; and personal financial constraint. In concurrence with these previous studies Stern and Barbour as cited by Maseko (2014) pointed out that most entrepreneurs in the African Continent remain outside the tax-net because the perceived costs of compliance outweigh the perceived benefits. On the same note,

Eichfelder and Schorn (2009) made the observation that SMEs bear a higher compliance burden due to the reason that they face 'inverse economies of scale' caused by tedious compliance procedures required by tax authorities. It is argued that owners of SMEs feel overburdened with existing workloads and find it hard to go through all their paperwork and stay up-to-date on legislation.

2.3.1 Tax knowledge

Tax Knowledge is a very important tool to SMEs as insufficient level of tax knowledge may result in inaccurate tax returns and therefore computation of tax liability according to Loo cited in Mohd (2010). Mohd (2010) further stated that there is no simple relationship that exists between tax knowledge and tax compliance as some taxpayers who are knowledgeable would simply not comply.

A research carried out by Maseko (2014) concluded that the levels of tax knowledge and compliance costs are the main determinants of tax compliance for Zimbabwean SMEs. Compliance by SMEs to tax legislation requires them to have some level of tax knowledge in order for them to be able to interpret the different tax laws. Whether or not the SMEs have got this knowledge, they will still incur internal and external costs in trying to be compliant.

Palil as cited by Maseko (2014) revealed that tax knowledge had a very significant relationship with the taxpayers' ability to comply. Maseko (2014) stated that SMEs considered local authority levies to be the same as government taxes since they do not have tax knowledge. This misconception impacted on the compliance of SMEs since they thought that by paying council levies they would have paid tax and complied. He also stated that SMEs would face more

challenges with income tax and VAT because of lack of knowledge. A study by Lumumba (2010) concluded that SMEs did not pay their tax obligations because they did not understand what is expected of them by the tax law requirements. SMEs in New Zealand faced difficulties in filing returns for VAT, Mataira and Prescott (2010). Lack of updated tax information widened the tax knowledge gap between SMEs, tax consultants and ZIMRA. This means that even if the SMEs had accounting services within their entities, they would still need to outsource services of tax since they lack current knowledge of tax to prepare their returns thereby increasing compliance costs, Maseko (2014).

2.3.2   Tax Audits

According to Yong Zhi Niu as cited by Alm and Mckee (2009) compliance rate rises if an individual knows that he will be audited and the rate falls when he knows that they will not be an audit. This shows that the behavior of taxpayers changes when there is evidence of an increased probability of an audit than when they know that there will not be tax audit that will take place. If a taxpayer receives early experience in audits in his tax life, he is more likely to comply than audits carried on later in the taxpayer's tax life. Mittonne as cited by Alm and Mckee (2009). Kastlunger et al (2009) also suggested that even though the effectiveness of audits and fines imposed on non compliers cannot be completely confirmed, early audits in a taxpayer's "tax life" as alluded by other researchers have a positive impact on compliance by SMEs.

Tax Audits have an effect of affecting future reported income to the extent that taxpayers are forced to adjust their perceptions of the probability of being audited by tax authorities and if they acquire knowledge about the consequences of an audit such as the probability of the tax auditors detecting that the SMEs have cheated, the severity of the penalties imposed on them and the

hassles involved with the process of auditing.

2.3.3 Compliance Costs

According to Smulders et al (2012), Tax compliance costs include "monetary costs, time costs, psychological costs, and opportunity costs to taxpayers". He identified the following types of costs:

Efficiency costs (also called social costs) which refer to the cost of the manner in which a taxpayer would conduct oneself, the behavior which will not be optimal and results from the system of tax available, Evans as cited by Smulders et al (2012). A good example would be a taxpayer changing their decisions in investment as a result of complete or partial exemptions from tax to certain activities that are given preferential treatment.

Opportunity costs and this refers to the opportunities foregone by a taxpayer for other benefits, with the money and time spent on being compliant with tax matters.

Monetary costs These are the funds and expenses that are incurred by the taxpayers in respect of professional advisers who would want to equip the SMES, or their employees, with adequate knowledge to understand and be able to fully comply with the tax laws. This would also include the money paid by the SMEs to the tax authorities.

Time costs refers to the time that is spent by the taxpayers and their employees on issues pertaining to tax compliance matters, such as filing returns, keeping records, etc.

Psychological costs include the depression, uneasiness of the mind, disappointments and frustration experienced by taxpayers when they will be trying to comply with their tax obligations, Evans, as cited by Smulders (2012). The psychological costs' impact on the taxpayers who will be complying to tax laws should not be underestimated.

According to Stern and Barbour as cited by Maseko (2014) most SMEs in the African Continent remain outside the tax net because the costs associated with complying with tax legislation far outweigh the benefits that are perceived in paying tax. According Yong and Hooper (2011) compliance costs in an entity can be defined as costs of bringing together all the information required by the tax authorities, sending money as payment of tax and accounting for tax purposes on the income and profits that the entity would have got, this also includes the remitting of the salaries and wages of the business employees. This also includes the costs of gaining and updating knowledge in order to enable work in respect of the entity to be done and this includes the knowledge of penalties and legal obligations that has to be taken.

However, Eichfelder and Schorn (2009) observed that SMEs have a higher compliance costs burden due to the fact that they are faced with economies of scale that are inverse caused by the compliance costs that are tedious required by the tax authorities.

Most SMEs face various limitations like not being able to keep sufficient books of accounting for management purposes and taxation purposes and not being able to employ bookkeepers and tax administrators, tax compliance becomes associated with heavy costs that burden their operations, various limitations they face, tax compliance is sometimes associated with heavy costs that burden their operations, Eichfelder and Schorn as cited by Maseko (2014). They cited

that the problem was not only perculiar to Zimbabwe but it was a worldwide phenomenon. Costs in the form of fees charged by tax consultants are also costs associated with non compliance behavior.

2.3.4 Record keeping

The fact that most SMEs do not keep proper books of accounting for proper accounting of records of the activities taking place in their entities make it impossible for tax authorities to anticipate the amount of revenue they are supposed to collect from the SMEs, Alabede et al (2011). Most of the small entities do not have the skills in accounting therefore they would have to outsource services and this in turn increases the costs of administration leading to most SMEs choosing not to formalize their businesses thereby evading tax. Evans et al as cited by Maseko (2014) also concurred to the fact that poor record keeping translates to higher costs of compliance for SMEs in terms of time that is considered to be scarce thereby encouraging SMEs to remain informal and thereby not comply with tax legislature. Nyamwanza et al (2014) also noted that some SMEs would even keep two sets of books of accounts in order to evade paying tax.

2.3.5 Perceptions on Government Spending

Stern and Barbour as cited by Maseko (2014) noted that the perceptions that the SMEs operators have on government spending influenced their compliance decision. The taxpayers would be willing to meet their tax obligations when the results of government spending on the money they would have paid on public services and goods that is of direct benefit to the taxpayer than to others is evident. This means that if the SMEs perceive that the costs of compliance outweigh the benefits they would not comply with tax.

2.4   Necessary Considerations to Promote Compliance among SMEs

"Tax is an involuntary amount paid by individuals or businesses to a government (central or local). It is normally paid in the form of cash, but other forms of payment such as use of coupons, goods or otherwise is not uncommon", (Tapera, 2010, p.1). Various types of taxes, namely income tax, cooperation tax, sales tax, excise tax, custom duty, fees, prices, fines, special assessments, VAT along others were outlined by Tapera. It is vital to also stress that government levy taxes to raise revenue so as to maintain economic stability, solve unemployment problems, provide social protection policies for the marginalized citizens. When imposing any tax the following considerations should be taken into account, namely equality, certainty, convenience, economical productivity, elasticity, flexibility, simplicity and durability otherwise it won't be fulfilling its objectives. Nyoni (2014) stated that developing countries, such as Zimbabwe in order to promote SME's sectors to grow, there is need for authorities to ensure that the level of taxation is preferential and SMEs-friendly and should not stifle the smooth flow of running of their business enterprises.

In most developing countries, including Zimbabwe full SMEs tax compliance has remained a challenge. It is against this background that there is need for authorities to understand SMEs tax compliance determinants in order to put in place the right SMEs preferential taxes in order to improve their tax compliance and tax collection.

According to Nyamwanza et al 2014 penalties that are charged to tax payers have been found to

work effectively, however they recommended that publicity should be increased by the ZIMRA authorities by using channels of communication such as the radio, television and flyers which was found to be the most effective way to foster voluntary compliance.

According to Maseko (2014), the fact that most SMEs in Zimbabwe are having problems in getting tax clearances certificates from one year to another indicates that there is high levels of non compliance by the taxpayers. The tax officials should therefore make the tax system understandable and easy to use.

Palil and Mustapha (2011) noted that a win win situation should exist for the business and the government. A win situation for the business would be if the costs associated with administering the tax system could be reduced and kept to a minimum to encourage compliance, and a win for government if the efficiency of its tax authority can be improved and compliance made easier to help business to grow and pay its taxes. By enabling businesses to spend less time on tax compliance, more time can be devoted to building the business and contributing to economic growth.

2.4.1 Making Taxpayers' Obligations Clear

According to the Organisation of Economic Cooperation and Development (OECD), (2011) the taxpayers do not have an understanding of what their obligations are in regards to paying tax, any orchestrated attempt to enforce complying will be regarded as unfair. Thus the first step that should be taken into consideration is to know how to address factors that are specific to non-compliant behavior. It should be to reviewed as to whether or not the steps that are appropriate to make obligations clear have been taken, that is meaning that tax laws and systems are transparent, easy to be understood, simple and not confusing. A process like that would include putting into consideration issues that includes making sure that the law is clear in regards to the

tax legislature, if it is not, necessary considerations should be made to amend or have additional legislation to enhance the existing ones, OECD (2011).

The requirements of the authority's administrative tax law should be made clear to the SMEs and where possible provide interpretative products and they should be readily available to the SMEs. There should be clear marketing and communication of the tax laws through the communication channels.

2.4.2   Making It Easy To Comply

According to Palil and Mustapha (2011) making it easy for SMEs to comply would mean including all the initiatives that the tax authorities will take to make an improvement in the service delivery by for example expanding the range of electronic services; this will make tax advisers and tax payers taking the opportunity of the ease and convenient services provided by these e-services. The administrative burden associated with tax compliance would prompt SMEs to evade paying taxes, authorities should therefore make an effort to simplify administrative requirements so that it will not be a burden to comply. This includes simplifying forms, publications and communications, improve the efficiency of internal policies, procedures, processes and promoting rulings, regulations and laws that are less burdensome. Registering of SMEs should be made as simple as possible to foster voluntary compliance by SMEs.

2.4.3 Tax incentives

An area of influence that should be used by the tax revenues authorities is to provide tax incentives as a tool to help with tax compliance. According to the OECD (2011) individuals responded to positive incentives more than the responses to the use of punishment as a threat to deter them for non compliance.

According to ZIMRA (2012) the SMEs receives a tax relief which means that they will not be subject to the full rate of tax and this means that SMEs have a corporate tax threshold. The SMEs are given five years for a grace period on taxation on their start up phase. This phase is considered as a transitional process to encourage SMEs to move from the informal sector to the formal sector thereby widening the base of tax. The government also introduced tax breaks for companies who provide venture capital funds to SMEs. In Zimbabwe, ZIMRA's tax regime stipulates that SMEs are granted 50% special initial allowance in the first year and 25% in each of the next two years, Moyo (2014). The purpose of allowance is aimed at facilitating the growth of SMEs, which are known to have limited access to finance. Such preferential treatment also encourages micro enterprises to formalize their business transactions.

2.4.4 Tax Amnesties

According to Wang (2010) tax authorities should at regular intervals of time frequently offer tax amnesties to those who would not have fully complied with the tax that they will be obliged to pay. This is a period in which they are allowed to voluntarily correct their past infringement of the tax law and not suffer the full punishment that violations as such would normally entail. A tax amnesty can only be effective if the taxpayer is sure and certain that the amount that will have been declared during the time of the amnesty will not come about in a future enquiry of possible tax evasion taking place in years that will not be covered by the amnesty, Wang (2010)

2.5   Summary

This chapter was a review of related literature in relation to the research in study. Determinants of tax compliance were analysed in order to determine factors that will foster voluntary compliance by taxpayers. The next chapter to be covered will be on research methodology.

CHAPTER 3

METHODOLOGY

3.0   INTRODUCTION

This Chapter presents the description of the research design, the methodology and the data gathering instruments used in the study. The topics covered in the chapter include research design, data collection instruments, population of the study, sample and sampling procedures, validity and reliability of instruments used to collect data and the summary.

3.1   RESEARCH DESIGN

A research design is prepared when a scientific research is to be carried out. It represents the different types of approaches that are used in solving a research problem that is at hand. According to Rajasekat, Philominathan and Chinnathi (2013) a research design usually includes both the qualitative and quantitative analysis and a systematic plan outlining the study is offered, the methods of gathering data by the researcher and the compilation as well as the drawing of conclusions is outlined. Experimental design, case study design and descriptive design are other types of research design. The researcher found the Descriptive Survey Design suitable for this research as it seeks to investigate and analyse the SMEs tax compliance determinants in Harare. The information will be collected through the use of questionnaires.

3.1.1 Descriptive survey research design

Rajasekat, Philominathan, Chinathi (2013) stated that "descriptive survey research employs applications of scientific method by critically analyzing and examining the source materials, by analyzing and interpreting data, and by arriving at generalization and prediction". He put an emphasis on the fact that descriptive survey research method is not simply putting together or assembling facts and tabulating them but it should be encompassed by a deep analysis, interpretation and identification of trends, relationships and patterns of variables. The researcher used the descriptive survey research design because it contains much strength in analysing the determinants. The method was found to be the most suitable one in providing relatively accurate and fair analysis of the SMEs tax perceptions, their levels of tax compliance, as well as the actual determinants of SMEs tax compliance in Harare. In addition, the descriptive survey method was found by the researcher to be capable of gathering a lot of data and information related to SMEs levels of tax compliance, their perceptions and the tax determinants that influence their decision to comply or evade the tax system. In addition, the researcher also found that the descriptive survey method was the other advantage of having standardized questions thus ensuring the collection of similar data from different respondents. This will make it possible for the researcher to produce similar data from different respondents.

Mcdonald and Headlam (2012) provides that descriptive survey is most probably one of the best method which can be used for collecting data from the original source for purposes of describing a population. In addition surveys enable the researcher to measure attitudes and orientations in a large population.

The researcher decided to use the descriptive survey research design because it provides a relatively fair and accurate description of the phenomenon being researched which will also assist in identifying areas where other types of research can be carried out by suggesting hypothesis and the lines of inquiry to be taken. Mcdonald and Headlam (2012) also further explained that the descriptive survey method is also useful because it can gather a lot of data from a sample that will be representing a large population. He added that this method has another advantage of having questions that are standard thereby ensuring that similar data from different respondents is collected.

3.2   Target population

Daas and Ossen(2010) defined the target population for a survey as the entire set of a group for which the data that is used for the survey is to be used to draw conclusions. The term population means the collection of distinct elements under consideration that is of interest in a particular study. In this research the population of the study included SMEs operating in Harare. The exact number of SMEs operating is not known since it is not static and some of the SMEs are not even registered. A FinScope SME survey conducted in 2012 suggested that there is approximately 2.8 million micro, small and medium enterprises sector at national level (FinScope Zimbabwe, 2012). However the study is going to be limited to the Magaba Area in Harare.

Population is defined as the group that is of interest to the person carrying out the research. Rajasekat and Philominthan (2013) claimed that results of the study are generalised from this group. The researcher would be interested in finding information and to draw out inferences

from the population. The population is categorised into two that is the target population and the study population Rajasekat and Philominthan (2013). The target population would be the one that the researcher would be interested in generalising the study. The target population in this study are SMEs operating in the Magaba area, Harare.

3.3 Sample and sample size

A sample can be defined as a subset of a population that will be used for representing the entire whole group Van Nederlpert (2009a). In this case; the researcher selected a sample of 65 respondents who filled in the questionnaire from 3 different types of SMEs operating in the Magaba Area, Harare. These included twenty five SMEs that specialises in the production of furniture, twenty SMEs in the dressmaking sector and twenty SMEs who operate in the food sector.

Table 3.1   Sample table

	Questionnaires	Interview
Furniture	25	1
Dressmaking	20	2
Food Sector	20	1
Total	**65**	**4**

3.4 Sampling procedures

This study is going to use the Simple Random Sampling in selecting the respondents who will complete the questionnaires. A simple random sample is an element of individuals (a sample) chosen from a larger set (a population). Every individual is selected at random and by chance, and every individual has the same probability as everyone else of being chosen at any stage during the sampling process, and each subset of individuals has the same probability of being chosen for the sample as any other subset of individuals. A simple random sample can be described as being an unbiased surveying sampling technique. In this study SMEs owners who are free and willing to participate in the data gathering exercise will be given questionnaires to complete.

The researcher decided to use Simple Random Sampling because there is the advantage that there is minimized bias of selecting participants in a particular group of SMEs operators. In addition, the SRS method will make analysis of the data and information gathered simple, since the method is simple to use.

3.5 Types of Data

There are two types of data which are primary data and secondary data and in this research both primary and secondary data types were used.

3.5.1 Primary Data

Primary data is defined as data that is collected for a specified purpose by a researcher from a targeted population of respondents whereas secondary data refers to data collected from sources

that are published or data which is in existence as a result of past events or other investigations that would have taken place. Van Nederpelt (2009a) stated that primary sources of data consists of original sources of data that is collected straight from the field work. It is after the researcher has gained insight into the area under study by reviewing previously collected primary data or by reviewing secondary data and from that information the researcher will collect primary data. It is accomplished through various methods which includes giving out questionnaires and carrying out interviews in marketing and business research, or experiments and direct observations in the physical sciences. In this research primary data was sourced from SMEs in Harare.

Primary data will be used because the information that is gathered is up to date and also the data is gathered from the problem at hand. Another reason is that it gives a reliable picture since it is original and direct from the parties involved. In this research it has an advantage that data will be sourced straight from the SMEs who will air their views without bias.

3.5.2   Secondary Data

According to Daas and Ossen (2010) secondary data can be defined as an analysis of data that is already in existence and has been collected by other people. This data is examined to provide answers for the study in question. Different types of sources are available for the purposes of gathering data for secondary information. The purpose of secondary data is to help the researcher gain an initial overview of the research problem. Rajasekat and Philominathan (2013) stated that secondary data can be classified according to the terms of the source from where it is derived from that is either being internal or external. Internal secondary data which can also be called in-

house data, is secondary information that is gathered and acquired from within the organization where the research will be carried out from, whereas data collected from outside sources is called external secondary data and is obtained from outside sources.

Secondary data used in this study was collected from journals, newspapers and the internet. This was done so as to compare the determinants of tax compliance by SMEs from other countries to the SMEs in Zimbabwe. The secondary data collected is of quality such that conclusions can be easily drawn as the journals displayed a clear understanding of what the determinants of tax compliance by SMEs are. Secondary data proved to be cheaper in accessing and less time consuming as compared to sources of primary data. The internet provided the bulk of literature including journals, electronic books and other publications by different authors on determinants of tax compliance by SMEs providing a sense of direction to the research.

3.6   Research Instruments

Daas and Arends-Tóth (2012) stated that research instruments are measurement tools that are used for gathering data for example questionnaires designed to obtain data on a topic of interest from research subjects. The research adopted questionnaires and interviews as the research instruments.

3.6.1   Questionnaires

The term questionnaire stems out from collection of questions and statements designed to provide answers to the area of study under review. Questionnaires can be used to gather data and information from a large sample. Mcdonald and headlam (2012) stated that questions that are the same are given to respondents arranged in the same order so that there is no bias of information that is collected from all the members of the sample. Questionnaires have got an advantage that the information can be collected from a sample that is large and a wide range of regions, confidentiality is guaranteed, and since they are presented in the form of paper format the opportunity of having interviewer bias is limited. The answers that are given to questionnaires can easily be expressed in terms of the quantity and data can be analysed efficiently and quickly with the use of computers.

Questionnaires will be used because the information that is used can be collected from a sample that is large and confidentiality in respect of the information collected is upheld and the fact that paper format is used for presentation ensures that there is no opportunity for interviewer bias. Since the questionnaire provided information that is written, the danger of misrepresenting facts or information is minimised. The researcher made an effort to ensure that all questionnaires were completed and collected within a short period of time. The researcher also made an effort to ensure that questions were concise, easy to understand and clear to avoid any misinterpretations.

3.6.2 Interviews

Interviews are data collection instruments that are used to collect data and they may be either structured or unstructured. It follows therefore that the interview and the questionnaire should be closely related. The interview is of use where the information that is required is detailed and the respondents to be interviewed are few. The interview instrument is used in the study as an instrument that will provide backing for the questionnaire.

Interviews are a useful instrument to use as they give the respondents a chance to seek clarity on questions that are not clear and as such they enable the respondents to have a clear meaning and understanding of the subject under review. The interviewer also has the chance to repeat and rephrase questions not apprehended by the respondent so as to help the interviewee have a clear understanding and meaning of the questions. The interview facilitates in the judgement of the validity and appraisal of the responses that will be given verbally by the respondents. The facial expressions and other non verbal cues during the interview are important aspects that are worth noting as they provide answers to questions that are deep within the interview being held. The interview helps to allow further probing into topics that are emotionally charged whose questions and answers will be complicated. The disposition given by the respondents can help the researcher conclude the validity of the information given by the respondents.

3.7   Types of questions

A question is a sentence that is structured in an interrogative form directed to someone who is intended to give information in reply. Two types of questions are in existence and these are the closed ended and open ended questions.

3.7.1 Closed ended

Closed-ended or "closed question" is a question whereby a researcher will provide a list of responses that is suitable e.g. Yes or No. These types of questions mainly produce quantitative data.

Closed-ended questions can be analyzed easily. Each answer can be given a value or number so that an assessment of statistical interpretation can be made. Closed-ended questions are suitable for computer analysis, they can also be more specific therefore it is more likely to communicate and denote similar meanings and in studies that includes large-scale surveys they take less time to convey the interview by the respondent and the researcher, and so it can be considered as a less expensive survey method.

3.7.2 Open ended

Open-ended or "open question" is a type of question where the researcher does not have to provide a set of answers from which the respondent will choose from. Rather, the respondent will have to answer the questions in their own words. The data that is mainly produced by this type of questions is qualitative data.

Questions that are open-ended are useful as they make a provision of allowing respondents to provide more information which includes attitudes, feelings and the respondents' understanding of the study in question. This allows a researcher to have a better access of the respondents' true meaning and feelings on an issue.

Open-ended questions have the ability of scaling down on the types of response error, that is the respondents will not be in a position to likely select the answers they would have to choose from when they have the chance to respond to the questions freely. Open-ended questions gives the responded the chance to read the question thoroughly and understand it rather than simply disregard the true meaning of the question by just reading the questions and for example just answering with a yes or no.

3.7.3   Likert scale

The Likert scale is the mostly common used approach to scaling down responses in a survey. It is named after its developer, Rensis Likert, The end-points of a Likert scale are typically "strongly disagree" and "strongly agree."   The respondents are required to indicate their degree of agreement by having a comparison between any one of the five response categories which are agree, strongly agree, disagree, strongly disagree and undecided.

The Likert scale has several advantages which include the fact that it can be easily to constructed and administered by the researcher and the respondents can understand and comprehend it easily. It is therefore suitable for personal, electronic, mail and telephone, interviews. Couple variants of the Likert scale are commonly used that helps vary the number of scale points for example 1-5 as well as other descriptors of the scale for example the familiarity and importance and other characteristics. The study clearly designed questions language that is simple and that would not take long fill in because it would be easy to understand.

3.8   Data validation

The research questions were drawn within the context of the research problem outlined in chapter 1. Lohr (2010) defined validity as the extent to which a measure based on the observation and experiment carried out adequately reflects on the real meaning of the concept under review. Validity constitutes the whole experimental concept and helps to establish whether the results that are obtained meet all of the requirements of the research method. In order to enhance validity of the research instruments the following was done by the researcher that is the questionnaires were hand delivered to ensure that they reached the intended destination and responses are completed and questions that are open ended were avoided and clarity was given on how to answer the questions to avoid misunderstanding.

3.10   Data presentation and analysis

Data collected from questionnaires was sorted and compiled using the aid of tables, bar graphs and pie charts. After each table or graph an explanation followed to interpret and discuss the percentages and statistics presented in the tables and graphs.

3.11   Summary

This chapter outlined the methodology and research instruments undertaken in the study. It covered critical areas such as research design, population and sampling, data gathering instruments validity and reliability and qalso data presentation and analysis. The next chapter will focus on data presentation, interpretation and analysis.

CHAPTER 4

DATA PRESANTATION AND ANALYSIS

4.0   Introduction

This chapter presents and discusses the data and information that was gathered and collected through questionnaires and interviews. Further the chapter analyses and interprets the findings on the determinants of compliance by Small and Medium enterprises in Harare. The chapter is concluded with a summary.

4.1   Questionnaire Responses.

The questionnaires were given and distributed to 65 SMEs using the Simple Random Sampling Technique. Out of the 65 questionnaires that were distributed, 60 were returned to make a response rate of 92%. This justified the findings that were found in the research because most of the SMEs responded to the questionnaires. All 4 SMEs that were interviewed gave responses to the interview questions.

4.2   Level of non compliance by SMEs

Table 4.1 SMEs often have huge outstanding bill debt with ZIMRA

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	29	27	4	-	-	60
%	48%	45%	7%	-	-	100%

As shown by table 4.1 29/60 respondents (48%) said they agree that SMEs have often have huge outstanding bill debt with ZIMRA 27/60 respondents (45%) said that they strongly agree while only 4/60 respondents (7%) indicated that they disagree.

The above results shows that 56/60 (93%) agreed that most SMEs tax payers had outstanding bill debts with ZIMRA and only 4/60 (7%) respondents disagreed.

From the above analysis it shows that most SMEs owe funds to ZIMRA and this shows non compliance among SMEs. The results are in agreement with what Nyoni (2014) outlined where he stated that the level of not complying with tax authorities was high among SMEs. Even though SMEs holds the greater part of the business sector constituting about 90% of businesses and it plays an important role in the economic growth of the country and employment, the SMEs appear to be not represented proportionately in terms of their registration for tax.

Table 4.2 SMEs often give wrong reports to ZIMRA for tax assessments/evade tax

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	30	25	0	5	-	60
%	50%	42%	-	8%	-	100%

From the above table, it indicates that 30/60 respondents (50%) agree that they often give wrong reports to ZIMRA for tax assessments, 25/60 respondents (42%) strongly agree and 5/60 respondents (8%) strongly disagree.

A total of 55/60 respondents (92%) agreed that they often give wrong reports to ZIMRA for assessment, 5/60 respondents (8%) strongly disagreed.

The findings show that the tax payers are prepared to do anything in order to evade paying tax. This includes giving wrong information to the tax authorities. The findings are in line with Usang (2012) who noted that manifestation of tax non compliance is shown in various ways which include failure to submit tax returns on time, giving reports that are not true to the revenue officers, understating income and overstating deductions and failing to pay the amount required by ZIMRA in time. The responses are in agreement with a research carried out by Nyamwanza et al (2014) which also noted that most SMEs do not even apply for registration of their companies and others would pay bribes to corrupt revenue officers in order to evade paying tax. Others would also be seen keeping records of their businesses that are different whereby the first one will be used in the day to day activities of the business whilst the other one will be used when the officials from ZIMRA visits them.

4.3   SMEs tax perceptions and how they affect their tax compliance decisions

Figure 4.1 Taxes that SMEs pay to ZIMRA are too high/tax not fair
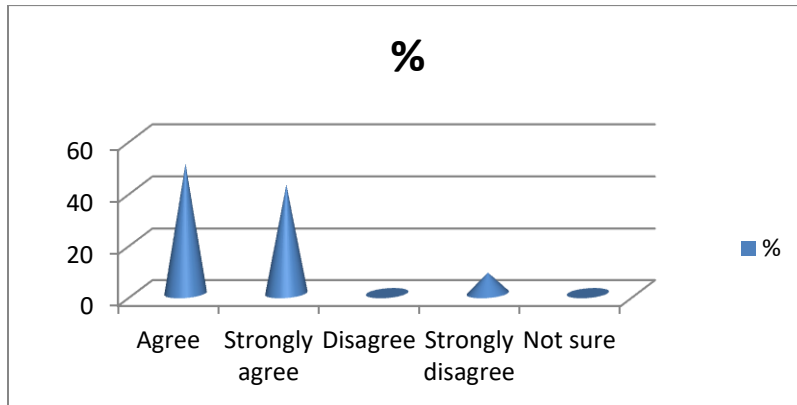
When the respondents were asked about the taxes that they pay to ZIMRA if they thought it was too high or fair, 20/60 respondents (33%) said that it was not fair, 20/60 respondents (33%) also strongly agreed, 9/60 respondents (15%) disagreed whilst 11/60 respondents (19%) where not sure.

A total of 40/60 respondents (66%) were in agreement that the taxes that are charged by the tax authorities were too high, 9/60 respondents (15%) disagreed that the taxes were too high whilst 11/60 respondents (19%) were not sure.

From the above analysis it can be deduced that the SMEs' perception on the tax that they pay is that the tax is too high and the tax system is not fair. This shows that if the SMEs have this perception they will be tempted not to comply with tax laws because the costs of complying to tax will be too high. The above analysis is in agreement with the results that were carried out in a

study carried out by Kastlunger *et al* 2009. The study carried out suggested that rates of tax that were too high had an effect of fostering a behaviour of not complying to the tax legislature thereby causing the tax payers to evade from paying tax. The reason for not complying being that rates of tax that were high over burdened the SMEs with the funds associated with the revenue they have to pay to the tax authorities because the tax payer will be left with a disposable income that is low. Kastlunger et al (2009) also noted that what influenced the taxpayers' decision to comply with paying tax were not only tax rates that were high, the whole tax structure has an impact on the decisions as well. If tax payers are charged corporate tax that is relatively low on the profits that they make and on the other hand is being charged high rates of tax on their personal income that is independent from their businesses they may perceive the that the tax system is unfair to them and choose not to declare all the income they would have got from their businesses in order to compensate for the income that they would have lost through paying tax that is exorbitant.

Figure 4.2 Funds paid not put to good use.

44
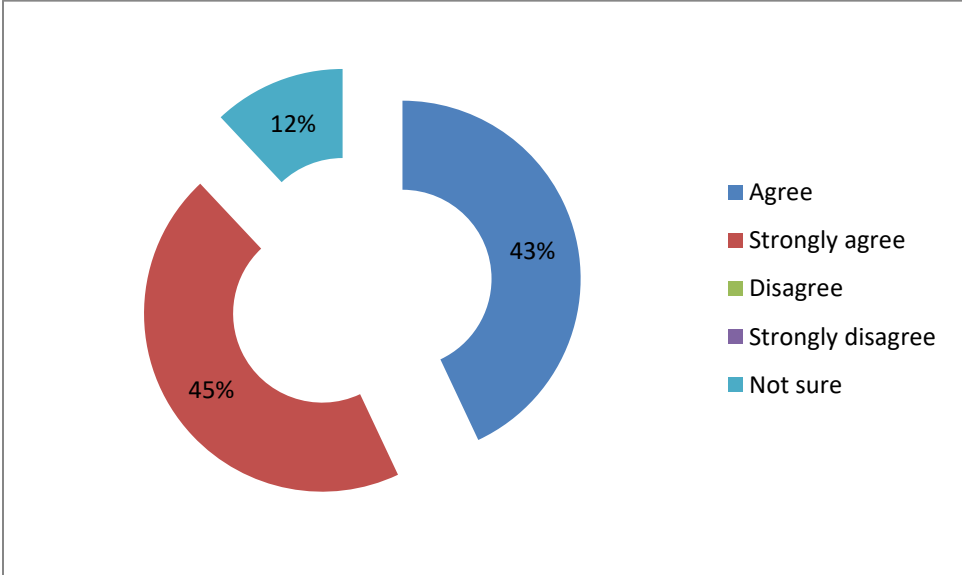
When asked whether the SMEs thought that the money they paid was not put to good use, 26/60 respondents (43%) agreed, 27/60 respondents (45%) strongly agreed and 7/60 respondents (12%) were not sure.

A total of 53/60 respondents (88%) agreed that the funds paid by taxpayers were not put into good use and only 7/60 respondents (12%) were not sure.

From the above table it can be deduced that when there is lack of transparency and the SMEs are not sure of whether the funds they will be paying for tax would be put to good use, the public will not trust the tax system thereby increasing the willingness and desire to evade paying tax. The results concur with what Kirchler et al as cited by Usang (2012) found out. They noted that where the government is operating in a manner that is not transparent and where the taxpayers would not see and understand what actions the government would have performed with the funds that they would have paid the taxpayers would not be willing to part with their hard earned money knowing that the revenue that they would have paid would not be put to good use. The taxpayers also want the government to be able to account for the public funds that are paid by the taxpayers, if there is lack of accountability the taxpayers will not trust both the government and the tax system. This will in turn have an impact of increasing the willingness by the taxpayers to evade paying tax.

Table 4.3 There are high levels of corruption in ZIMRA/government

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	35	10	0	0	15	60
%	58%	17%	-	-	25%	100%

Respondents were asked to confirm whether they thought that the level of corruption was high among government officials. 35/60 respondents (58%) said that they agree, 10/60 respondents (17%) said that they strongly agree and 15/60 respondents (25%) were not sure.

A total of 45/60 respondents (75%) were in agreement with the fact that there were high levels of corruption among ZIMRA or government officials whilst 15 respondents (25%) were not decided.

The above analysis shows that the SMEs had a perception that corruption was high among tax officials. If there are high levels of corruption and citizens cannot be certain as to whether the money they would have paid for taxes will be used to finance public goods and services their desire to pay tax will decrease and they will not comply in paying tax. If the cost of bribing tax officials is lower than the potential benefit from complying with tax, the tax payer will consider evading tax. . The results are in agreement with what Smulder (2012) noted who cited that were corruption levels are high and the taxpayers are not sure whether the revenue that they would have paid would be used for the betterment of the less privileged and for the funding of public goods and services, their willingness and desire to pay tax will decrease causing them to evade

paying tax. If the cost of bribing tax officials is lower than the potential benefit from complying with tax, the tax payer will consider evading tax.

Table 4.4 It is expensive to maintain records or hire experts

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	28	24	0	0	8	60
%	47%	40%	-	-	13%	100%

When asked whether the respondents thought that it was expensive to maintain records of accounting for tax purposes, 28/60 respondents (47%) agreed, 24/60 respondents strongly agreed (40%) and 8/60 respondents (13%) were not sure.

A total of 52/60 respondents (87%) were in agreement that it was expensive to maintain records or hire experts and 8/60 respondents (13%) were not sure.

From the above analysis it can be noted most of the SMEs perceived that it is costly to maintain records in terms of time and money because they sometimes have to hire experts who will have to do the record keeping for them, this is another reason why the SMEs will not comply with paying taxes. This is in agreement with what was noted by Smulders et al (2012) who noted that

SMEs would rather evade and face the consequences associated with not paying tax. Record keeping expenses are funds and expenses incurred by the taxpayer in the process of hiring professional consultancies that will equip the SMEs and their employees with proper record keeping for tax purposes and to equip them with the knowledge that is sufficient to help them comprehend what is required for them to fully comply with the tax laws.

Table 4.5 Tax is not complied with due to complicated procedures

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	20	22	9	-	9	60
%	33%	37%	15%	-	15%	100%

When asked whether they believed the tax system was complicated, 20/60 respondents (33%) agreed, 22/60 respondents (37%) strongly agreed and 9/60 respondents (15%) disagreed and 9/60 respondents (15%) were not sure.

From the above analysis a total of 42/60 respondents (70%) agreed that they did not comply to tax procedures due to the complexity of the tax system, 9/60 respondents (15%) did not agree and 9/60 respondents (15%) were not sure.

From the above responses it was established that because of the complexity of the tax system, most SMEs would not be willing to pay tax. They felt that the tax forms and procedures should be made easy and simple to understand. Most of the SMEs are not prepared to go through the whole process that is associated with fully complying and registering for tax. These results are conforming to what Prescott and Mataira (2010) found in a study carried out. It was noted in the study that in order to make it easy for the SMEs to be compliant to the tax laws, the government should make initiatives that will end up having an improved service delivery for the tax payers. This would include making provision for a wide range of electronic services. The taxpayers would enjoy the convenience that is brought about by these electronic services because the taxpayers and their tax advisers would conduct business transactions from any place that is convenient to them. This would reduce the administrative burden that is associated with the whole process of complying thereby increase the willingness of taxpayers to voluntarily pay tax. The government and tax authorities should therefore try as far as possible to make the requirements of administration for tax simplified in order to reduce the burden that is associated with complying. This would include making electronic services available to the tax payer to reduce the burden associated with filling and filing tax forms, making forms that are simplified and easy to understand, producing publications periodically and make communication by the taxpayers and the tax authorities easy, make an improvement in the internal policies and procedures such that they will be efficient. The laws and regulations should not exert burden on the taxpayers, rather they should be made simple and easy to understand in order to foster voluntary willingness to pay tax by SMEs. This would also include making the registering of SMEs simple and easy to follow.

4.4   SMEs tax determinants that affect their level of compliance

Figure 4.3 SMEs understand the tax system in Zimbabwe
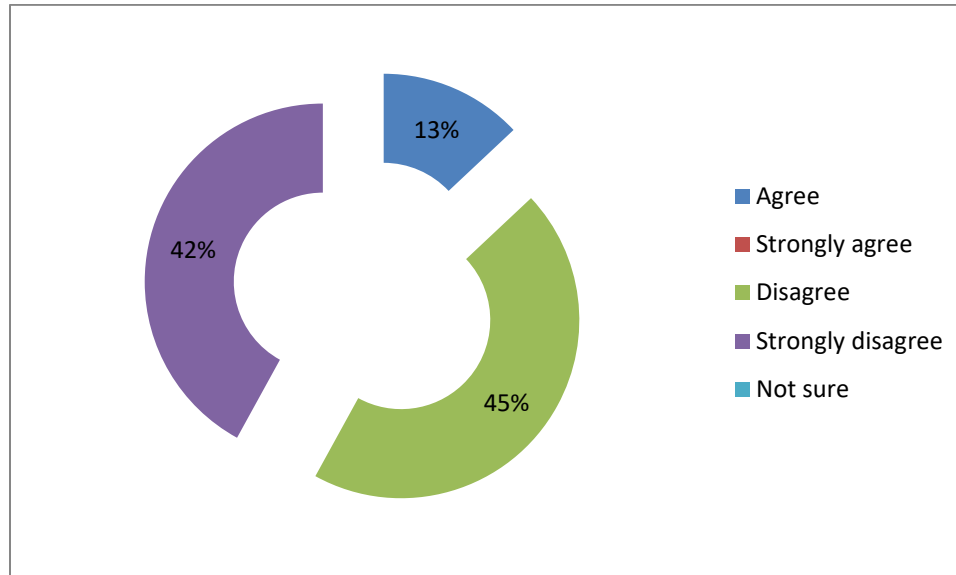
Asked whether the SMEs understood the tax system, 8/60 respondents (13%) said that they did understand the tax system, 27/60 respondents (45%) said that they disagreed that they understood the tax system and 25/60 respondents 42% confirmed that they strongly disagreed that they understood the tax system.

A total of 8/60 respondents (13%) said that they understood the tax, 52/60 respondents (87%) did not understand the tax system.

From the above information it can be analysed that most SMEs do not have knowledge of the tax system. Understanding what is required by the tax system is important because a taxpayer would know what is expected of them in order to comply with the tax system. The fact that most SMEs are not knowledgeable about the tax system would encourage non compliance because the

taxpayers would not know what is required by the tax authorities. The results are the same as what Maseko (2014) found in his research where he concluded that the main determining factors of compliance by SMEs were compliance costs and the level of how a tax payer would be knowledgeable about tax issues. In order for SMEs to comply to paying tax they should have a knowhow of what is expected of them by the tax legislature, this is so because the tax system involves different tax laws that have to be interpreted by a tax payer who is knowledgeable of the tax system and how it functions. The SMEs will still incur costs from within and from outside in a bid to be tax compliant whether they have this knowledge or not.

Table 4.6 SMEs pay tax because of the probability of tax audits

	Agree	Strongly agree	Disagree	Strongly disagree	Not sure	Total
Response	22	20	9	9	-	60
%	37%	33%	15%	15%	-	100%

When asked whether the respondents paid tax because of the probability of a tax audit occurring, 22/60 respondents 37% agreed that they paid tax because of the probability of a tax audit occurring, 20/60 respondents (33%) strongly agreed and 9/60 respondents 15% disagreed and 9/60 respondents 15% strongly disagreed.

A total of 42 respondents (70%) agreed that they only paid tax because of the probability of tax audits and a total of 18 respondents (30%) respondents disagreed. The results is in conformity of what Yong Zhi Niu as cited by Alm and Mckee (2009) said, they indicated that if a taxpayer has knowledge that he will be audited, the rate of the SMEs' tax compliance would rise because the tax payer will know that if an audit takes place, the audit will reveal all the irregularities that would have taken place and if the SMEs thinks that no audit will take place, compliance rate will fall. The analysis shows that behaviour that is construed by SMEs is that their behaviour changes when it is figured out that the probability of being audited is high than when the tax payers knows that no audit will be conducted. Taxpayers who are subjected to audits earlier in their tax life will comply with tax laws than a taxpayer who will be subjected to audits later in life.

It can be analysed that most SMEs do not pay tax voluntarily and willingly, the probability of audits taking place will force the tax payers to comply.

Figure 4.4 It is difficult to comply with tax due to high tax rates
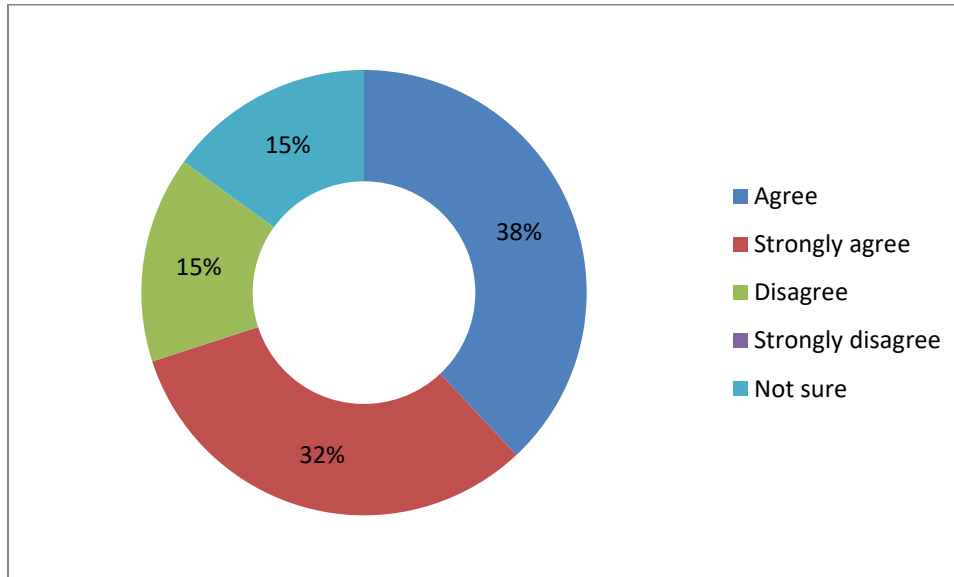
When asked whether the rates of tax where too high to comply with 23/60 respondents (38%) agreed, 19/60 respondents (32%) strongly agreed, 9/60 respondents (15%) disagreed and 9/60 respondents (15%) were not sure.

A total of 42/60 respondents 70% agreed that they did not comply to tax due to the high rates of tax that are charged, 9 respondents15% disagreed that high tax rates made them non compliant and 9 respondents 15% were not sure.

From the above it can be noted that most SMEs do not comply with the tax legislature because of the high rates of tax that are charged. According to Eichfelder and Schorn (2009) in many countries especially the developing countries, the costs of compliance that are high and exorbitant will lead to tax evasion and avoidance. The taxpayer will weigh the option of

complying and non complying and if the costs of not complying outweigh that of compliance the taxpayer will evade paying tax.

4.5 INTERVIEW QUESTIONS

4 owner SMEs where interviewed

4.5.1 What is The Level of Compliance among SMEs?

All of the 4 SMEs who were interviewed were of the view that most SMEs were not tax compliant. There were many reasons that were attributed to the reasons why the level of tax compliance was very law. All the respondents were of the view that most of the SMEs were trading informally thereby escaping the tax net. The reasons why most of the SMEs did not register for tax was they cited that the processes of registering was too beurocratic making it difficult to obtain trading certificates, they therefore were of the view that it was more advantageous to trade outside the tax bracket because they viewed that the benefits of evading tax far outweighed the benefits of complying.

Most of the SMEs were of the view that tax compliance issues remained a challenge with a research done by Nyamwanza et al (2014) having the same sentiments that in most developing countries, Zimbabwe being included full compliance to tax by SMEs has remained a problem and that some SMEs were trading without being registered and when they are not registered it means they will not pay tax. Some would evade tax through various ways that included having to

keep records of accounting that are different, one to be used in the day to day activities of the business and another set that will be used when ZIMRZ authorities visits them, some would even leave the premises they will be trading at and relocate to other premises to run away from the tax authorities. The research also found out that minimum or no effort at all was being made to foster voluntary compliance among SMEs, the officials at ZIMRA's levels of corruption were found to be very high, Nyamwanza et al (2014). The research further noted that people were not knowledgeable about tax issues and pointed out that ZIMRA officials should make an effort to give formal education about tax to enhance their understanding of their tax obligations thereby increasing tax compliance.

4.5.2   What are the SMEs tax perceptions and how they affect their tax compliance

The respondents were asked to explain the perceptions that they had towards paying tax. They responded by saying that tax compliance by SMEs is a function of their perception towards paying tax. They further went on to explain that the perceptions that the willingness to pay taxes is influenced by among other factors, quality of the service in return for taxes, Tax system and perception of fairness, transparency and accountability of public institutions, level of corruption, High compliance costs.

On the quality of the service in return for taxes they explained that they expected the government to provide the people with good service delivery when they paid their money. They understood that when tax is paid by citizens the funds are put into good use for the citizens of the country especially to the under privileged in the society, so they believed that the fact that they was poor

service delivery especially among the infrastructure. This fact will not foster voluntary compliance among SMEs since they were therefore not willing to part with their hard earned money. Their sentiments were shared by Brautigam as cited in GIZ (2010) who noted that when citizens pay tax they expected some kind of services or benefits in return of the taxes they would have paid. If the government fails to provide the basic infrastructure, public goods and services or if they do not provide for them sufficiently the tax payers will not be willing to pay tax,

On the issue of the tax system and perception about fairness and transparency on the part of the government officials, the SMEs believed that the tax system was not very transparent in how they used the money that they would have used to pay tax. The SMEs pointed out that was need for the government in issues pertaining how the funds were used and distributed since this affected tax morale among them. The SMEs also pointed out that the taxes that were charged by the tax authorities were too high and the tax payers' level of compliance was reduced. Their views were also shared by (McKerchar *et al* 2009) who also noted that the tax rate level is not the only factor that influences people's decision about paying taxes, the overall structure of the tax system has an impact as well. If tax rates charged on corporate profits is relatively low and the tax payer will be facing high rates of tax on their personal income they may consider their tax burden to be unfair and choose to declare only part of the income they would have got thereby reducing compliance among the SMEs.

The SMEs conceded that there were high levels of corruption among the tax officials. They believed that they were willing to take the risk of evading paying tax, they believed that when they were caught they would just pay bribe to the tax authorities and they further went on to

explain that the money they used in bribing the officials was far less than the costs associated with paying tax. The SMEs also pointed out that they were also not sure of how the funds they would have paid for tax were used. They were therefore not willing to pay tax.

On the issue of the costs associated with paying tax, they perceived that if it is expensive to meet the costs associated with paying tax they would rather not comply because it would be burdensome for them to pay the tax. They cited that the costs of maintaining records and books of accounting were costly in terms of money and time. Some of them pointed out that that they were not knowledgeable on the issue of bookkeeping they would therefore have to hire knowledgeable willing people who charged exorbitant prices. They further went on to explain that the tax system was a complex one and if one had to comply with paying tax, they would have to hire tax consultants which would in turn increase their burden of paying tax.

4.5.3   What are the SMEs tax determinants that affect their level of compliance?
The following as determinants of tax compliance that is tax rates, costs associated with compliance, tax audits, perception on government spending, role of tax authority and tax administration, simplicity of tax returns; probability of detection; awareness on offenses and penalty; and personal financial constraints were cited as the most common determinants of compliance by SMEs.

On the issue of tax rates, the SMEs pointed out that the rates of tax that were charged were too high and they were not willing to voluntarily pay tax this would therefore reduce the level of tax compliance. They also pointed out that the costs that were associated with paying tax were very high and they pointed out that most of them would rather prefer to stay out of the tax net. These

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costs would include the amount of money they pay for tax, the amount of money they would have to use in employing tax consultancies. Some of them pointed out that they would deliberately under estimate their income and overstate their expenses in order to reduce their tax burden.

On the issue of government spending, the SMEs pointed out that some top executives were awarding themselves with huge pecks of salaries at the expense of their hard earned money, they said that they were therefore not willing to voluntarily comply with paying tax. However some of them pointed out that they only paid tax because they were afraid of the penalties that were associated with being caught on the wrong side of the law.

The probability of tax audits would also make SMEs comply to tax, however some of them pointed out that they would not keep only one set of books of accounting, they would keep two sets so that they would use the other one for their own use and the other one for tax purposes. Some of them would not declare all the income that they have and in the event of tax audits they would not be caught on the wrong side of the law. Their views were also shared by Kastlunger et al (2009) who also suggested that even though the effectiveness of audits and fines imposed on non compliers cannot be completely confirmed, early audits in a taxpayer's "tax life" as alluded by other researchers have a positive impact on compliance by SMEs.

4.5.4   What are the tax procedures that promote voluntary compliance among SMEs

When asked what tax procedures the SMEs thought should be incorporated to promote voluntary compliance they pointed out that first and foremost they have to be taught about all the aspects that are associated with paying tax. Some of them said that they were not even aware of what is expected of them, they therefore pointed out that the tax authorities should make an effort to educate the SMEs about tax issues. They further stated that the tax system was so complex such that a taxpayer would think twice before involving himself in the issues pertaining being compliant to tax. They therefore pointed out that they thought that the tax system should be easy to understand and be comprehended in a layman point's view so that they should not incur costs of hiring external consultants to help them prepare and file their tax returns.

Their sentiments are also shared by Prescott and Mataira (2010) who pointed out that making it easy for SMEs to comply would mean including all the initiatives that the tax authorities will take to make an improvement in the service delivery by for example expanding the range of electronic services; this will make tax advisers and tax payers taking the opportunity of the ease and convenient services provided by these e-services. The administrative burden associated with tax compliance would prompt SMEs to evade paying taxes, authorities should therefore make an effort to simplify administrative requirements so that it will not be a burden to comply. This includes simplifying forms, publications and communications, improve the efficiency of internal policies, procedures, processes and promoting rulings, regulations and laws that are less burdensome. Registering of SMEs should be made as simple as possible to foster voluntary compliance by SMEs.

The SMEs also pointed out that the government should provide incentives for the SMEs so that they develop a sense of self compliance. They pointed out that incentives like tax holidays would foster compliance among SMEs. Their sentiments is also shared byAccording to Prescott and Mataira (2010) who pointed out that making it easy for SMEs to comply would mean including all the initiatives that the tax authorities will take to make an improvement in the service delivery by for example expanding the range of electronic services; this will make tax advisers and tax payers taking the opportunity of the ease and convenient services provided by these e-services. The administrative burden associated with tax compliance would prompt SMEs to evade paying taxes, authorities should therefore make an effort to simplify administrative requirements so that it will not be a burden to comply. This includes simplifying forms, publications and communications, improve the efficiency of internal policies, procedures, processes and promoting rulings, regulations and laws that are less burdensome. Registering of SMEs should be made as simple as possible to foster voluntary compliance by SMEs.

4.6   Summary

This chapter concentrated on the presentation, analysis and the interpretation of the data that was gathered from the research methodology. The results that were gathered from the primary and secondary data were then presented paving way for the findings, conclusions and recommendations.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.0   Introduction

In this chapter the author seeks to summarise the study that was undertaken. Furthermore a review of the purpose of the study is inevitable. Restating the research questions, the research design and presenting a summary of the findings and conclusions is also important. It concludes by making recommendations where appropriate.

5.1.   Summary of chapters.

In Chapter 1 of this study, an analysis of the determinants of tax compliance by SME's in Harare using the Magaba area as the subject of the case study was established as the purpose of the study. Chapter 1 identified the problem of the study as the failure of the SME's to pay tax thus affecting the level of revenue collection in Zimbabwe. It also sets the research objectives and identified the research questions.

Chapter 2 reviewed the relevant literature on the key determinants of tax compliance. The main focus being looked at was the objectives of the study. Literature on the level of tax compliance by SMEs, perceptions that affect the level of compliance among SMEs, tax determinants that affect level of compliance among SMEs and the necessary considerations to promote compliance among SMEs was reviewed. Authors like Prescott and Mataira (2010) and Maseko (2014) were most prominent in the research.

In the third Chapter a discussion of the Research Methodology/Design of the research was done. In this case study both quantitative and qualitative data was used. The author mainly used questionnaires and interviews (primary data). Journals and newspapers (secondary data) were other forms of analysis. the general tax payment patterns and evasion patterns for period through the years 2010 to 2013 was done.

The paper also studied the structure of the tax system in Zimbabwe. It also outlines the nature of taxpayer in Zimbabwean SME's and how this impacts on the determinants of the tax compliance by the SME's.

The 4th chapter of this study presented and analysed the results of the study, results from the questionnaires, interviews and secondary data analysis were analysed through the use of tables and figures. Data analysed in chapter 4 was compared with what other scholery thought said abot the area of study, that is secondary data was analysed together with primary data.

5.2   Major findings.

Mainly focusing on the research objectives, the findings of this study are as follows:

Results from the study revealed that SME's evade payment of tax. SME's owners and their management would try by all means to minimize tax liability even if it means evading paying the tax. The results showed that the taxpayers are not willing to voluntarily pay tax because they have a negative perception on how the funds they would have paid would be used. The results also showed that the major determinants of tax compliance were tax rates, tax audits, tax knowledge and costs associated with complying with paying tax. The SMEs felt that they should be provided with tax incentives that would help foster a self enforcement culture within the

SMEs so that they would voluntarily comply with paying tax. They also felt that the tax system should be made simple enough to enable it to be understood by a layman.

5.3. CONCLUSION

Basing on the major findings that are outlined above the following conclusions were drawn that is SMEs levels of tax compliance in Harare, secondly SMEs tax perceptions and lastly determinants of SMEs tax compliance. A conclusion was made from the findings that most of the SMEs were not complying fully with tax since the SMEs indicated that they knew of the existence of the tax laws but would try and find ways to evade paying the tax. However it was also concluded that some of them lacked knowledge of how to go about the tax system therefore that hindered them from paying tax. It was also concluded that most SMEs had the perception that they were not morally bound to pay taxes since they felt that the money that they paid in taxes were not put into good use. It was also concluded that most of the SMEs were of the opinion that the tax rates being charged to them was too high and unfair. It was concluded that factors that mainly determined tax compliance by SMEs were compliance costs, tax knowledge, tax audits, rates of tax and perceptions on government spending. These played a crucial role in influencing the behaviour of the SMEs such as the timely and effective payment of tax bills

5.4. RECOMMENDATIONS

The researcher recommends that there is need to educate the SMEs about what is required by them in the tax system. It is also recommended that as the authorities teaches the SMEs about compliance they should involve tax packages because some SMEs are not even aware of what is

expected of them. There is also need to simplify the tax system so that it will be easy to understand and comprehend.

The researcher also recommends that the tax authorities should promote tax incentives so that the SMEs would not hesitate to comply with tax. The tax authorities should at regular intervals of time frequently offer tax amnesties to those who would not have fully complied with the tax that they will be obliged to pay. This is a period in which they are allowed to voluntarily correct their past infringement of the tax law and not suffer the full punishment that violations as such would normally entail. A tax amnesty can only be effective if the taxpayer is sure and certain that the amount that will have been declared during the time of the amnesty will not come about in a future enquiry of possible tax evasion taking place in years that will not be covered by the amnesty

The researcher further recommends that stiffer penalties should be imposed for those who would be caught on the wrong side of the law. This would make taxpayers desist from the idea of evading from paying tax.

5.5   Suggested Areas of further research

Further research should be done to determine how tax calculations should be simplified and redrafted to suit the ordinary laymen.

5.6   Summary

This chapter made a final wrap up to the study by outlining the summary of chapters, major

findings, conclusion and recommendations, the researcher further highlighted on the area that

needed further research.

Appendix 1

Questionnaire Guide

I Pamella Bingura, am a student at the MSU doing Bachelor in Accounting honors degree. I am carrying out a study on "An analysis of determinants of tax compliance by Small and Medium Enterprises in Harare" I kindly ask you to complete the questionnaire guide as openly and as honestly as possible. No names or any identification marks are required. Please feel free to respond honestly. The information you are going to supply will be used for the purpose of this study only and will be treated with strict confidentiality.

SECTION A: Level of tax compliance among SMEs in Harare

Confirm aspects of tax compliance indicated below

Tax compliance indicator	Agree	Strongly agree	Disagree	Strongly disagree	Not sure
We have outstanding bill debt with ZIMRA					
We often give wrong reports to ZIMRA for tax assessments					

SECTION B-SMEs tax perceptions and how they affect their tax compliance decisions

Indicate tax perceptions that you agree or disagree with from the table below.

Tax compliance indicator	Agree	Strongly agree	Disagree	Strongly disagree	Not sure
Taxes that SMEs pay to ZIMRA are too high/tax not fair					
Tax collected by ZIMRA is not put to good use for public service delivery					
There is high level of corruption in ZIMRA/government officials					
It is expensive to maintain records required by ZIMRA/need to hire expert					

SECTION C:- SMEs tax determinants that affect their level of compliance

Indicate tax perceptions that you agree or disagree with from the table below.

Tax compliance determinants	Agree	Strongly agree	Disagree	Strongly disagree	Not sure
(A: SMEs Tax Competences)					
SMEs understand tax system in Zimbabwe					
SMEs am aware of most tax laws and guidelines					
(B:ZIMRA Tax Audits)					
I pay tax because ZIMRA carries out inspections and audits					

Appendix 2

Interview Guide

I Pamella Bingura, am a student at the MSU doing Bachelor in Accounting. I am carrying out a study on "An analysis of determinants of tax compliance by Small and Medium Enterprises in Harare" I kindly ask you to respond to the questions on the interview guide as openly and as honestly as possible. No names or any identification marks are required. Please feel free to respond honestly. The information you are going to supply will be used for the purpose of this study only and will be treated with strict confidentiality.

1.   What is the level of tax compliance among SMEs in Harare?

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2.   What are the SMEs tax perceptions and how do they affect their tax compliance decision.

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3.   What are the SMEs tax determinants that affect their level of compliance?

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4   What are the tax procedure for SMEs which promote voluntary compliance

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Appendix 3
Letter

Midlands State University

P Bag 9055

Gweru

2 September 2014

Dear respondent

I am a student at Midlands State University and currently studying Bachelor of Commerce

Accounting Honours Degree. I am carrying out a study on "An Analysis of Determinants of Tax

Compliance by Small and Medium enterprises in Harare".

You are kindly requested to assist by filling in the questionnaire provided. The information I am

looking for is entirely for study purposes and any information that you provide will be treated in

strict confidentiality and will be used for the purpose of this study only.

Pamella Bingura

Student.

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