Evaluating The Impact of Tax Knowledge on Tax Compliance among SME in Zimbabwe

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The undersigned certify that they have read and recommend to the Midlands State University for acceptance, a dissertation with title, Evaluating the impact of tax knowledge on tax compliance among SMEs in Zimbabwe,- in partial fulfilment of the requirements for the Bachelor of Commerce Accounting Honours Degree

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Dedication

This work is dedicated to my daughters Ruvarashe and Ropafadzo for their unwavering support during the entire period of my study.

Abstract

Tax non-compliance is an area of concern for all government and tax authorities and it will continue to be an important issue that must be addressed. From a tax administration point of view the, the rapid development of SMEs in the economy signifies a rapid increase in the number of 'hard to tax' tax payers. The objective of this study was to evaluate if lack of tax knowledge was contributing to the high levels of tax non-compliance amongst SMEs in Zimbabwe. To achieve this, a qualitative research approach was used involving a sample of 35 SMEs and 40 tax officials. . The findings were that SMEs in Zimbabwe possess basic tax knowledge about taxation but lack a deeper understanding like the difference between presumptive taxation and income based taxation however this is insignificantly influencing their non-compliance behaviour. It emerged that in order for tax knowledge to influence tax compliance positively, the tax rates and corruption need to be addressed too. In spite of these results, ZIMRA should still continue to raise awareness to uninformed and inexperienced SMEs on the benefits of paying tax, encourage proper record keeping through tax payer education and social media campaigns.

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CHAPTER 1

INTRODUCTION TO THE STUDY

Introduction

An essential factor, which could influence tax compliance, is the knowledge of taxation. Knowledge requirements for small business owner's tax compliance are relevant. Tax specific knowledge is necessary in order to enable small business owners to comply, as well as to increase their willingness to pay argued Kamleitner, Korunka and Kircher (2012). Richardson (2016) observed that general education level is significantly related to tax compliance. One of the fundamental ways to increase public awareness is for the taxpayer to have knowledge about taxation argued Muchani (2010). Lumumba (2010) found that SMEs did not pay their tax obligation because of their inability to understand tax law requirements. Empirical evidence shows that poor knowledge on tax systems breed distrust according to Niemirowski, Wearing, Baldwin, Leonard and Mobbs (2012). Poor knowledge can evoke distrust and negative attitudes towards tax, where good tax knowledge correlates with positive attitudes towards taxation further argued Niemirowski et al (2012). A study by Palil (2011) has revealed that tax knowledge has a very close relationship with the taxpayer's ability to understand the laws and regulations of taxation and their ability to comply.

The above-mentioned studies, which indicate a positive relationship between tax knowledge and compliance behaviour, were not consistent with a study in Nigeria. High tax rates, complex filing procedures, and not lack of tax knowledge are the most crucial factors causing non-compliance of SMEs argued Atawadi and Ojeka (2012). To support the findings, Fierre-Seren and Panades (2013) argue that knowledgeable taxpayers do not necessary pay taxes. Ranharamak (2014) concluded that increasing tax knowledge did not have a significant impact on perceptions of fairness and tax compliance attitudes among SMEs. This study

therefore seeks to assess the possibility of lack of knowledge as the major factor on non-compliance among SMEs in Zimbabwe.

1.1 Background of the study

The shift of the economy from traditional business models to the informal sector was expected to see the informal sector contributing meaningfully to tax revenue. The tax authorities introduced presumptive tax in 2005 to bring in revenue from small-medium enterprises. It was further enforced in 2011 to broaden the revenue base in view of increasing informal activities, *ZIMRA (2011)*. Despite these measures instituted to capture the revenue inflows from the informal sector, which continues to account for significant and growing portion of economic activity, revenue contribution to the fiscus remains insignificant due to low compliance as shown by 3% revenue contribution against 60% contribution to the Gross Domestic Product for 2011, (*Institute of Certified Tax Accountants ,2011).*

A survey conducted by the Finmark Trust, aided by the Ministry of Small to Medium Enterprises and Cooperative Development, supported by the World Bank and the Zimbabwe Multi Donor Trust Fund shows that Zimbabwe has 3.5 million Small to Medium Enterprises with only 2% of all these paying taxes to ZIMRA (Bloch column in Zimbabwe Independent, 28 June 2013). It is reported that $3, 3 billion is circulating in the informal sector as the country's formal economy continues to shrink, *RBZ (2015).* This $3.3 billion represents funds that are in informal sector and are not being recorded by the central bank pointed out the RBZ exchange control director Morris Mpofu, RBZ (2016).

During a parliamentary committee meeting, the former Zimra Commissioner General, Mr Gershem Pasi highlighted that taxation of the informal sector has not been effective and players have demonstrated concerted unwillingness to pay tax and they will find ways not to pay tax. This resistance to taxation could be because of lack of knowledge or lack of patriotism, (Revenews, 2014)

The table 1.1 below shows the contribution of the informal sector to fiscus over the years 2012 to 2016 and the annual revenue performance Zimra against its target over the 5yrs.

Table 1- Contribution of informal sector to fiscus

Year	2012	2013	2014	2015	2016
Zimra net revenue collections(billions)	3.26	3.43	3.60	3.50	3.50
Revenue variance against target	1%	(6%)	(6%)	(7%)	(9%)
Other Taxes (including presumptive tax)	4%	6%	6%	1%	2%
Company taxes(including contribution by complying SMEs)	14%	12%	11%	12%	10%

Source: ZIMRA Revenue Performance Reports (2012 -2016)

A glaring aberration in these Revenue Performance statistics is the minuscule contribution of other taxes (including presumptive tax) to the overall tally. There is no figure specifically attached to presumptive tax (informal tax) in the reports it is lumped under other taxes. This implies that the figure is too insignificant to bother the compilers of tax reports. This is a reflection that the revenue inflows from the informal sector have been insignificant despite the sector's contribution to GDP largely due to non-compliance, which could be because of lack of knowledge.

1.2 Problem Statement

Revenue inflow from the SMEs sector, which continues to account for a significant portion of economic activity, has contributed not more than 6% of the total annual net-of-refunds collections in the form of presumptive tax from the years 2011 to 2015. Despite measures instituted to improve the revenue inflows from this sector, there has however been minimal progress in terms of revenue generated due to noncompliance by most SMEs. The players in the sector are said to be operating outside the tax net due to a continuum of factors including

lack of proper awareness about tax related issues. The purpose of this study therefore is to evaluate if lack of knowledge is encouraging tax non-compliance SMEs.

1.3 Main Research Question

- Does tax knowledge affect tax compliance?

Sub research questions

- Do SMEs have tax knowledge?

- Which elements influence tax knowledge among SMEs?

- How do SMEs perceive the current tax system?

- Which other factors could be influencing noncompliance among SMEs?

- Which methods should be adopted by the Tax Authority to impart tax knowledge among SMEs in order to increase tax compliance?

1.4 Objectives of the Research

The primary objective is:

a) To establish if Tax knowledge influences tax compliance among SMEs

The secondary objectives are

a) To establish if SMEs have tax knowledge

b) To identify factors that influence tax knowledge among SMEs

c) To establish how SMEs perceive the tax system

d) To determine other factors that could be influencing tax non-compliance among SMEs

e) To establish how the Tax authority could improve its methods of imparting knowledge to SMEs in order to increase compliance

1.5 Significance of the Study

At the end of every year, as government prepares budget for the ensuing year, forecasting

what it expects to receive and what it tends to spend. The bulk of receipts, which are through taxation, serve as a source of government revenue. These revenues are used to develop both human and infrastructure of the country in the form of hospitals, schools, roads and to carry out essential services like electricity, water and sanitation, but sadly enough the bulk of SMEs and the informal sector who by statutory provision are qualified to honour their tax obligation to the state fail to do so thus denying the state the needed revenue to carry out these classes of projects.

It is assumed that this category would come to understand the purpose of taxation. And the arguments that, the tax authorities and the government are inefficient and are therefore not proactive in collecting taxes are thought of sound reasoning, but however, the culture of SMEs not to pay tax and even not hear the word 'tax' is so rooted amongst Zimbabweans. This research would enhance SMEs to honour their tax obligation for the government to honour its responsibility. It is assumed that all things being equal, at the end of this research the citizenry will not be antagonistic about the tax collection system and thus honour their tax obligation.

1.6 Delimitations of the study

In this research, the period under review is from the tax year 2012 to 2016. To avoid too many objectives and risk of not achieving some, this research focuses on addressing tax non-compliance among SMEs and the informal sector only. The research-targeted respondents are representatives of SMEs, ZIMRA Revenue Officers working at Mutare domestic taxes and Forbes border post.

1.7 Research limitations

- There was scanty literature on tax knowledge and education, particularly on the issues to do with non-compliance among SMEs.

- Because Tax evasion is an illegal issue, most respondents were not willing to divulge information which they think will incriminate them.

- Potential respondents had the notion that they would be exposed to tax officials, since the area under study is sensitive, there was no maximum cooperation.

- Secondary data that was relevant for the study was not readily available.

- The sample of SMES population used to carry out the research may have been too small to represent SMEs in Zimbabwe.

1.8 Research assumptions

- The research was premised on the assumption that all respondents answered the questions in an honest and candid manner.

- It is assumed that the participants had a sincere interest in participating in the research and did not have any other motives.

- The research was based on the assumption that the current legislation or regulations regarding SMEs and informal sector tax administration remained unchanged until the research was completed.

- It was assumed that the number of participants or subjects was enough from which to adequately draw conclusions.

1.9 Acronyms and abbreviations

SMEs--Small to Medium Enterprises

ZIMRA-Zimbabwe Revenue Authority

PTAX-Presumptive tax

COMTAX- Company tax

1.10 Key definitions of the research

Tax Knowledge-

Refers to the process by which a taxpayer becomes aware of tax legislation and other tax related information (Hasseldine et al, 2012)

Tax knowledge in general is an understanding of the essential tax policy concepts implemented within a country (Fauziati et al: 2016*).*

Tax compliance

(James and Alley (2012) tax compliance refers to the willingness of individuals to act in accordance with in both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity. It is filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the returns are filed.

James et.al in Utami, et.al (2012) defined tax compliance as the taxpayers willingness to meet their tax obligations in accordance with the applicable rules without the need for the holding of the examination, thorough investigations, warnings, or even threats and sanctions implementation either legal or administrative.

Pangestu and Rusmana, (2012) argues that compliance in terms of taxation means the state of taxpayers who conduct the rights and particularly obligations in a discipline manner in accordance with the regulations and ordinances of applicable tax.

Small and Medium enterprises- is a firm that has not more than 100 employees and a maximum turnover of US$830 000 (SEDCO 2010).

It is a firm that employees not more than 100 people and acting as a registered entity (Government of Zimbabwe 2000).

For the purpose of this research, the definition by SEDCO 2010 will be adopted to allow coverage of a large number of SMEs even those operating informally, (unregistered business).

1.11 Chapter Summary

This chapter largely presents the motivation for the study, background of the study, research questions, problem statement and the justification of the study. These components of research give a basis for a sound review of related literature by other scholars in view of the contributions of SMEs to the country's fiscus. The next chapter shall critically examine available theoretical and empirical literature on the research topic and situates the study within a conceptual framework within which Chapter 3 is formulated.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on reviewing the literature, which is significant to this research study around the world. Different scholars and researches will be evaluated and analysed to explore the objectives of this research study. It therefore went on to provide a systematic analysis of the empirical and theoretical evidence relating to the evaluation of the impact of tax knowledge on tax compliance among the small medium enterprises. The literature will therefore review the significance of tax knowledge to SMEs, factors with influence the tax knowledge of SMEs, ways to improve the tax knowledge of SMEs as well as establishing how tax authorities can improve method of imparting tax knowledge to the taxpayers. The researcher shall compare and contrast the various arguments laid forth in line with the investigation and relate it to SMEs in Zimbabwe.

Hardingsi and Pancawati (2011) defined literature review as a text of a scholarly paper that is comprised of the current knowledge, which is made up of substantive findings, as well as theoretical and methodological contributions to a particular research topic. Literature review then forms part of the secondary sources, which do not report new or original experimental work. More so it can be just a simple summary of the sources, but it usually has a research pattern that combines both summary and synthesis.

2.1 The taxation and existence of tax knowledge and tax compliance among SMEs

The drop or fall in tax compliance has some countercyclical effects on the economy in general and in many countries, noncompliance has become an accepted phenomenon. However, tolerating noncompliance may not be an appropriate response to the fiscal challenges because it is distorting, inequitable and most critical; it hampers the rebuilding of

taxation bases over the long term. Tax noncompliance among SMEs is a serious problem, that has worried tax authorities, the academia and nongovernmental organizations all over the world, as argued by Kastlunger *et al.* (2013: 36) "[…] tax non-compliance has increased over the last decades and, thus, gained attention in policy making and research.".

2.1.1 Tax knowledge among SMEs

Tax knowledge in general is an understanding of the essential tax policy concepts implemented within a country (Fauziati et al: 2016*)*. An understanding of the tax policies by SME's in a country determines the compliance with the tax system. Tax knowledge of various Small Medium Enterprises is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Bobek: 2017).

According to Kasippilai et al (2012), tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Palil, 2015; Saad et al. 2013). Studies undertaken in Malaysia (Loo, 2016; Loo et al., 2014) also proposed that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour under the self-assessment system. This is empirically established and supported by several other studies that include, Kasippilai & Jabbar (2013), Kirchler et al (2016), who documented that possessing tax knowledge would lead to higher compliance rates. Their research indicated that 97% of the respondents possessed tax knowledge and that SME's in Malaysia comply with tax regulations. Harris (2013) who investigated tax knowledge among SMEs in UK, divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. His findings revealed that SMEs in UK have tax knowledge and almost all of them are aware of the tax regulations.

Studies in New Zealand by Ritsema et al (2013) revealed that SME's in New Zealand have enough knowledge of tax and they comply with the tax regulations of the country. Saad et al (2014) also added that information about tax regulations is provided through free public lectures in Malaysia. In support of the above findings, Mckerchar and Hansford (2015) argued that the absence of tax knowledge might lead to non-compliance behaviour among taxpayers, either intentionally or unintentionally. This was noted in a study in Australia among small business taxpayers where he construed that small business taxpayers are not even aware of their tax knowledge shortfalls and this may lead to unintentional non-compliance behaviour. Further evidence was documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, et al., 2016)

Bautigam et al (2015), Fjeldstad,(2016) used the specification model in analysing tax knowledge among small medium enterprises and the results of the model were not conclusive as their findings indicated an equal existence of SMEs with knowledge and those without, their studies were based in Hungary, Dubai and Spain respectively. On a comparable note Uchedukwu (2017) revealed that the tax knowledge in Nigeria could not be measured accurately from their findings, which were based on the systematic theory and contemplated that some people have education and others have tax knowledge. Out of the one hundred questionnaires distributed by the researchers, the result could not distinguish whether the respondents had just been exposed to tax education or knowledge existed amongst the SMEs and therefore failed to conclude if indeed knowledge influenced compliance.

The above-mentioned studies were not consistent with an earlier study by Harris (2012), who claimed that tax knowledge has no direct significant effect on taxpayers' compliance behaviour. One possible explanation for such inconsistent results is the difference in tax

jurisdictions. The studies mentioned above were conducted in either Malaysia or Australia, while Harris conducted the research in the US. According to Nyamwanza, Mavhiki, Mapetere and Nyamwanza (2014) SMEs in Zimbabwe do not comply with legislation despite having the relevant information indicating that tax knowledge exists among SMEs and is not the contributor to noncompliance behaviour.

Brainnyah (2013) also argues that the existence of tax knowledge, which consists of general knowledge, legal knowledge, and technical knowledge did not significantly affect tax compliance behaviour of SMEs. His findings indicated that knowledgeable taxpayers were not necessarily compliant taxpayers. Research conducted by Eriksen and Fallan (2012) reported insignificant change in attitude toward tax and tax behaviour due to increased level of tax knowledge among SMEs. It was also found that tax knowledge has no impact on tax compliance in Indonesia according to Fauziati, Minovia, Muslim and Nassah (2016).

Maseko (2013) found no correlation between tax knowledge and tax registration compliance but a weak negative correlation with tax compliance. He claims that the level of tax knowledge in SMEs has no influence on their decision to either register or not register for tax. Registration for PAYE in Zimbabwe has been found not to depend on any level of tax knowledge according to Maseko (2013). Nugroho (2012) contrariwise argues that higher knowledge and understanding of the taxpayer did not lead to a better conformance with the tax regulations. Taxpayers who do understand the tax laws are still likely not to obey the tax. Thus, a better understanding of the taxpayer's tax rules only leads to more awareness of the sanctions that will be imposed when shirking the tax obligations. (Hardiningsih and Nurlis 2012) supported him who argued that taxpayers, who understand the rules properly, usually do not abide tax rules in accordance with what is stated in the tax laws. Moreover, Widayanti

and Nurlis (2012) suggests that understanding and knowledge of taxes have no significant effect on the willingness to pay SME taxes. Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2012) but findings in his research showed no relationship between the two variables.

2.1.2 Tax compliance among SMES

James and Alley (2012), defined tax compliance as the willingness of the taxpayer to act in accordance with both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity. Their studies in Yemen revealed that SME's in Yemen comply with the tax regulations of the country. Roth et al. (2015) conducted his studies in Brazil, defined tax compliance as filing all required tax returns at the proper time, and accurately report tax liability in accordance with the tax law applicable at the time the return is filed. Interviews conducted by Roth et al. (2015) revealed that it was the fear of stiff tax penalties, which compelled the SMEs to comply with tax laws.

The SME taxpayer complies with all requirements by filling their tax returns and paying tax before the due date argues Nkwe, (2013).This was revealed in a study in Botswana where it was argued that most SMEs have not received any audits by tax collectors, as they were not suspected of anything. He furthers argues that Botswana is known for its favourable tax environment which has therefore encouraged high compliance among SMEs. In support of high compliance levels among SMEs, Adebisi and Gbegi (2013) argued that almost all SMEs in Nigeria pay taxes all the times.

Richardson, (2015), in a cross-cultural study between Hong Kong and Australia revealed that Australian Small Medium Enterprises were generally more compliant than the Hong Kong taxpayers were. Bobek et al. (2017) also used a hypothetical tax scenario in their experimental study to investigate the SME taxpayers' noncompliance behaviour in the US, Australia and Singapore and his results indicated that Singaporean SME's taxpayers had the highest compliance rate at almost 74 per cent, while Australian taxpayers had the lowest at 45 per cent. The findings further suggested that complete compliance was lowest in Australia due to lack of tax knowledge within the country and was the highest in Singapore because of the tax knowledge given to the individuals before they embark on a business.

However, Mustafa (2015) disagreed that SME's comply with tax laws, his studies based in Rwanda mention that most of the SME's do not have the knowledge of tax regulations therefore do not comply. Mohd (2015) also condemned the compliance levels of SME's with tax regulations in a study based in Malaysia. SMEs do not believe in the tax system and SMEs in Zimbabwe do not comply with tax according to Nyamwanza et al (2014). Their research exposed that most SMEs evade tax by paying bribes, relocating or temporarily closing business during compliance blitz, and 67% of respondents in the study admitted to never complying with PAYE, Nyamwanza et al. (2014). Most SMEs do not pay their taxes according to Maseko (2014).

Lubua (2014) argues that a significant percentage of SME taxpayers are defaulters even among clients registered with tax authorities. 68% of respondents in the survey in Tanzania indicated that SME taxpayers did not file their returns as required by law. In support, Atawodi (2012) argues that a good number of SMEs get away with not paying taxes hence revenue that can otherwise be invested in development projects and end up being of benefit to the SMEs is lost.

Andreea et al 2015, Rawling (2013) and Stern (2014) revealed that information gathered in Bucharest revealed both compliant and non-compliant behaviour among SMEs. They all used the correlation model with results indicating both compliance and non-compliance behaviour. Omagah (2013), reached the same conclusion and Baurer (2015) who studied in Germany; the results of their researches were the same as mentioned above. Kirchler et al. (2013) further argues that there are no significant differences in terms of hypothetical tax compliance between small businesses, educated business owners or large corporates.

2.1.3 Presumptive tax as a form of taxation for SMEs

According to Gaeton (2012), Presumptive tax arises when self- assessments cannot be relied upon and administrative assessments are imposed instead. The use of presumptive taxes offers the possibility of reducing tax evasion at low cost and broadening the tax revenue base. Presumptive taxes encourage formalisation, stimulate business growth and employment, broaden the tax base and reduce the cost of collection (Morton, 2011). Presumptive taxes are adopted to simplify the tax administration process, collect revenue from the informal sector and educate them on tax issues with the ultimate aim of incorporating them into the regular tax system argues Bird and Wallace (2013).

Presumptive tax is an assumed or tax liability ascertained through indirect factors and is considered as an optional method to curb rampant non-compliance behaviour without employing excessive government resources (Gandhi, 2011). In Zimbabwe, the concept covers a wide variety of alternative means of determining the tax base ranging from reconstructing income based on type of enterprise, which can be challenged by the taxpayer, to the true minimum taxes with tax bases specified by legislation, Zimra (2010)

Ghana pursued the presumptive tax but later abolished it and replaced it with innovative tax regimes and the net effect was an increase in informal tax revenue in 2003 (Ayee, 2013). Formal tax systems are highly dependent on record keeping and equitable taxation should be based on profits but presumptive tax system introduces a prospect of unjust and unfair taxing where an enterprise is charged tax when losses may have been incurred according to Maseko (2012). He also regarded SMEs, as 'subsistence entrepreneurs and trying to tax this segment is the same as taxing subsistence farmers. The presumptive tax system is ineffective because it is not graduating the informal traders into the formal sector but rather lure those in the formal to regress to the informal sector according to Zivanai, Chari and Nyakurimwa (2016).

According to Haji (2015), the relative contribution of presumptive tax to total has been low and insignificant. He further proposes a need to intensify effective presumptive taxation reform for SME entrepreneurs through rationalising turnover tax regime and influencing behavioural patterns Of SMEs in Tanzania. The findings suggested that presumptive tax system tolerates some aspects of informality. According to Galimardanove, Khafizova and Samina (2015), the basic problem of inefficiency of the presumptive is that it has failed to increase the tax base of the economy. Contrary to expected results, tax revenue has decreased over the years in Russia. They further argue that presumptive tax has brought in some form of unfairness in the tax system.

Similarly, Saleheen (2012) argues that simplicity should not be pursued at the expense of other more important elements that make the tax system efficient and effective. However his findings revealed that presumptive taxation in Bangladesh seem quite appropriate and in line with best practices. He argues that permanent use of presumptive taxes, regardless of the size and turnover of the business concerned has serious adverse effects on the overall system. His

opinion is based on the background of the fact that tax collection in Bangladesh still stands at 9%.

In the United States, Schepanski and Shearer (2015) noted that the introduction of the presumptive tax regime within the motor trade sector greatly improved the tax head. Thomas (2013) asserts that the effective implementation of presumptive tax can improve revenue generation and collection. Dube (2014) asserted that the presumptive tax legislation and administration in Zimbabwe improved revenue collection, especially during the period 2009-2014. According to Thomas (2013), presumptive taxes enhance efficiency by imposing zero marginal tax rates on above average earnings thereby increasing compliance among SMEs. His findings revealed that since presumptive tax is calculated based upon an average level of earnings for a particular industry, SMEs would try to surpass that limit in order to have an advantage. Mbaye (2012) argued that the introduction of presumptive taxes increased compliance by 3%, 1.3%, and 0.7% in Benin, Burkina Faso and Senegal.

There is, however, no evidence that this presumptive tax collection method has not been cost effective and efficient and the benefits of tracking and collecting revenues through this method are not clearly justified (Dube 2014)

2.2 Factors that influence tax knowledge

Tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation according to Oladipupo and Obazee (2016). Many things, among other factors formal education, influence it. One's knowledge about an object contains two aspects: positive and negative. Both of these aspects will determine the attitude of a person. Knowledge is the information known or recognized by someone defined Utami, et.al. (2012). Knowledge is something that is known to be associated with the learning process. This learning process is influenced by various factors from within such as motivation and external factors such as the means of information available as well as socio-cultural circumstances proposed Utami,

et.al.(2012). The taxpayer's knowledge shows the understanding of the taxpayer in applying the tax rules particularly on income tax.

2.2.1 Level of education

Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favourable taxpayer attitude and therefore greater compliance argues Chan et. al.(2012). Das-Gupta and Arindam (2014) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher-level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2012). According to Hofmann, et al (2013) and Mohd (2014), an important factor affecting tax knowledge is the level of education. Their studies were based in Sudan, and they contended that people with higher level of education could easily understand the tax requirement. Iyoke (2016) form her studies in Nigeria also supported that level of education has an influence on tax knowledge.

However, Atawadi (2012) refuted that level of education increases tax knowledge. This was based on his studies in Taiwan where he contested that SMEs have tax knowledge despite their low level of education. On similar note Smith (2013) also argued that taxpayers level of education has been sorely neglected yet the SMEs were complying with tax regulations. Naiddo (2015) also seconded that the level of education is not necessary on having tax knowledge, but the beliefs of the taxpayer. Her studies were explored in Israel where most of the people believe that paying tax is fraud on its own. This perspective was supported by Mohd et al (2013) using the religiosity model where he contended that paying tax is an offense in their religion. Tax knowledge also is not related to the level of education according to Nellen (2014), she concluded this in a survey conducted on the level of education on SMEs

who comply with tax laws in London and her outcomes presented that even people with low level of education had a better understanding of tax. On similar note, Medley (2015) perpetuated that highly educated SME owners in Ghana still did not have tax knowledge and did not comply.

Hunton, (2012) and Gordon and Miller (2016) were mediocre on the view that the level of education has an effect on the tax knowledge and tax compliance and regarded staff training on tax policies as costly to the organization. The level of education contribute to a certain extend but not necessarily always has an effect on tax knowledge argues McCarthy (2017), Oguntimehi(2011) and Donn (2014)). There is a weak relation between the level of education and the ability to operate in a legal system, which means these variables are unrelated and that education does not influence any compliance on the part of managers and owners (Nyamwanza et.al, 2014). The level of education was considered in the study in Gweru, Zimbabwe for its impact on compliance of owners and managers on operating within the legal system. The study indicated that the education held by the owners could have failed to include tax compliance on the part of business (Nyamwanza et. al, 2014). The non-compliance rate indicates that the education might not be relevant to business or tax issues they argued.

Nonetheless, findings on the relation between level of education and tax compliance are mixed. On the one hand, highly educated groups were shown to agree more with existing fiscal policies than less educated groups argued Scheopansk and Shearer (2013). On the other hand, some researchers found that ordinary education was negatively related to compliance posited Antonides and Robben (2015) – also for small business owners (Hite et al., 2013), whereas again others found no clear pattern of non-compliance across levels of education among the SMEs as stated by Schuetze (2012). Further adding to the contradictory pattern, Chan et al. (2012) found a small positive effect (via tax attitudes) of level education

on tax compliance in a US sample, whereas in a Hong Kong sample, level of education and compliance were unrelated.

2.2.2 Complexity of tax law

Tax complexity arises due to the increased sophistication in the tax law argued Richardson and Sawyer (2014). Tax complexity can take many forms such as computational complexity, forms complexity (ACCA 2012), compliance complexity, rule complexity (Carnes and Cuccia, 2011), procedural complexity (Cox and Eger, 2013) and low level of readability (Pau et al.,2015: Richardson and Sawyer, 2014; Saw and Sawyer,2014).

Complex tax laws and high tax rates as well as lack of tax education are the most crucial factors causing non-compliance among SMEs Atawodi and Ojeka (2012). Mariah(2014) argued that the complexity of some tax policies causes many people to ignore tax issues , other factors like lack of education only affect tax compliance among SMEs only to a lesser extent (Adam; 2013). The income tax system was also perceived as inherently complex (Saad, 2013), who further argues that the huge amount of paperwork to be completed in complying with tax obligations further escalated the problem and encouraged noncompliance among SMEs.

Navigating through the legal and procedural issues related to taxation is often taxing in itself. In many countries several forms need to be completed, and detailed records need to be kept argues Maingot and Zeghal, (2011). Substantial knowledge about the procedural aspects of tax laws is required. This is particularly challenging since tax laws tend to be changed frequently (Chittenden et al., 2012) and to be more complex and ambiguous than laws in general (Carnes and Cuccia, 2012). Tax laws are often too complex to be understood by non-professionals (Kirchler, 2014), which many small business owners undoubtedly are. In addition, tax practitioners acknowledge that the complexity of taxation is making compliance especially difficult to achieve for many small businesses (Knell, 2012).

It can be assumed that, sometimes, small business taxpayers are not even sure about whether they are fully compliant or not. For example, in several countries the distinction between the earnings/income from labour and capital is particularly hard to draw in the case of small businesses (Van Den Noord, 2012) and self-reported evasion within small businesses did not match actually documented non-compliance (Webley, 2014). This latter finding might be interpreted as resulting from complexity of tax laws resulting in lack of knowledge. Tax Complexity factor which consists of content complexity and compliance complexity implies a negative and significant correlation to tax compliance behaviour of SMEs entrepreneurs. This condition indicates that the higher complexity a tax regulation has, the more reluctant the taxpayers would pay their income taxes.

However Adam and Smith (2013) who studied the effects of tax complexity on tax knowledge and compliance in Peru argued that the complexity of tax policies is not an excuse for non-compliance with tax regulations. This view was supported by Hasseldine (2014) who studied on the issue is India , he concluded that despite the complexity of tax laws all SMEs should comply with tax laws and stiff penalties should be expressed against no compliance. Abimanyu and Angito (2013) asserted that the huge amount of paperwork to be completed in complying with their tax obligations help to solve further escalate the problem that result in taxpayers not acquiring tax knowledge. This however is not an excuse as the New Zealand income tax system has been criticized for being overly complex but SMEs comply with the system (Gerbing :2014). With regard to compliance behaviour, participants generally believed that attitude, perceived behavioural control, complexity and fairness perceptions have partly contributed to taxpayers to comply with tax authorities in Austria (Saad: 2013). Chanhall (2013),Chapelliar (2010), Holmes and Nicholls (2017) challenged that the tax system complexity alone cannot justify the change of tax policies package as there are other

factors to be looked at which contribute to knowledge of tax compliance. Lavigne (2015) asserted that adequate employee training is an essential tool in handling any system complexities.

In Malaysia, Mustafa (2012) who studied taxpayers' perceptions towards the self-assessment system, which was to be introduced (at that time), highlighted the presence of tax complexity in Malaysia, particularly in terms of recordkeeping, too much detail in the tax law and ambiguity. The findings were partly consistent with the six potential causes of complexity labelled as: ambiguity, calculations, changes, details, forms and record-keeping, identified by Long and Swingen (2011). Such complexity was also present in Australia where it forces taxpayers to engage tax agents to deal with their tax matters (McKerchar, 2011). McKerchar (2013) further identified the most common problem faced by taxpayers is to understand the instructions in the Taxpack 2000. This is followed by the problems of understanding the rules, the tax return forms and other relevant written information provided by the tax authority. His findings were consistent with Cox and Eger (2012) who focused on the State Road Funds in the US State of Kentucky. The authors found that procedural tax complexity contributes to an increase in tax non-compliance.

2.2.3 Knowledge of e- filing and technology on tax compliance among SMEs

Electronic tax filing or e-filing is a process where tax documents or tax returns are submitted through the internet, usually without the need to submit any paper return according to Muturi (2015). Electronic tax filing was first coined in United States, where the Internal Revenue Services began offering tax return e-filing for tax refunds only according to (Muita, 2011). The aim of tax reforms in many countries is therefore, to achieve higher voluntary compliance and one way to do this is by introducing electronic filing system (Khadijah, 2013).

Keen (2013) argue that taxpayers with certain characteristics are more likely to use e.filing. In the main they argue that large businesses are more likely to use e.filing than small businesses. In addition they argued that capability in computer usage, awareness of e-filing and knowledge about the process is important for taxpayer's decisions, said Keen (2013). Muita and Mukanga (2010) conducted a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on SMEs and large companies. The study found that that technological knowledge influences acceptance of e-filing and compliance among SMEs. Some people would generally not be interested in e-filing because of a lack of computer knowledge. This was confirmed by Crews (2013), with references to some of the lawyers in Florida who did not want to use e-filing in their law firms due to lack of basic computer knowledge.

Berger (2011) said that South Africa improved its ranking on tax payments from number 32nd to 11th, largely due to the success of e-filing and the way in which returns are filed. She further points out that in South Africa it takes 200 hours for a company to complete and file its tax return, compared to a global average of 268 hours. He further argues that most of the SMEs in South Africa are capable of using e.filing. Mongwaketse (2015) in a study on the effects of e.filing on tax compliance found that only 58.3% of the respondents said they know and understand how to use e-filing indicating a lack of knowledge on the part of the tax payer. The findings also revealed that the majority of respondent had basic tax knowledge, though an unusually big percentage still opted for the use of tax consultant as opposed to e-filing personally.

The taxpayer requires access to a computer, the tax software, a reliable internet connection and the knowledge to utilize the electronic filing (Hussein, Mohamed, Ahlan, Mahmud, &

Aditiawarman, 2012). Lack of the ability to use the e filing system quickly and efficiently or lack of understanding the type of information required by the online tax filing system forces taxpayers to engage third parties or ignore tax obligations (Mandola, 2013). According to Gwaro et al (2016), there is a significant relationship between computer literacy, tax knowledge and tax compliance knowledge. Edward and Ambrose (2017) confirmed that SME lack confidence in their ability to correctly calculate the tax payable causing them to hire experts to file for at a cost or totally evade taxes. The study deduced that the technical skill of filing tax returns is a factor that influences the tax compliance. Akinmboade (2012) proposed that three skills are required by a tax payer to interact well with the system namely spread sheet software, word processing and email. Failure to consider such skills may make the intention of the system not to be realized as confirmed by Jaidi (2013). He confirmed that despite the heavy investment that the Malaysian tax authority put in new online system, only 20% of the targeted taxpayers were able to use it after three years of implementation. This was mainly attributed to lack of necessary user skills like computer literacy; however, taxpayer's behavior also played a role.

A study of South Korea and Turkey on user evaluation of tax filing web sites was done by Loo et al. (2012), to compare the design and the complexity of the web sites and the ease with taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use. This was attributable to the fact that the SMEs compensated their lack of knowledge by using accounting professionals. Amitabh et al (2011) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of his study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out

found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility.

On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing. Other factors to be considered should also be the capacity of the system and the efficiency (Loo et al., 2012). Helhel et al et al. (2014) stressed that the problem that an increase technology dominance and sophisticated tax return preparation program might increase the incentive for tax policy makers to incorporate additional complexity into the laws, assuming that such technology will help taxpayers to better comply. They argue that such strategy will place those taxpayers at a disadvantage who do not wish for such a computerised support system.

2.3 SMEs general perception of the Tax system

Perception is the process of assessing a person against a particular object. Sari and Huda (2013) defined taxpayer perception as a tax payer's way of thinking towards tax administration system. They further argued that taxpayer understanding tax and perception has a significant impact on tax payer compliance. Listokin et al (2012) suggests that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation would occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a major role in shaping fairness evaluations.

2.3.1 Perception on tax non compliance

If tax evasion is not viewed as a serious offence, it may explain the degree of non-compliance

with tax laws. SMEs perceive tax as a mandatory collection rather than as a form of participating because they feel they have not seen the real impact of the tax for the country and society argued Sari and Huda (2013). According to Berk et al (2015), the general public does not perceive tax evasion as a serious crime. Their findings in Turkey actually revealed that the average person ranked tax evasion as only somewhat serious. When compared to other white collar crimes it actually ranked lower than accounting fraud.

Tax policies are seen by SMES as an attempt made by the government to deter their growth according to Berhane (2012). Based on third hypothesis (H3) Williams (2014) also contemplated that there is a bad perception by SMES on tax policies in Rwanda and revealed that tax policies impact SMES growth negatively. Sanford (2015) based his studies in Israel and contented that SMEs in Israel viewed tax compliance as an issue which stands against their religion and feel non-compliance has no effect on the performance of their business. Cannes and Cuccia (2012) noted that small business owners were remarkably open and honest about their tax evasion behaviour. They argued that one potential reason of this openness is that tax payers may view tax evasion as a relatively minor offense. Karlinsky, Burton and Blanthorne (2014) argue that SMEs perceive tax cheating and shop lifting as being almost equivalent offences.

Contrary to the views of most authors, Fisher (2013) argues that some SME owners believe tax evasion can cause long-term harm to their business by damaging reputation and diverting national infrastructure. Dawlings (2014) also argues that tax payers perceives and associate paying tax with social responsibility and believe that a company should pay its fair share of taxes. Findings in a survey conducted on students in various disciplines and at various levels of education revealed that educated tax payers perceive tax evasion as a crime whereas the

least educated found it socially acceptable argued Ross and Mcgee (2014). However different studies in developed countries reveal that SMEs actually do no support tax evasion as they believe it inhibits growth of the economy. Gunz et al (2014) argues that although it seems convenient to evade taxes in order to decrease compliance costs, tax payers in Canada counter argue that taxes can be useful in reforming the economy.

Murtuza and Ghazafar (2012) do not address the issue but discuss Zakat, the Muslim duty to the poor. Morates (2012) discussed the case of Mexican street vendors and their view that feeding their families was more important than paying taxes. McKerchar (2016) and Mugenda (2015) concluded that tax compliance perception is of political interests in Iraq so SMEs tend to follow the policies they feel to support their business.

2.3.2 Perception on Tax authorities

A special focus needs to be placed on tax authorities for they are the ones who maintain direct contact with tax payers, offer services, implement controls and impose punishments argued Alm, Kirchler and Muehlbscker (2012).Tax payer perception towards tax officers is the taxpayers view or a judgement towards the existing tax officers. The integrity of employees is essential in making sure that the organisation meets its objectives. Employees with good integrity ensure that they provide services in corruption free environments. Sari and Huda (2013) established that SMEs in Indonesia have a negative perception on tax authorities after findings had shown low quality of tax service and the amount of tax revenue misappropriation committed by tax officers.

High perceived corruption among tax authorities is strongly associated with increased tax evasion among small and medium firms, and as firm size increases this effect diminishes gradually suggested Debacker, Heim and Tran (2011). This appears somewhat in contrast to Joulfaian (2012) who finds that managers' perception of corruption by tax authorities influenced corporate tax evasion but this influence did not vary with the firm size. High

levels of corruption can undermine citizen perception of government honesty and consequently government competence. When corruption tax the form of government agents pocketing revenue meant for public coffers, the undermining of the public confidence maybe particularly severe (Brewer, 2013). Compliance in Britain only came about as citizens were convinced that taxes would actually end in public coffers and not in private pockets argue Brewer (2011).

2.3.3 Perception on government expenditure

Government expenditure refers to the spending of government funds, consumption, investments and transfer of payments to the purchase of goods and service, which include public consumption and public investment and transfer of payments consisting of income transfers and capital transfer (Virginia:2017). According to the approach of Spicer and Lundstedt (2012), taxpayers perceive their relationship with the state not only as a relationship of coercion, but also as one of exchange

Ndekwa (2013) argues that SMEs in Uganda lack trust in their government and that the lack of accountability and honest on the revenue collected drives the non-compliant gear among SMEs in Uganda. He further argues that government should show some degree of accountability to make SMEs understand the connection between tax revenue and expenditure. Djawadi and Fahr (2013) proposed that SME perception on government expenditure can only be improved by involving the public on what public goods they want their tax dollars to be spent on. Their findings showed that compliance could be increased by 18% if the public perceived the government to be fair. However, the fact that the study was conducted in a lab with students as subjects provides reasons for caution. Lack of trust in the fairness of a tax system and the legitimacy of the government increases the likelihood of tax evasion among small business owners Webly (2014).In a similar study in Uganda Fisher (2016) assimilated that SME taxpayers in Uganda alleged the government to be involved in

unnecessary costs using their hard earned dollars. This view influenced their non-compliance behaviour.

According to Shamrodi (2016), non-accountability by the government did not influence non-compliance among SMESs in Uganda, but it is the ways the taxpayer perceive government expenditure that significantly influences noncompliance behaviour. He argued that taxpayers are aware of the uses of tax money but they still perceive that some of the funds are not used for their intended purposes. Harrod (2013) studied the tax fairness in developing countries and concluded that lack of fairness in tax authorities causes most of SMEs to relax attaining tax knowledge and cause a short fall in revenue collected by government. Statistical calculations done in China showed a trend of negative correlation between tax fairness to tax compliance behaviour, which means that the more SMEs entrepreneurs are aware of tax knowledge and outs of taxation argued Chan et al (2012).

However Rainsburg et al (2014), still argue that SMEs are only concerned in making their businesses successful by minimising their costs and they are not concerned about the government. Williams (2017) in his research on tax payer perception discovered there were mixed opinions on how the government spends which resulted in mixed compliance behaviours in Canada. While people who mistrust government may be less inclined to pay taxes, people who are un-inclined to pay taxes might also rationalise this impulse by invoking their mistrust of government argues Listokin and Schizer (2012). Survey results in Australia indicated that most SMEs are ignorant and uncertain about the works of the tax system and the policy options under consideration or actually in place by their government.

Conversely, studies in Chile, Rothberg (2014) revealed that small business understood that government should utilise tax money and believed their money was being put to best use. Perception of fairness in tax administration, the perceived equity of government spending,

overall level of trust in the government are some of the reasons why Americans comply so readily argues Alm and Torgler (2014). They further argue that on reason why small business comply is that they perceive that their preference are adequately represented and they are supplied with public goods, therefore their identification with the state increases. According to Mukhlis, et al (2013) businessmen are willing to fulfil their tax obligations and benefits as long as there is justice of the taxes that have been paid. Adam, Smith and Zain (2013), reiterated that the most important principle in the context of the successful tax collection is the fairness in taxation, which is expressed by a statement that every citizen should participate in the financing of the government, as far as possible in proportion to their respective abilities, that is by comparing the earned income with the protection they get from the State.

Taxpayers are more inclined to comply to the law if the exchange between the paid tax and the performed government services are found to be equitable. Frey and Holler (2013) argue that an increase in deterrence disrupts such a balance based on reciprocity for honest taxpayers. This feeling gets stronger when taxpayers, who consider themselves to pay fair dues, are audited and fined. The balance will also be disrupted when they notice that other taxpayers who are violating the tax law do not get punished.

2.4 Other factors which may influence non-compliance among SMEs

It still may be possible that lack of compliance maybe solely from other influencing factors which are not tax knowledge. Several factors that may contribute to the level of compliance in a taxpayer population have been identified. The sections below present an overview of some of these factors.

2.4.1 High tax rates

The impact high tax rates on willingness of the taxpayers to meet their tax obligations is explained by the Laffer curve below. The Laffer curve suggests that, as tax rates increase from low levels, tax revenue collected by the government also increases. It also shows that tax rates increasing after a certain point (A) would cause people not to pay taxes either through legal means (avoidance) or through illegal means (evasion). Eventually, if tax rates reached 100 percent (the far right of the curve), then all people would choose to evade all taxes because everything they earned would go to the government.

Figure 1: The Laffer curve
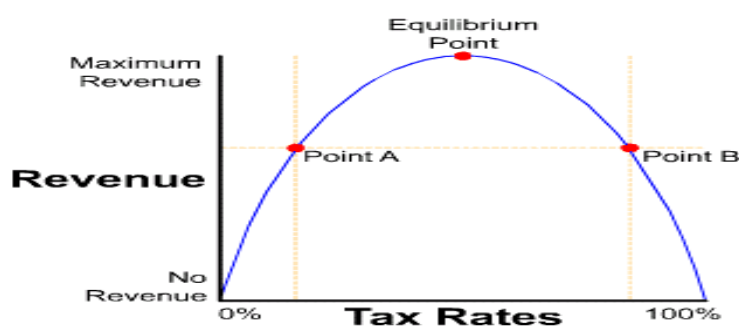
On the endpoints, if for example, the tax rate is 0 per cent, we get zero revenue. If the tax rate is 100 per cent, we also get zero revenue, or near to it, because no one will be willing to pay taxes. In the middle somewhere is a maximum (labelled equilibrium point) where people will be willing to meet their tax obligations. The equilibrium point is reached when taxpayers perceive that there is social justice and there are getting value for their money in terms of public goods and social services that they get from the government. In practice the equilibrium point is hardly ever attained by any country.

Bayer and Sutter (2012) investigated the relationship between excess burden and tax evasion. The investigation showed that the excess burden of tax pilots to a strong enhancement in the social investments and in so doing escalates tax evasion. In another study by Bayer (2013)

which examined the impact of tax rates on tax evasion in the European economy, it was shown that higher tax rates led to more evasion. Cebula and Saadatmand (2012) also showed that higher tax rates on income boosted tax evasion for the U.S. during 1987-2007.

Ojochogwu (2013) investigated the factors which influence tax compliance and based his findings on economic theory and concluded that when it comes to taxation of SMEs, high tax rates are the primary problem of entrepreneurs. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. Lavinia (2016) also supported that high tax rates is the main cause for non-compliance among SMEs and he recommended that Small and Medium Enterprises should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore it will help SMEs get better equipped to survive in a competitive market.

The same recommendation was also reached by Marti (2013) and proclaimed that the government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will also encourage voluntary compliance. Using the theories of tax Compliance (Feld & Frey, 2017) reveals that various opinions exist about the best ways to improve tax compliance.

Given the chance, many businesses will not pay taxes unless there is a motivation to do so and believe that the best way is to increase incentives while others believe the best way is to increase penalties and tax rates to increase the government revenue. Olorunshola et al (2015) also studied on tax rates given to SMEs using deterrence theory and they also place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers and they are influenced by economic motives such as profit maximization and probability of detection.

On the other hand the point that high tax rates is the main cause of non-compliance among SMEs was crushed by Pope (2013) using the Psychology theories, posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers' morals and ethics (Jeremiah: 2013). The other theories by Vasak (2015) suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax systems.

More so Yaobin (2015) also was against higher tax rates and contended that there are other factors more important than high tax rates that influence SMEs' failure to pay tax in Nigeria. As such they analysed alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximises their expected after tax returns after adjusting for risk. This process is referred to as "playing the audit lottery" by Trivedi and Shehata (2015).

Allingham and Sandmo (2012) previously attempted to find a relationship between actual income, tax rates, penalty and investigation and tax evasion using statistical modelling. Allingham and Sandmo concluded that taxpayers may choose either to fully report income or report less, regardless of tax rates. Tax rates appeared to be insignificant in determining tax evasion. Since the impact of tax rates was debatable (positive, negative or no impact on evasion), Kirchler *et. al.* (2012) and McKerchar and Evans (2012) suggested that the degree of trust between taxpayers and the government has a major role in ascertaining the impact of tax rates on compliance. When trust is low, a high tax rate could be perceived as an unfair

treatment of taxpayers and when trust is high, the same level of tax rate could be interpreted as contribution to the community (Kirchler *et. al.,* 2012).

2.4.2 Tax Compliance Cost

Compliance cost is expenditure of time or money in conforming to government requirements such as legislation or regulation, (Wanjohi, 2012). For example, people or organizations registered for value added tax have the extra burden of having to keep detailed records of all input Tax and output tax to facilitate the completion of VAT returns. This may necessitate them having to employ someone skilled in this field, which would be regarded as compliance cost. Simmons (2014) supported that compliance costs normally include all costs associated with obeying the law, including planning and administration, in addition to the direct time and money spent filing paperwork.

Kirchler (2015) asserted that Small Medium Enterprises often face heavy costs in the process of preparing, filing, and paying taxes in addition to the burden of tax payments .These compliance costs, added to fines, penalties, and the risks of inspections and demands for bribes, often deter business creation and growth in developing and transition countries (Osebe :2016).

Maseko (2013) argues that compliance costs among SMEs have a negative correlation with tax compliance. He claims that the use of tax agencies because of lack of knowledge confirmed to increase compliance costs thus negatively influencing their compliance behaviour. Nonetheless the he still claims that the use of the tax agencies by SMEs improves both PAYE and income tax registration and filing. Hansford and Hasselldine (2012) argue that the regulatory requirements on business, particularly those on SMEs are burdensome and can be a constraint on their growth and success. Their findings in the UK suggested that 85% of SMEs paid for external services for tax related work.

It can be inferred that the bigger the business, the lower the compliance costs (Pope, 2001; Hanefah et al., 2012; Pope, 2012; Slemrod and Venkatesh, 2012; Lignier, 2014. High compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness Ojeka (2012). Findings in a research in Australia found that the relative impact of the tax compliance burden (per dollar of turnover) on micro businesses was much greater than for large businesses according to Evans, Lignier and Tran-Nam (2014). The increased compliance burden on small business and the benefits of economies of scale for large organisations have resulted in compliance costs being considered to be regressive according to Hansford et al (2014).

Even though it is widely accepted that costs of compliance are high for SMEs, there are several ways in which these can alleviated proposed Ndlovu (2015), Friedman (2013). These ways include taking advantage of tax systems like presumptive taxes, seeking and attending tax education campaigns offered by tax authorities. In support Engelschalk (2012) argues that it is the lack of appropriate compliance management combined with the non-existent of a voluntary compliance tradition which affects non-compliance among SMEs.

Abdul-Jabbar (2013) investigated the relationship between the size of tax compliance costs and the likely compliance behaviour and their findings suggest that there's no association between compliance costs and the non-compliant behaviour of SMEs. There are several possible explanations for this finding. The study findings by James (2015) shows that tax rates and tax compliance cost are not the greatest contributing factor in tax compliance matters

among SMEs. His study concluded that the greatest contributors of tax compliance level are tax knowledge and attitude.

2.4.3 Probability of detection

Compliance in respect to the probability of detection has received attention from many reseachers. Allingham and Sandmo (2012) claimed that tax payers will always declare their income correctly if the probability of detection is high. Probability of detection plays a significant role in reporting behaviour as tax payers will declare everything if they perceive that they will be one of the auditee in that particular year (Richardson, 2012).Slemrod, Blumenthal and Christian (2013) investigated the relationship between the probability of being audited and the taxpayers' responses. The experiment indicated that taxpayers' behaviour varied with respect to level of income and the probability of being audited played a significant role in determining taxpayers 'evasion behaviour. However, the direction of the relationship (positive or negative) was not clearly stated by Slemrod *et. al.* (2012) The Slemrod *et. al.* result was also supported by Andreoni *et. al.* (2012) who found that prior audit experience and continuous contact (relation) with the tax authority influenced the degree or probability rates is defined as the number of tax returns audited divided by total tax returns received by the tax authority.

Conversely, Young (2012) and Slemrod et. al (2013) found that probability of being audited again was negatively correlated with compliance behaviour. Bergman (2013) investigated tax compliance behaviour in Argentina using two approaches; 1) the measures to enhance commercial taxpayers and 2) extensive campaigns and audits which will increase the probability of detection among individual taxpayers. The results suggested that as the number of audits and the probability of detection increased, taxpayers are encouraged to comply with tax laws and accurately report their income. He also claimed that the lack of audits and

investigations implemented by tax authorities in the 1980s in Argentina had driven taxpayers to behave 'recklessly'. Moreover, as taxpayers were aware that they would not be detected due to lack of investigations, they incorporated more complex tax evasion strategies and less traceable documentations so that they could pay less tax. Findings by Bergman are consistent with the theoretical proposition that the fear of detection influences the level of compliance behaviour, suggesting that the evaders take precautionary measures when the perceived risk of detection is high. Findings from Bergman (2012) have also evidenced that probability of being detected plays a significant role in inducing compliance behaviour although Young (2011) and Slemrod *et. al.* (2012) contradicted this.

A recent study by Eisenhauer (2013), investigated tax compliance determinants particularly in terms of ethical preferences and risks aversion (high or low audit probability) using three major data sources: survey, audits and experiments, across the United States. The study concluded that SMEs have greater opportunity to evade than large companies, especially in light of the low probability of audits they face coupled with less third-party withholding of their income tax liabilities. The study also suggested that due to increased evasion across the USA, tax audits have become more important as a way of minimising tax non-compliance However, the importance of the audit programmes was not solely determined by individuals who are self employed taxpayers (as suggested by this study); other groups of taxpayers (for example employees) might provide different results and interpretations. In summary, different levels of probability of detection provide different degrees of compliance. For example, a high probability of detection potentially increases compliance (Bergman,2012; Eisenhauer, 2013), although some authors found contradictory results in some circumtances (i.e. Young, 2012: Slemrod *et. al.,* 2012)

2.5 Legal and administrative measures that can be used to address tax knowledge and compliance among SMEs

Stigiltz (2015) reckons enforcing a tax system is neither an easy nor a static task in any country. It is especially difficult in the changing conditions of developing countries. Unless this task is tackled with seriousness and consistency, however, even the best designed tax system will fail to produce good results. He further argues that no tax administrator should expect voluntary compliance without putting its own efforts

2.5.1 Tax payer education

According to Mukhlis, utomo and Soesetio 2015 Tax education will both be able to build a good foundation of knowledge taxation also to society. The higher the tax knowledge of the society, the higher it will be able to have a significant influence on the achievement of a sense of tax justice for the community. The higher sense of justice taxes received by the community, then it will be able to increase tax compliance community. Taxation knowledge can be built from the tax education received by the community.

Tax payer education program is one of the strategies of improving service delivery to the tax payers (Clifford: 2013). Improving service delivery is critical to enhance voluntary tax compliance. Lack of voluntary tax compliance compels revenue authorities to use costly and coercive methods for tax enforcement (Fjeldstad and Ranker, 2013). Thus, tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments, for providing education, counselling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers.

Kimingu and Kileva (2017) from their research on how to improve tax knowledge and tax compliance among SMEs contented that the education component is expected to deal with

non-compliance practice among the Small and Medium Enterprises (SMEs) in Tanzania. On similar note Christina, Deboral and Gray (2013) revealed that the non-compliance may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfil his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes. It is expected that tax education will enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude (Normala, 2017; Roak and Stephen, 2014).

The tax authorities have given special attention on the SMEs, by simplification of the tax laws procedures, associations; annuals tax payers' appreciation day, and integrity enhancement are among the strategies (Kianuka, 2014; Kimungu and Kileva, 2017). Tax education to the SMEs becomes necessary when the objective of raising tax revenue, at the changing environment; particularly from the official tax assessment is considered (Normala, 2017).At the same time, achieving tax compliance and improving revenue generation is not an easy task (Allingham and Sandmo: 2015; Kimungu and Kileva: 2011). However, this problem can be minimized through tax education.

On the other hand, tax payer education does not improve tax compliance but creates risk on tax avoidance/tax evasion as a game to be played on and on (Denis and Mehila, 2002).Alexander (2013) argued that taxpayers would like to test their skills in avoiding being caught. The compliance attitude of the taxpayer is affected by the factors from the external environment of the taxpayer, for example, the nature of the business, industry and economic conditions prevailing on the market such as demand and supply (Valeria :2004). These are the factors that affect the competitive advantage hence creating a perception that non-compliance to tax is the solution. It is also affected by internal factors, such as sociological and psychological factors. Campbell (2014) suggests that the model to improve the taxpayer

compliance should target at improving the taxpayer capability to overcome the forces from those factors, hence creating positive tax compliance behaviour and attitudes (Roak and Stephen: 2014). Lackson and Miliron (2015) listed the main factors that have influence as ethics, legal sanctions, complexity of the tax laws, and relationship with the tax authority, level and reliability of income sources, perceived fairness of the tax system, and possibility of being audited and the level of tax rates.

More so Hanefah (2014) added that tax education changes the behaviour of tax payers and the basic goal of most education programs is directed towards behavioural change and compliance with tax laws. Being the case, behaviour analytical theories of change, and learning theories can strongly explain the negative effect of tax education in Uganda according to Svetna and Taumo (2017). Armstrong (2013) used the Change theory to predict behaviour change of tax payers, which assumes that when the problem relating to behaviour exists; there should be modifiable factors that contribute to the problem. Some of the modifying factors are knowledge, attitudes, intentions, interpersonal support, organizational and environmental conditions. The theory assumes that education is fundamental, in bringing about change in the modifiable factors, and the taxpayer education is expected to change this behaviour. Education changes the behaviour of an individual by affecting the way he or she makes decisions (Denis and Mehila, 2012). It has the significant negative impact on the behavioural change of a tax payer (Campbell: 2015).

2.5.2 Tax audits

Tax audits and prior audits experience have ben ambiguously discussed in relation to tax compliance. Some studies claimed audits have a positive impact on tax non-compliance (Jackson and Jaouen 2012: Shanmugam, 2013: Dubin, 2014). Audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their

tax return, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

Butler (2013) also found that tax audits can change compliance behaviour from negative to positive. These complement the white and Woodbury (2015) and the Beron, Tauchen and Witte (2014) studies. Witte and Woodbury in their study of small proprietors found that tax audits have a significant role in tax compliance. They did not empirically test individual taxpayers, thus left open room to conduct research in this area. Meaning that taxpayers who have been audited by a tax authority at some point will be more compliant following the audit. While Butler (1993) and Witte and Woodbury (2012) found significant results, Beron *et.al.* (2014) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income. (Beron *et. al.,* 2013)

Another study by Dubin, Graetz and Wilde (2013) estimated the determinants of income tax reporting as a function of audit rates using state-level, time-series and cross-section data from the Annual Report of the IRS for the years 1997-200. They found that higher audit rates often have a positive impact on income tax reporting but one that varies by audit class and one that is not always statistically significant. The study also found that there is a spillover effect from tax audits; that is, taxpayers who are not themselves audited pay more in taxes when audit rates increase.

From another point of view, Evans, Carlon and Massey (2015) studied the tax compliance of small and medium size enterprises (SME) in Australia. Their objective was to examine the

relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study hypothesised that low tax compliance among SMEs might better encourage the tax authority to increase audits and investigations. This study involved 129 small business owners, 130 tax practitioners and Australian Tax Office (ATO) auditors. Using mail surveys, this study found that audit history, including frequency, audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance (in terms of record keeping). The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many SMEs will make more of an effort at proper record keeping.

In summary, previous studies have evidenced that tax audits play an important role in increasing voluntary compliance. Audits rates and the thoroughness of the audits could potentially encourage taxpayers to be more prudent in completing their tax returns.

2.5.3 Tax Penalties

For SMEs to comply or to attain tax knowledge Huggins (2015) argued that tax authorities should charge penalties to those SMEs which fail to comply with tax regulations, his study was based in Brazil where SMEs which didn't comply with tax regulations. He further argued that stiff penalties will create awareness among the SMEs and forces them to comply. This was supported by Saad (2016) who contemplated that tax penalties is the only key to tax compliance. The findings by Ruth (2013) revealed that many SMEs in Austria seek to find tax knowledge to avoid spending or incurring unnecessary costs. Jeremiah (2014) also contended that that the only way to avoid penalties from tax authorities is to comply with tax laws. The studies by Agatha (2015), from Turkey using the statistical analysis asserted that most of the SMEs do not comply with tax regulations for the reasons whether being lack of

knowledge, the only way to force them to comply and acquire tax knowledge is through tax penalties.

However Simons (2015) postulated that tax penalties is not the solution to tax compliance; some SMEs have tax knowledge but do not comply with tax regulations. Swistak (2015) researched about effect of tax penalties in Rwanda and concluded that tax penalties will only affect the registered SME and ignore the unregistered SME who will continue to operate outside the tax net The similar note was reached by Omagulu (2016) in his studies on tax compliance of SMEs in Tanzania. He based his findings on the fact that the Tanzanian government find it difficult to tax SMEs. Slemrod (2015) also seconded that tax penalties is very complicated to excel in a noncompliant environment, however his studies was based in Sudan where tax penalties are treated as abuse of power by the government. Torgler (2014) and Tullock (2017) concluded than tax penalties won't solve or make SMEs acquire tax knowledge, but it is the willingness of the taxpayer to comply with the tax regulations. Kristina (2013) argues that penalties build feelings of resentment towards compliance and the authority resulting in subsequent non- non-compliance.

Mason and Calvin (2012) also carried out another study and they concluded that "an appeal to conscience or civic duty, if correctly targeted should improve compliance over and above a fear of penalties or threat". This entails that people will pay taxes because they are morally devoted to, and out of dread of stigma which may involve informal sanctions like ridicule.

2.6 Conclusion

This chapter involved an analysis of relevant theoretical and empirical literature on the relationship between tax knowledge and tax compliance, determinants of tax compliance, strategies to increase tax knowledge and reduce tax compliance by SMEs which is essential

for the current study. It also provided definition of key terms pertinent to the study. A critique of the various literatures by other authors was conducted. The subsequent chapter presents the research methodologies which will be used in coming up with the research.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

The previous chapter concentrated on literature review but this chapter discusses the methodology that is used in this study. It spells out how the researcher obtained information, which aided in concluding the research. In view of this, this chapter focuses on research approach, justification of the approach, research design and justification of the design, target population, sampling and justification of the sampling method in relation to tax knowledge among SMEs. Sources of research data, research instruments used and justification of the research instruments used validity and reliability of findings, ethical consideration, data presentation and analysis will also be covered in this chapter.

3.1 Research design

Burns and Grove (2013) defined research design as a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings. Kothari (2014) described it as a plan, a roadmap and blueprint strategy of investigation conceived to obtain answers to research questions: it is the heart of any study. Meanwhile, Polit et al (2011) defined it as the researchers overall for answering the researchers question or testing the research hypothesis. Bryman and Bell (2012) argue that the research design selected by the researcher shows decisions about the priorities being attached by the researcher to an array of dimensions of the research process.

Therefore, the research design is an outline that enables researchers to find solutions to the research questions being studied for any research project. The research design also provides a clear research plan, constraints and ethical issues that a study will inevitably encounter. The

researcher used descriptive research to assess the impact of tax knowledge on tax compliance since the approach gives the opportunity to use qualitative data in case study approaches.

3.1.1 Descriptive research design.

A descriptive research design is a method used when the researcher aims to describe a certain behaviour concerning what is happening in the milieu according to Cresswell (2014). Descriptive research design is mainly focused on the description of the characteristics of a target population in the study as well as answering the questions such as what, where and how (Hendrick and Noreen, 2015). Meanwhile Patton (2002) explains that descriptive research is used to explain a present situation or problems, which assist with information towards a condition that exist in a community or a description of approaches towards a concern. Descriptive research gives the researcher an opportunity to use different methods like interviewees and questionnaires. It permits researcher to carry out research in a completely natural milieu that empowers the researcher to gather appropriate data to analyse research problem. In gathering data, the researcher used qualitative descriptive method since it allows the researcher to get data directly from the respondent verbally

3.1.2 Qualitative approach

Use of interviews, questionnaires and observations are part of qualitative approach which is useful in determining people's feelings towards discussed issues and allowing the respond to express their beliefs and visions on the subject matter Zinyama (2013). Bonoma (2011) argues that qualitative rather than quantitative approaches allow researchers to work closely with the participants to collect information pertaining to their personal thoughts and experiences. Qualitative research is deemed more appropriate when used to generate ideas and concepts and to uncover perceptions and attitudes (Nykiel, 2012). If the data cannot be structured in the form of numbers, they are considered qualitative data.

However qualitative data can sometimes be handled in such a way as to produce quantitative data for example the researcher analyses the responses, negative or positive, so as to produce a figure/percentage of negative responses. When a researcher selects an approach for a study, it should be a reflection of which approach is most suitable for the topic under consideration (Burke and Jurat 2004). Contrariwise, Berg (2001) argues that quantitative research has the ability to verify quantitative data, as, many people feel safe only with numbers and statistics, which can be verified and quantified to support findings. Both quantitative and qualitative approaches have pros and cons. In favour of a qualitative approach one can list the great amount of information available, and the lower time and effort required for its analysis. Other advantages of qualitative research include;

- It has a unique strength that lies in its inclusion of many variables in studying behaviour, hence becoming more holistic than the quantitative approach.

- Detailed and elaborate information can be collected including non-verbal communication.

- Qualitative methods create openness between parties and build confidence to the extent that sensitive information can be discussed and collected for inclusion into the research.

- Observation can be used to note behaviour and attitudes.

- It gives room for probing by the researcher and clarification of ambiguous responses, (Burke and Jurat 2004).

And against Quantitative Research method one can list the following disadvantages:

- Often carried out in unnatural, artificial environments and this requires certain levels of control to the natural state.

- Pre-sets answers and prejudice people's feelings about a subject.

- Allow for a broader study, involving a greater number of subjects, thereby enhancing the generalization of the results.

- Statistics can be humanely insignificant, therefore yielding insignificant results.

- Inappropriate for the collection of behavioural data.

- Deals with issues known at the beginning of the research project as this is when the questions are decided and documented.

- Because quantitative studies involve large numbers of interviews (large sample is required to reduce the standard error), they tend to be more expensive and take longer to implement than qualitative research (Birn, 2012).

Thus, the qualitative approach was used in analysing the impact of tax knowledge on tax compliance behaviour.

3.2 Research population

Cooper and Schindler (2003) defined population as the total collection of elements about which the researcher wishes to make some inferences. According to Saunders et al (2016), population is the full set of cases or elements from which a sample is taken. Lenduka (2012) argued that the research population refers to the total number of participants or objects that meet selected set of standards documented by the researcher. Therefore the study population of this research is made up of 150 SME proprietors in Mutare and 180 Zimra employees based at Mutare domestic taxes office and Forbes border post. The reason being one group will represent the taxpayers and the other one being the tax collectors.

3.3 Sample size

According to Mack et al (2005) even if it was possible to collect data from every member of the population, it is not necessary to do so in order to get valid findings for a research study. Generally in qualitative research, only a subset (sample) of the total population is selected for

any given research study. The sample to be selected and its size are determined by characteristics of the study population and the research objectives. A sample is a subset of units in the population who are actually surveyed. According to Sheaffer et al (2012) a sample is a collection of some but not all of the elements of the population under study used to describe the population. Target population is therefore a subset of the population where the population is redefined to focus on a target group or focus group. In other words, it is simply a group of members or object that the research selected to gather data from. Wagner (2008) argues that the minimum samples size should be 20% of the population.

In this study, the researcher used samples that were constructed from the research population selected from 150 Mutare SMEs and 180 Zimra employees from Mutare The use of samples saves time and is cost effective.

Table 2: Sample size

Target groups	Research population	Sample population	%
SME proprietots	150	40	27
Zimra Employees	180	40	27
Total	330	80	24

Sample size

3.4 Sampling procedures

Sampling techniques can be divided into two groups namely probability sampling and non-probability sampling techniques. Saunders et al (2009) argued, "The term probability sampling is used when the selection of the sample is purely based on chance." In this instance the human mind has no control on the selection or non- selection of the units for the sample. Every unit of the population has known non-zero probability of being selected for the sample. The probability of selection may be equal or unequal but it should be non-zero and should be known.

The probability sampling is also called the random sampling. There are types of random sampling techniques which include simple random sampling, stratified random sampling, systematic random sampling, cluster sampling and multistage sampling. It is important to note that the purpose of this study is not to provide the detailed knowledge of the various sampling techniques but just to give an appreciation of the various sampling techniques that are employed for getting information.

At the same time Saunders et. al, (2012) proposed that "Non-probability sampling constitutes a group of sampling techniques that help researchers to select units from a population that they are interested in studying." A core characteristic of non-probability sampling techniques is that samples are selected based on the subjective judgment of the researcher, rather than random selection (i.e. probabilistic methods), which is the cornerstone of probability sampling techniques. Saunders et.al, (2012) "Whilst some researchers may view non-probability sampling techniques as inferior to probability sampling techniques, there are strong theoretical and practical reasons for their use."

Non-probability sampling techniques include Quota sampling, Convenience sampling, Purposive or judgmental sampling, Self-selection sampling, and Snowball sampling. For the purpose of this research, quota sampling and convenience sampling was used.

3.4.1 Quota sampling

Mack et al (2015) argued that quota sampling is a form of purposive sampling where the researcher decides the number of people to include in the sample and with which characteristics. The criterion chosen allows the researcher to focus on people s/he thinks would be most likely be useful for the research study. The Researcher can choose participants who have experience, knowhow about, or have insights into the research topic. Therefore Quota sampling was used because taxation matters are difficult to comprehend for most

people and the subject matter of tax evasion requires people who have experience in dealing with tax issues. Hence the researcher chose a population sample of 80 people. 40 of these people are Zimra employees who were located in one area hence it was easier to collect data from these people who all have received Taxation Training from Zimra and they fully understand how the system works. Since Zimra has 2 working environments, domestic taxes and customs, the researcher had to choose only those employees who have at least worked in the tax environment for at least a year during their work experience. This group met the researcher's pre-determined criteria of people who understand taxation in Zimbabwe.

3.4.2 Convenience sampling

Saunders et. al., (2007) "A convenience sample is simply one where the units that are selected for inclusion in the sample are the easiest to access." In a population of say 10,000 units, if we were only interested in achieving a sample size of say 100 units, we may simply stand at one of the main entrances to campus, where it would be easy to invite the many students that pass by to take part in the research. For this particular research, the Researcher also used convenience sampling to select 40 taxpayers who were part of the sample of 80 people. The Researcher choose SMEs, which are owner managed rather than those where only employees are involved. The reason being one is more likely to get information about tax matters from the owners than from employees as it is a sensitive subject. The researchers also choose taxpayers who could be accessed easily at the time of the research.

3.5 sources of data

Data collection is an important process in the whole research process and there are two types of data which are secondary and primary data. Johnson (2012) defined primary data as data collected for the first time and secondary data as data previously collected for other purposes. For the purpose of this research mainly primary data was used with secondary data only

being used to a lesser extent. Secondary data sources were obtained from revenue performance reports, tax legislation and national budgets statement.

3.5.1 Primary data

Johnson (2012) describes primary data as data collected for the first time which is relevant for the problem under study. While Patton (2013) defines it as freshly gathered data. The researcher uses primary data as it contains current information which ensures legitimacy and trustworthiness. Primary data contains direct information and distinctiveness which are obtained through interviews and questionnaires. The researcher obtained primary data through self-administered questionnaires which were distributed to the target population and direct interviews. This data which is also known as first-hand information is not biased since the researcher obtained it direct from the source. Information obtained through questionnaires was complimented with information gathered through interviews since the researcher is able to interpret non-verbal language during interviewing respondents.

3.6 Data collection instruments

A research instrument refers to tools used in collecting data which include interviews and questionnaires. Doud (2013) cited that research instruments are devices used in gathering pertinent data for the study. Due to other limitations that are beyond the researcher's control like financial problems and tight schedule, the researcher conducted a mixed research approach; interviews were carried out whist questionnaires on the side being answered.

3.6.1. Questionnaires

Polit and Hungler (2012) define a questionnaire as a method of gathering information from respondents about attitudes, knowledge, beliefs and feelings. Babbie (2012) argued that a questionnaire is a document containing questions and other types of items designed to solicit information appropriate for analysis. Doud (2013) mentioned that questionnaires must be designed in such a way that respondents will be motivated to answer. A questionnaire ensures

privacy since the respondent is not required to mention name and this motivated respondents to provide reliable information. The respondent tick in the space provided in order to respond to the question in the questionnaire.

The Researcher used the questionnaire for this particular research study because questionnaires are applicable to survey research. The advantages of questionnaires over other methods of data collection include; confidentiality, cheap costs, efficiency, large sample size and having a permanent original copy of the responses. Kothari (2015) reckons that before using the questionnaire, a pilot study for testing the questionnaire must be conducted which should reveal the weaknesses of the questionnaire. Questionnaires to be used must be prepared very carefully so that they may prove to be effective in collecting the relevant information. Validity is key hence the need to pre-test the instrument (Kothari, 2015).

Babbie and Mouton (2011) pointed out that respondents tend to be reluctant to report controversial attitudes in interviews but are willing to respond to an anonymous self-administered questionnaire. Robson (2012) argues that questionnaire allows respondents to have time think about the answers to questions in the questionnaire. Denscombe (2013) suggests that questionnaires are less expensive, save time and less human and financial resources are required.

However, Bryman and Bell (2012) asserted that there are a number of weakness of using questionnaires rather than interviews which include tendency to closed questions, as open questions are more difficult and time consuming, to complete so respondents might be unwilling to answer them. In contrast, according to Spicer and Lundstedt (2013), the strength in using questionnaires is it evokes honest responses and also produces a valid indirect measure of behaviour. They also argue that responses obtained are directly related to the individual's own propensity to commit tax evasion by ensuring the respondents of complete confidentiality. Elffers et. al. (2012) added that self-reporting (where taxpayers are asked to

self-disclose their compliance behaviour) is the most popular method in tax evasion studies and still a dominant strategy in research in this field.

3.6. 1.1 Likert scale

Likert scale is an ordered scale from which respondent choose a view that best support their opinion on the impact of tax knowledge on SME tax behaviour. It is also used to respond by asking the extent to which they agree or disagree with a certain statement or question. Armstrong and Taylor (2014) stated that Likert scale questions are commonly used in research and it makes use of questionnaire when the respondents are being asked the extent to which they agree or disagree with a given question. The questionnaires were designed based on the method below.

Table 3   Likert scale

Question	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Points	5	4	3	2	1

Source: Taylor (2014)

The structured questions designed by the researcher make use of the Likert scale technique. Respondents are required to provide answers in the space provided. Likert scale enables the researcher to interpret gathered information while it gives the respondent freedom to choose an answer they are comfortable with.

3.6.2 Interviews

Salant & Dillman, (1994) supposed that this method involves using an interview guide containing a list of pertinent questions for investigative enquiry. He further argued that the research strategy allows the researcher to gather additional information from interviewees' personal beliefs, opinions and insights about the subject matter which are difficult to obtain through use of structured questionnaires. Johnson (2012) cited that interviews involve verbal

and non-verbal communication whereby unprocessed information is collected in form of answers. Babbie (2012) asserts that one of the strengths of interviews is their personal nature which enables the interviewer to maximize her understanding of the respondent's point of view.

The researcher carried out face to face interviews with some tax official in order to obtain to obtain primary data as well as to get an in depth understanding on the impact of tax knowledge on their tax compliance behaviour. The researcher choose the method as it allows the interviewer to assist the interviewee to understand the question and even gives room for further probing allowing the researcher to correct misinterpretations as well as explore the topic in depth.

3.7 Data presentation and analysis

The raw data obtained from a study is useless unless it is transformed into information for decision-making (Emory and Cooper, 2013). The data analysis involves reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyse the data for the study. The data was edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents. The data was then coded to enable the responses to be grouped into limited number of categories. The Microsoft Excel software was used for this analysis. The data was presented in tabular, graphical and narrative forms. In analysing the data, descriptive statistical tools such as bar graph, pie charts complemented with mean and mode were used.

3.8 Reliability and validity

Reliability is the degree to which method of collecting data or analysis will produce the findings that are dependable. Saundlis et al (2012) define reliability as a degree of accuracy or consistency that an instrument exhibits it is a quality that ensures precision and

dependability. The use of more than one research instrument increased the reliability of data gathered. The researcher also increases the reliability of data by asking more related question and the research explained to the responded on the subject in order to obtain high rate of respondent and accuracy data.

Validity has to do with determination of effectiveness and soundness of measurement instruments. Doud (2013) mentioned that validity provide the extent to which the research instruments measure what is expected from them. At the end of the data gathering process the researcher went through the process of checking the validity and accuracy of the data before the process of analysing begins. This was to ensure that the data collected was error free and that mistakes that might have been made during the filling in of the questionnaires were corrected without changing the proposed response of the respondent. This involved making enquiries with the respondents for more clarity. The researcher promoted validity by asking question which was relevant to the study.

3.9 Ethical consideration

Fuller (2012) cited that the aim of the research should clearly state on the information sheet, respondents should be informed about their rights. The conducting of research needs not only expertise and diligence, but also honesty and integrity. This is done to recognize and protect the rights of human subjects. Welman, Kruger and Mitchell (2012) explain that ethical considerations and ethical behaviour are as important in research as they are in any other field of human activity. To render the study ethical, the rights to self-determination, anonymity, confidentiality and informed consent were observed. Written permission to conduct the research study was obtained from ZIMRA.

Burns and Grove (2013) define informed consent as the prospective subject's agreement to participate voluntarily in a study, which is reached after assimilation of essential information about the study. The subjects were informed of their rights to voluntarily consent or decline

to participate, and to withdraw participation at any time without penalty. Subjects were informed about the purpose of the study, the procedures that would be used to collect the data, and assured that there were no potential risks or costs involved.

Anonymity and confidentiality were maintained throughout the study. Burns and Grove (2012) define anonymity as when subjects cannot be linked, even by the researcher, with his or her individual responses. In this study anonymity was ensured by not asking the participant to disclose their name on the questionnaire and interview guide.

3.10 Chapter summary

The whole chapter provide a description of the research methodology used in gathering data. This chapter clearly specified the research design, research instrument and the sample size used in obtaining data on the evaluation on the impact of tax knowledge on tax compliance among SMEs. The next chapter will look on data presentation and analysis.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

Against the background of the information presented in chapter 1, 2 and 3, the results of the data analysis are presented in chapter 4. In summary, the background information consisted of an outline of the research problem namely the high levels of tax non-compliance in Zimbabwe, in particular among SMEs. A literature review was undertaken with the aim of exploring different research questions related to the research problem and formulating the questions to be put to SME owners with the purpose of establishing their tax knowledge.

The data analysed in this chapter is categorised as follows based on the structure of the questionnaires and the interview guide. The categories are discussed in the following sections:

- Basic information about respondents

- Tax knowledge and compliance

- Factors that influence tax knowledge

- Perception of current tax system

- Other factors that may influence non compliance

- Methods of increasing tax awareness

4.1 Response Rate

5 interviews were attempted and seventy five questionnaires were sent out to the population sample, which included taxpayers and tax administrators. All interviews were successful and seventy questionnaires were returned. This gives a sample size of 23% of the total population which is in line with Patton (2002) who argued that the minimum sample size should be 20% of the population.

The table below shows how the questionnaires were distributed and how they were returned.

Table 4. Response Rate

Respondents	Questionnaires administered	Questionnaires returned And interviews conducted	Response rate
ZIMRA	40	40	100%
Taxpayers	40	35	87.5
Total	80	75	

The response rate shown in the table above is a very good response rate hence meaningful conclusions could be drawn from the research study. Leedy and Ormod (2011) are of the opinion that a response rate lower than 50% raises eyebrows on the representativeness of the sample. While Wagner (2013) argues that, the threshold for a minimum response rate should be 80% to worthy data presentation and analysis.

4.2 Analysis of data

Qualitative data was collected by means of questionnaires and interviews. The responses were analysed using narrative description method, one of the methods preferred methods to analyse qualitative data (Saunders et al, 2012). Common themes emerging during the analysis are discussed and data was summarised and depicted using visual aid tools such as graphs, tables and charts. The conclusions are based on the modal response of each question.

4.2.1 Basic information about respondents

Experience of SMEs as business operators

The respondents from SMEs were required to state their period of operation in order to determine their experience and knowledge on tax issues and the information is tabulated in the following table.

Table 5   Trade experience of SMEs

Experience in years	Less than 1YEAR	Between 1 and 5years	More than 5years
No of SMEs	**16**	**11**	**8**

Figure 2: SME work experience
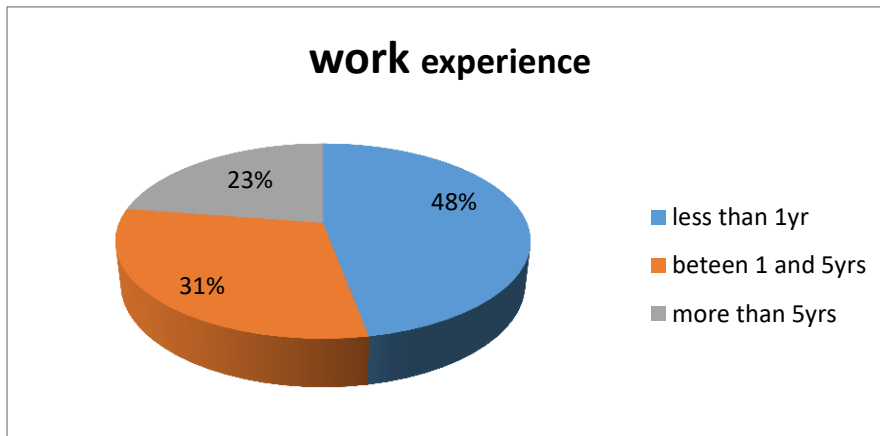
Experience wise ,16 (48%) of the SMEs had been in business for less than 1year,11 (31%) for more than a year but less than 5 years while only (8) 23% had operated for more than 5years with the longest operating experience being 26yrs. The measure of central tendency lies among those that have only operated for less than a year and it means tax knowledge might be very limited among the SMEs.

Work experience of tax officials

The researcher also tried to ascertain the work experience of the tax officials in order to determine experience with SMEs and thee following table depicts the information

Table 6: Work experience of tax officials

Number of Years	Less than 1	1-5	More than 5
Number of officials	4	13	22

Figure 3:   Work experience of tax officials
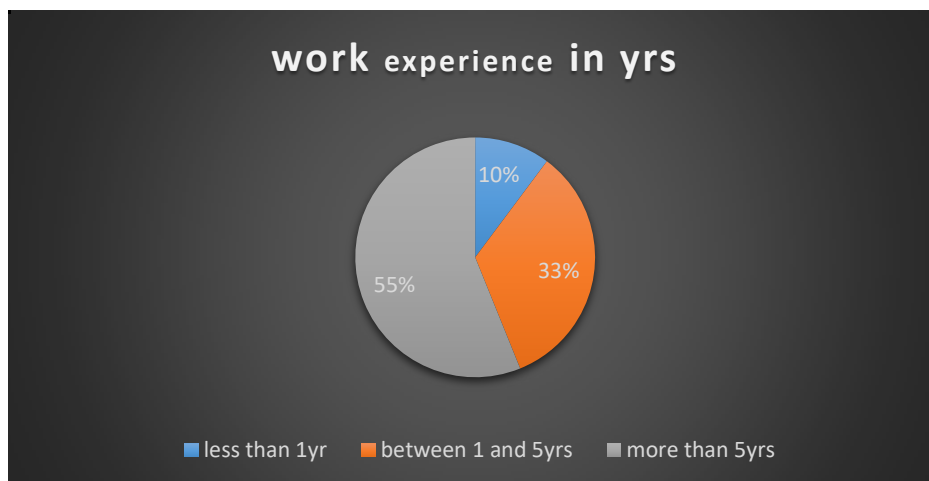
Source: primary data

Of the 40 responding tax officials, 22 (55%) had working experience of more than 5 years indicating vast knowledge of tax matters, 13 (33%) had worked in the tax environment for between one and five years while only 4 (10%) had work experience of less than one year. The 55% with working experience of more than 5years shows high levels of work experience and exposure with SMEs and it can be deduced that the respondents have adequate knowledge on the subject of tax compliance among SMEs. In this regard, the observed quality of the respondents guaranteed expert and well-reasoned responses that ensured a rich collection of data.

Part 1: Analysis of Tax payers

4.2.2 Tax knowledge and compliance behaviour among SMEs

This section summarises the responses by SME representatives to the questionnaires in appendix 1 on their knowledge and compliance patterns.

Tax registration of SMES

In this part the researcher tried to determine the registration status of the respondent which is the first stage of compliance and the results are shown in table 7.

Table 7: SMEs tax registration status

Status	Registered	Not registered
Number of SMEs	25	10

Figure 4: SMEs tax registration distribution
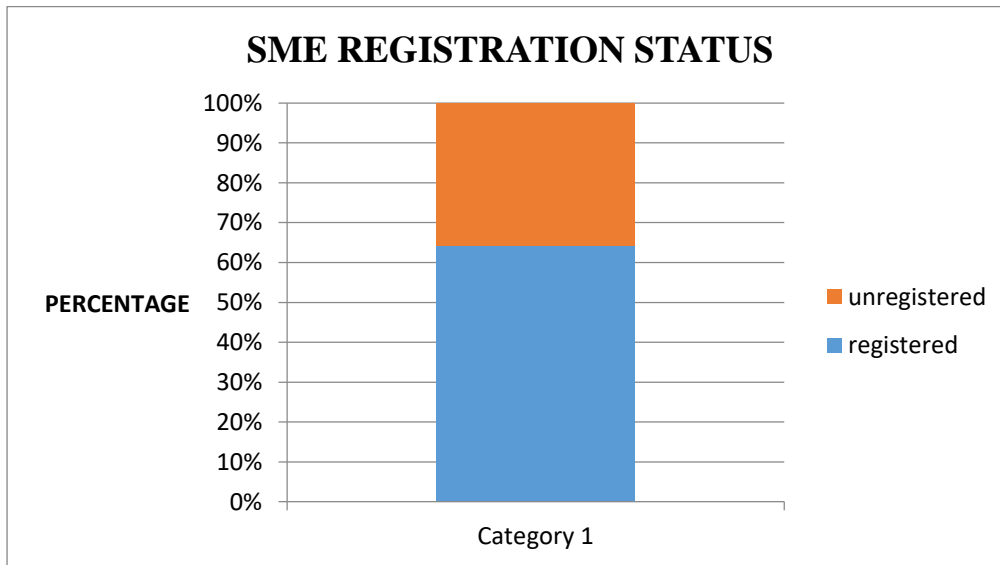
Source: primary data

Analysis shows that 71% of the responded are registered for tax which indicates that SMEs understand their obligation to be tax compliant. This is in line with Stephen (2016) who argued that SMEs have tax knowledge. Glenday (2015) argues that the first obligation for one to be compliant with tax authority regulations is registration in the system. However another 29% of the SMEs are not registered indicating a possible lack of knowledge as stated by Loo (2016). The modal figure is within the group that is registered indicating existence of tax knowledge.

Unregistered SMEs were further required to give reasons for not being registered and their responses are tabulated in table 8

Table 8   Reason for non-registration

Response	Number of SMEs
Tax rates are too high	2
I don't see the benefits of paying tax	2
I don't think I qualify to register for tax	3
I earn too little profits	3

Figure 5: Reasons for non-registration
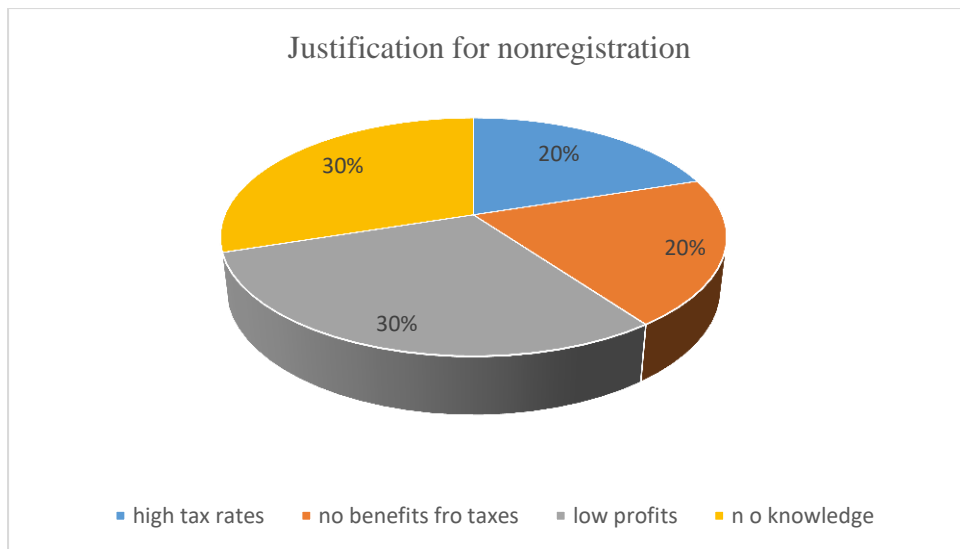
 30% blamed the high tax rates as argued by Ojochogwu (2013) while another 30% stated that they did not appreciate any benefits from paying tax in line with Webly (2014). 20% argued that they make very little profits while another 20% believed they did not qualify for taxation. Those that believed they don't qualify for taxation are sure sign of lack of knowledge as explained by Mckechar (2015) who argued that SMEs are not even aware of their tax shortfalls. However the measure of central tendency lies among those that blamed tax rates and those that argued that there's no incentive to taxes. This means tax rates and lack of accountability are the contributing factors to non-compliance among SMEs

Frequency of submission of tax returns

The group that claimed to be registered was further probed to ascertain compliance behaviour and the results are in table 9

Table 9: Compliance behaviour

Response	Never	Rarely	Sometimes	All the time
Frequency	5	3	9	6

Figure 6: Compliance behaviour

It is not surprising to note that out of the 25 SMEs that claimed to be registered for tax, only 6 of them declare and pay the correct taxes all the time. This gives a total compliance rate of 17% only thereby supporting Maseko (2014) who argued that most SMEs do not pay taxes. James and Alley (2012) defined tax compliance as filing all required tax returns accurately and at the proper time thereby meaning the taxpayer who submits his returns sometimes and rarely is not a compliant taxpayers. The measure of central tendency lies within the non-compliant group confirming that SMEs do not comply.

Measuring existence of knowledge

In order to determine the level of knowledge among SMEs a few questions on tax issues were asked and the results are tabulated in table 10.

Table 10: Knowledge of tax heads

Tax heads known	1 tax head	2 tax heads	More than 2
Number of SMES	12	18	5

Figure 7: Tax head knowledge
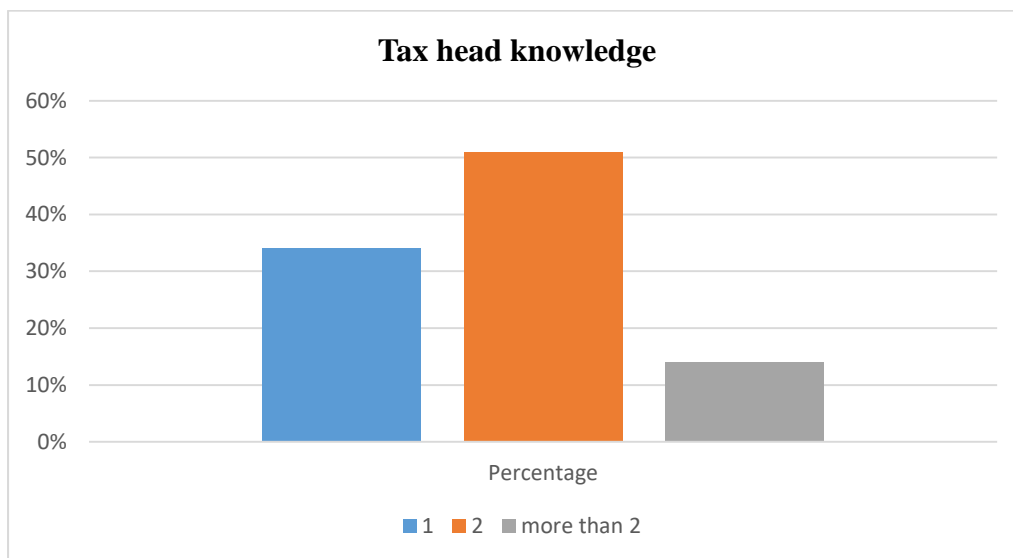
Source: Primary data

There was none of the SMEs who claimed no knowledge of tax implying that SMEs do have knowledge about taxes. 34% of the respondents only knew one tax head, 51 % knew 2 tax heads while only 14% knew 3 types of taxes. This piece of evidence is in line with Brainnyah (2013) who argued that the existence of tax knowledge did not significantly affect tax compliance behaviour Of SMEs. The measure of central tendency is within the group that know 2 types of taxes confirming SMEs are aware of their tax obligations.

Adequacy of tax knowledge

Respondents were asked if they agreed that SMEs lacked adequate knowledge on tax issues

and their responses are tabulated below

Table 11: Lack of knowledge

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
11	9	7	6	2

Figure 8: Knowledge deficiencies
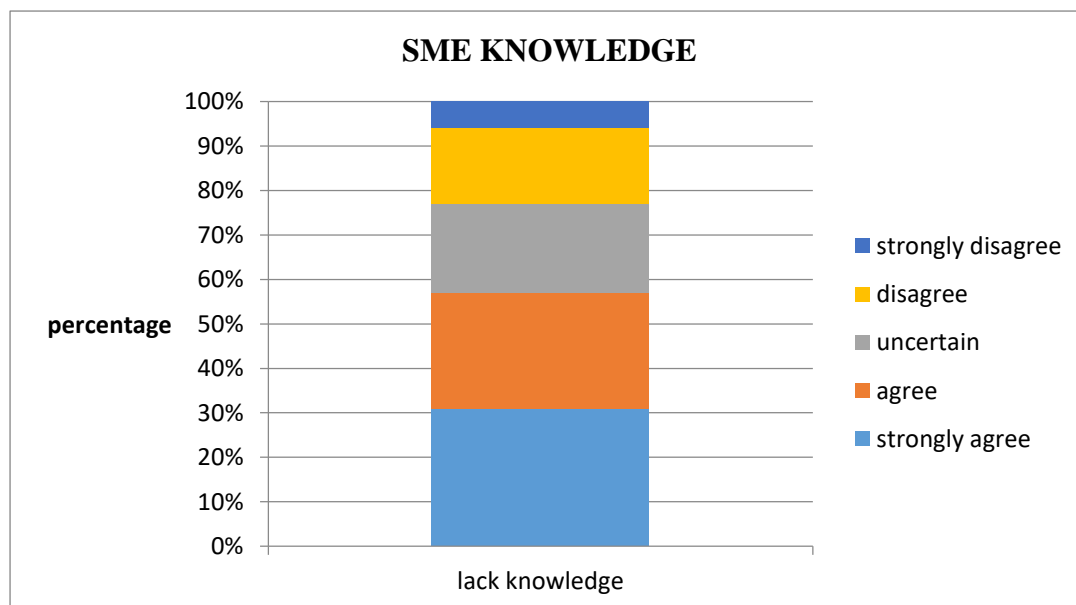
Source: Primary data

31% of the respondents strongly agreed that SMEs lack tax knowledge, 26% agrees, while

20% was unsure of the statement. On the other hand 17% disagreed while 6% strongly

disagreed. Further analysis means 57% agrees that they lack tax knowledge which is line with

Bobek (2017).In the meantime 20% was unsure while 23% does not agree with the statement

confirming Saad et al (2014) who said tax regulations are freely available. However the

modal number is within those that argue they lack knowledge meaning SMEs lack

knowledge.

Knowledge about presumptive tax

Respondents were asked if they knew the difference between presumptive taxation and income based taxation. Their responses are shown in the table below.

Table 12: Presumptive tax knowledge

Response	yes	no
Do you know the differences between presumptive tax and income based tax	4	31

Figure 9: Presumptive tax knowledge
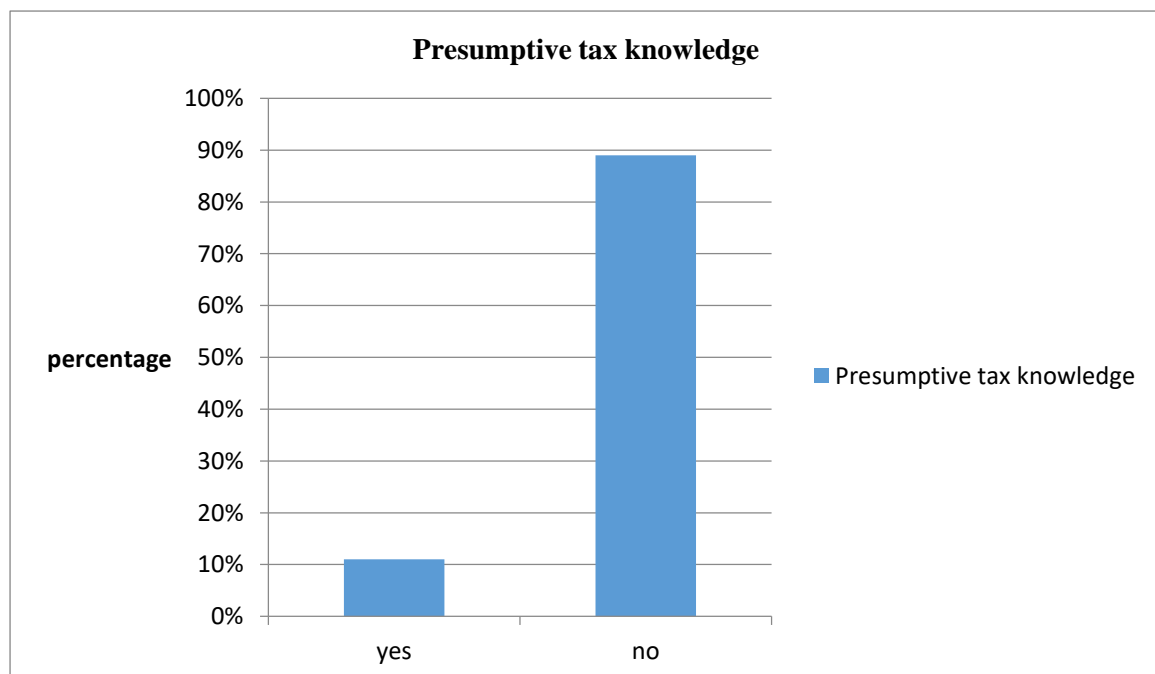
89% of the respondents confirmed that they did not know the difference between presumed taxation and actual income based taxation. This means that taxpayers can possibly opt for presumptive tax without knowing the advantages of having your tax calculated based on actual income. The 11% that can distinguish however supports that SMEs have knowledge but elect for this method because they would rather not maintain books of accounts as supported by Saleheen (2012). The modal figure is within those that lack knowledge meaning the lack of knowledge could be contributing to non-compliance.

Effects of tax education

Respondents were asked whether they believed if they had more tax education, they would comply with tax law and this is how they responded.

Table 13: Tax education

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
6	5	10	9	5

Figure 10: Tax education
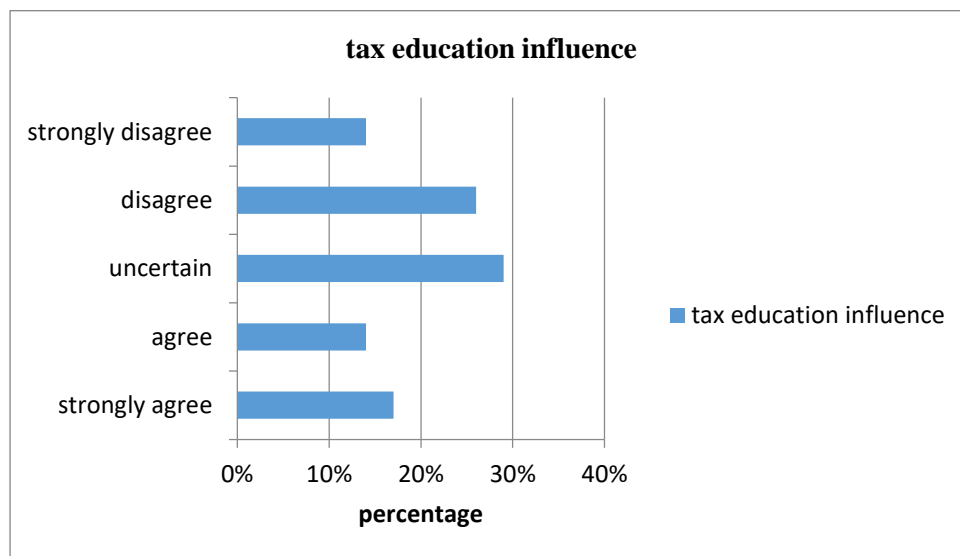
Source: Primary data

17% of the respondents strongly agreed and 14% agreed that if they had more education about taxes they would comply with tax laws. 29% was unsure while 26% disagreed and another 14% strongly opposed the idea. In aggregate 31% do believe that tax education would improve their compliance as stated by Kirchler et al (2016) who documented that possessing tax knowledge would lead to higher compliance. The 29% that was unsure are in support of Ose (2015) who could not measure tax knowledge and failed to conclude the impact of knowledge on compliance. On the other hand the 40% saw no relationship between

their exposure to tax education and compliance in support of Harris (2012). The modal data is among those that don't believe they would change their behaviour if they are exposed to tax education meaning tax knowledge will not result in positive compliance behaviour among SMEs

4.2.3 Factors that can influence tax knowledge

Respondents were asked various questions to determine factors that influenced their tax knowledge and compliance behaviour. These factors include their education levels, exposure to tax education, knowledge about e.filing and complexity of tax law. Their responses are tabulated and analysed below.

Level of education

Table 14

Level of education	O'level and below	Certificate/diploma	Degree and above
frequency	12	13	10

Figure 11:SMEs level of education
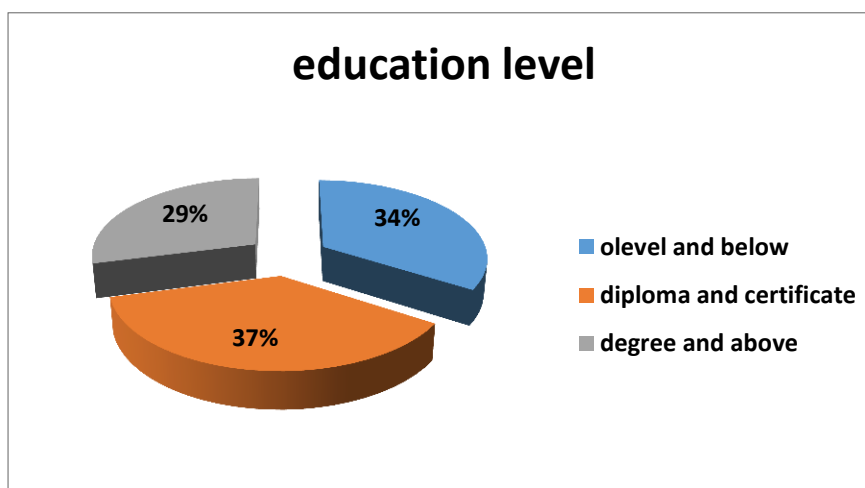
Source: Primary data

The level of education of the participants was ascertained and it's revealed that 34% had attained a maximum of O'level indicating that the noncompliance could be influenced by the

lack of education in support of Mohd (2014). 29% claimed to have attained a degree and an additional 37% had either a diploma or certificate meaning their noncompliance behaviour is not influenced by their education level. This is in line with Atawadi (2012) who refuted that level of education increase tax knowledge. The modal number is within certificates and diploma which confirms that positive compliance behaviour is not influenced by level of education.

Exposure to tax education and knowledge about e.filing

The researcher tried to determine if the Revenue Authority was conducting adequate awareness programmes in order to create both general knowledge and technical knowledge among SMEs and their responses are as follows:

Table 15: Tax education exposure

Response	yes	No
Tax education	3	32
e.filing	10	25

Figure 12:
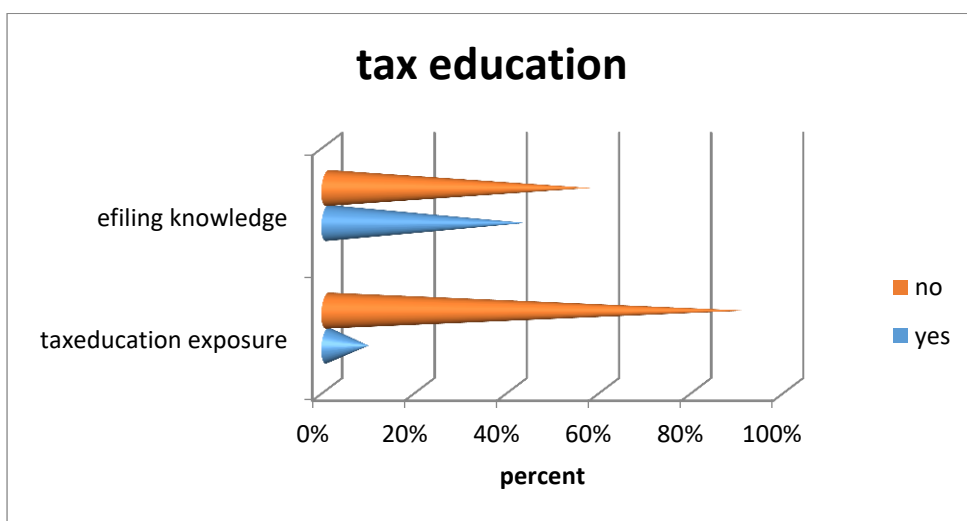
Source: Primary data

It was revealed that only a mere 9% of the tax payers had been exposed to tax education through workshops or formal education while only 29% had knowledge of e.filing. This confirms that SMEs lack knowledge of tax requirements leading to the non-compliance behaviour as postulated by Crews (2013). 91% had never attended a tax course and 71% had had no idea what e.filing was and this confirms that the Revenue Authority could be lacking on the part of educating SMEs. The measure of central tendency is among those having never been exposed to tax education and those having no idea what e.filing is. This means SMEs have no knowledge of tax matters.

Complexity of tax law

While the researcher tried to evaluate the impact of tax knowledge on SME compliance behaviour, she tried to determine if tax complexity influenced the amount of knowledge among SMEs. A question on whether respondents thought tax law was difficult to comprehend was asked and the responses are stated below:

Table 16: Effects of tax complexity

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
9	3	22	1	0

Figure 12: Effects of tax complexity
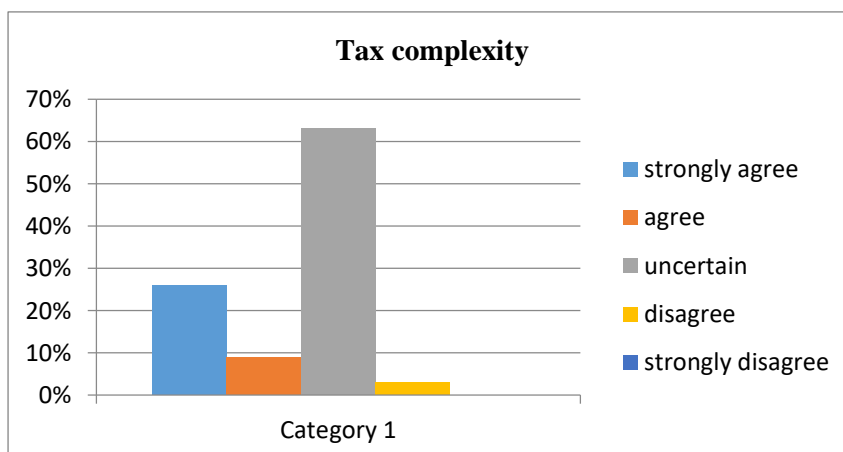
None of the respondents strongly disagreed, 3% disagreed and 63% was uncertain. Meanwhile 9% agreed and 26% strongly agreed that tax law was complex. In aggregate only 3% did not believe that tax was complex meaning that tax law did not influence their compliance behaviour as supported by Adam and Smith (2013). Contrariwise, 35% believed tax law was very complex which is in line with Mariah (2014) who argued that complexity of tax laws causes many people to ignore tax issues. On the other hand 63% was uncertain indicating a lack of knowledge of the tax law and probable indication that lack of knowledge could be caused by other factors other than complex tax laws. The modal figure is among the group that is uncertain meaning they don't even know the tax act and tax law.

4.2.4 Perception of tax system

This section summarises the responses by SME representatives to the questionnaires in appendix 1 on their perception of the tax system

View on government expenditure

Respondents were asked if they believed tax monies are abused and their responses are as follows:

Table 17: Abuse of tax monies

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
17	9	5	2	2

Figure 13: Abuse of tax payer money

Opinion on abuse of tax money
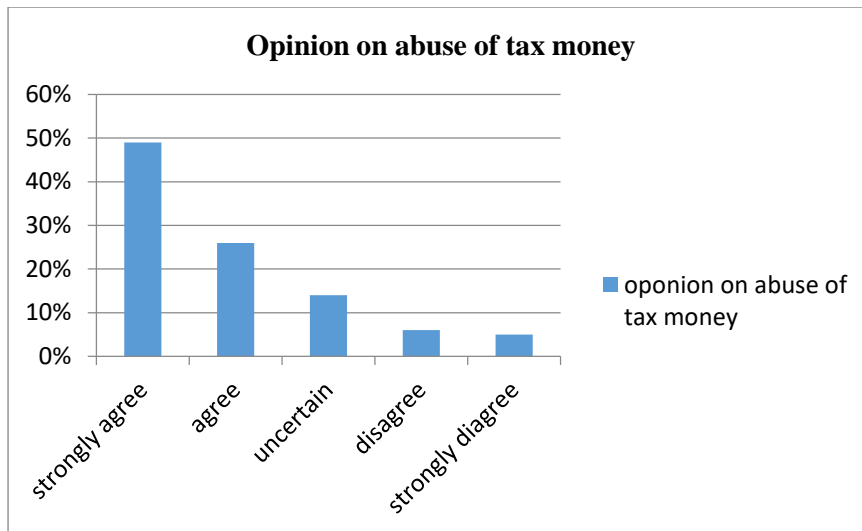
Among the respondents 49% strongly agreed and 26% agree that there is abuse of tax money by the government. 14% was uncertain while 6% disagreed and 5% strongly disagreed. In total 75% agree that tax money is abused and that means that lack of satisfaction has led to the high non-compliance among SMEs. This is consistent with Kabera (2012) who argued that lack of appreciation of government expenditure leads to tax evasion.11% of the respondents did not agree that tax money was abused and it either means their non-compliance behaviour is not a as result of government expenditure or their compliance is a result of appreciating government expenditure. This is consistent with Mukhulis et al (2013). There is a 14% that was uncertain confirming Jerry (2015) who argued that SMEs are not concerned by how the government spends taxes. The modal figure lies with those that are not satisfied with government expenditure which suggests that lack of accountability influences negative behaviour

Punishing of tax evaders

Table 18: Punishing tax evaders

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
2	5	6	7	15

Figure 14: Punishing tax evaders

Punishig of tax evaders
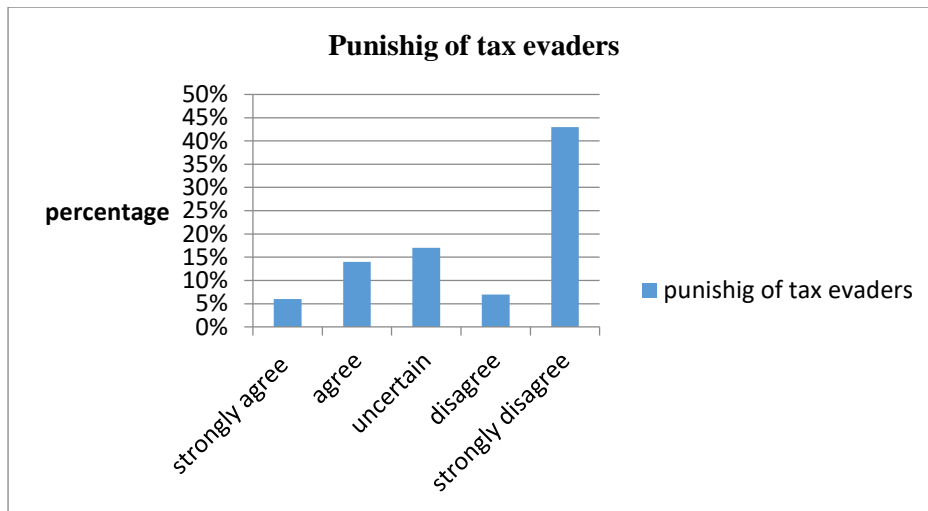
Evidence revealed that only 6% strongly agreed and 14% agreed on punishing of tax evaders. 17% was uncertain and 7% and 43% disagreed and strongly disagreed. In aggregate 20% agreed that evaders should be punished in support of Fisher (2013). 50% disagreed confirming Berk et al (2015 who said the public does not perceive tax evasion as a crime. The other 17% was uncertain probably in support of Morates (2012) who argued that vendors are more concerned about feeding their families than paying taxes.

Corruption among tax officials

SMEs were requested to give their opinion on corruption among tax officials and their opinions rated on the Likert scale. The following shows their responses.

Table 19: Corruption of tax official

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
5	12	8	7	3

Figure 15: Corruption among tax officials

Corruption among officials
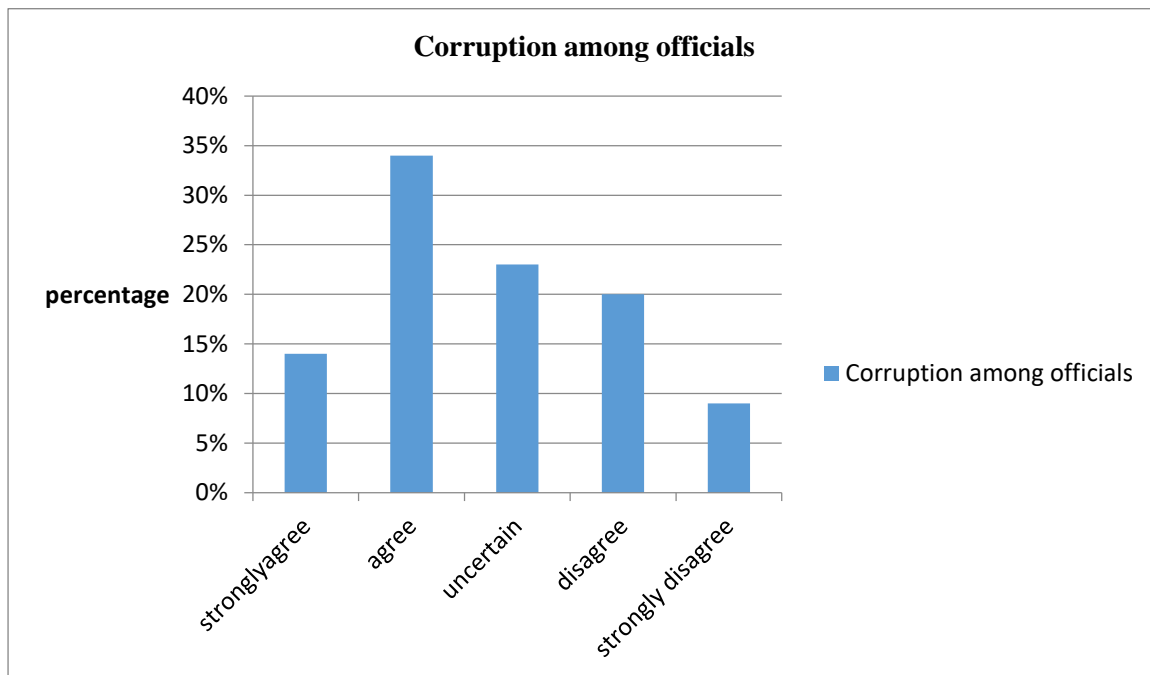
Source: Primary data

Tax payers' opinion on corruption was distributed with 14% strongly agreeing and 24% agreeing that corruption exist among tax officials. 23% was uncertain while 20% and 9% disagreed and strongly disagreed respectively. All in all a total of 48% believe officials are corrupt meaning their behaviour could be influence by their perception as stated by Sari and Huda (2013). 23% was uncertain meaning they had no perception of tax officials while 29% disagreed meaning they had not witnessed any corruption. This is in support of Brewer (2012). However the modal figure is with those that agree that tax officials are corrupt and influencing negative behaviour.

4.2.5 Major contributing factors to non-compliance.

This section summarises the responses by SME representatives to the questionnaires in appendix 1 on what they believed was causing non-compliance among them and their responses are depicted below.

Table 20: Determinants of non-compliance

Reason	Frequency
Lack of tax knowledge	14
High tax rates	14
High compliance costs	4
Low probability of detection	3

Figure 16: Tax compliance determinants
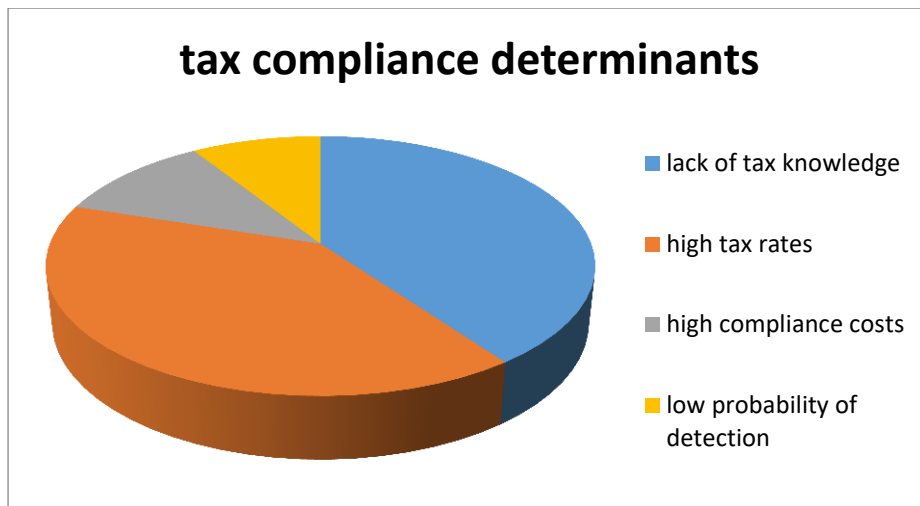
Tax rates and tax knowledge were selected by 80% of the respondents as the main contributor to non-compliance. The 40% that blamed tax rates confirm Ojochogwu (2013) who argued that high tax rates were the primary problem of entrepreneurs. Another 40% blamed lack of tax knowledge as posited by Mckerchar (2015). On the other hand 11% blamed compliant costs in support of Maseko (2013). A small percent of 9% supported Bergman (2012) by picking the low probability of detection as the root cause of non-compliance. The modal data is with those supporting lack of knowledge and those blaming tax rates

4.2.6 Methods of increasing tax awareness and compliance

This section summarises the responses by SME representatives to the questionnaires in appendix 1 on what they believe tax authorities should adopt to increase compliance.

Table 21

method	Frequency
Increase tax campaigns and workshops	15
Increase tax audits	7
Introduce tax modules at school	10
Increase tax penalties	3

Figure 17: Increasing tax awareness
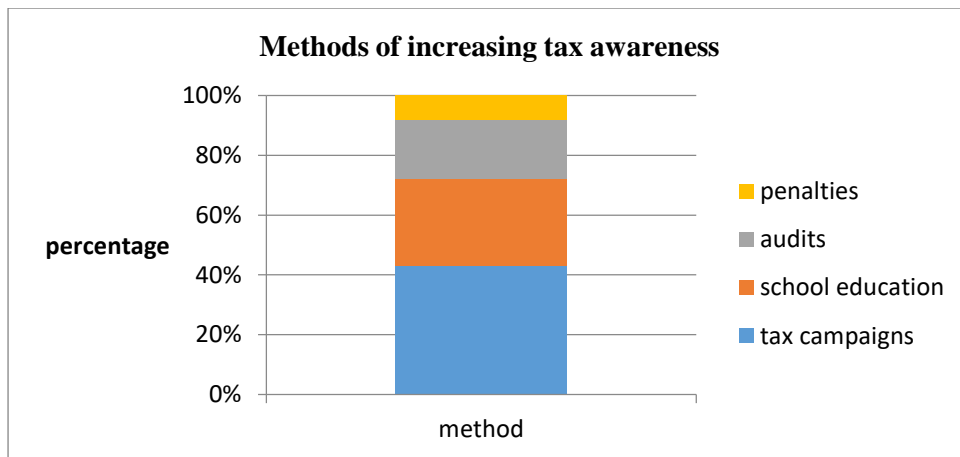
Respondents were asked to select a method which they thought would reduce non-compliance among SMEs and 43% choose an increase in tax campaigns, 20% opted for the introduction of tax modules at school. This means they believe knowledge to current taxpayers and future taxpayes will boost compliance as proclaimed by Mukhlis et al (2015) .20% choose an increase in tax audits would change compliance behaviour from negative to positive as proclaimed by Butler (2013). The last 8% supported Huggins (2015) who argued that stiff penalties will create awareness among SMEs and force them to comply. The measure of central tendency using the modal value lies among those that prefer tax campaigns as a method of increasing tax awareness highlighting that knowledge influences tax compliance.

Methods of receiving tax information

To conclude the questionnaire, respondents were asked to how they preferred to receive tax information and the results are shown below.

Table 22: Methods of receiving tax information

method	Frequency	%
Newspaper	3	9
TV/RADIO	4	11
Social media	22	63
Workshop	6	17

Source: Primary data

The data indicates that 63% prefers social media, 17% mentioned workshops, and 11% preferred radio and TV while 9% said they wanted the newspaper. Using the mode as the measure of central tendency, social media is the popular choice by respondents to receive tax knowledge.

Part 2: Analysis of the questionnaires and interviews with Tax officials

Guided by the literature review discussed in chapter 2, the tax official's responses to questionnaires and during interviews to questions relating to tax knowledge and other determinants of tax compliance SMES are analysed in this section. The relevant questions can be viewed in appendix 2 and appendix 3. 35 tax officers responded to questionnaires and 5 were interviewed for a detailed opinion.

Questionnaires to tax officials

4.2.2a: Tax knowledge and compliance among SMEs

In response to whether SMEs were a non-compliant sector, the responses are distributed in the following table

Table 23: SME compliance

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
19	12	4	0	0

Figure 18: SME compliance
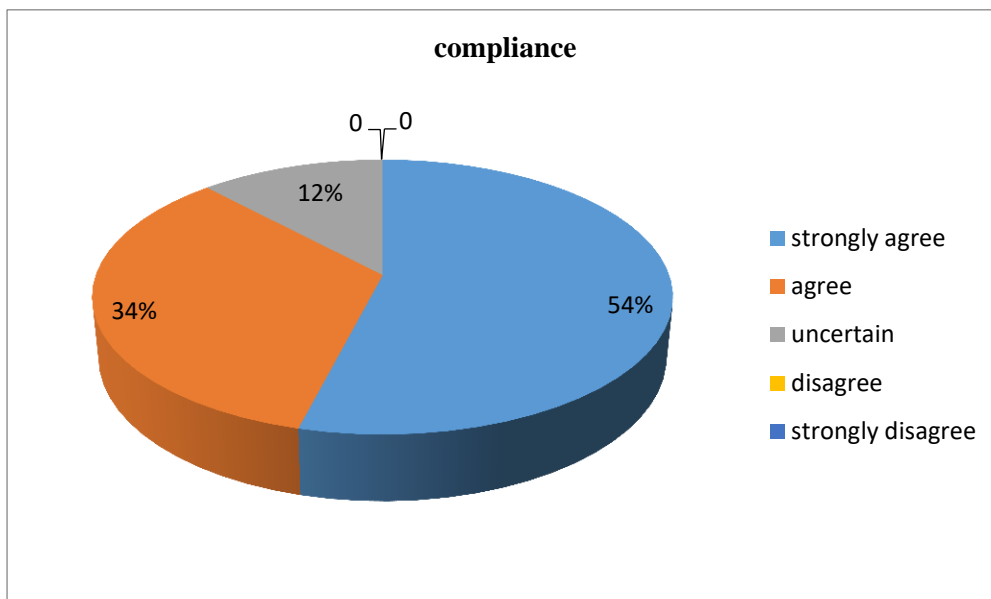
Source: Primary data

54% of the respondents strongly disagree that SMEs comply, 34% disagreed while 12% were uncertain. None of the respondents agreed or disagreed. In total 88% do not rate SMEs as a compliant group in support of Mustafa (2012). The uncertain group is 12% meaning a possible existence of compliant and non-compliant SMEs as argued by Baurer (2015). The modal figure is those that say SMEs are not compliant confirming non-compliance among SMEs

The following data presents the officials opinion on whether SMEs have adequate tax knowledge to influence compliance.

Table 24: SMEs Knowledge existence

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
5	4	5	15	6

Figure 19: SMEs knowledge
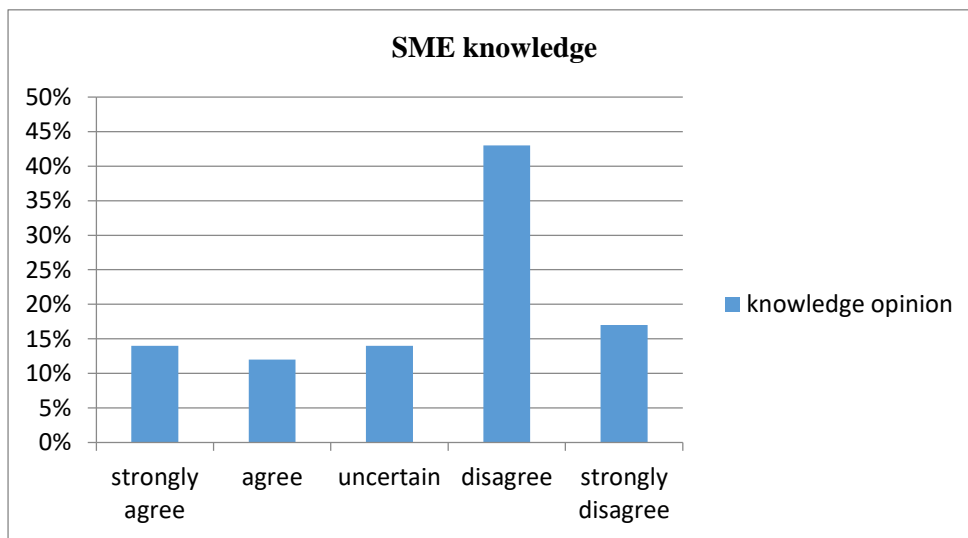
14% of the respondents strongly agree that SMEs have adequate knowledge, 12% agree and 14% is uncertain. Another 43% disagrees while 17% strongly disagrees. In aggregate 26% believes that SMEs have knowledge meaning their non-compliance is not driven by lack of knowledge in support of Nyamwanza et al (2014). The 12% is uncertain of the knowledge possessed by SMEs while 60% is of the opinion that SMEs don't have knowledge which is why they don't comply as argued by Mckechar (2015).

The following table shows the responses from officials using their experience, whether SMEs who have been exposed to tax education automatically become compliant.

Table 25: Effects of tax education

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
2	12	3	15	3

Figure 20: Effects of tax education

Compliance after exposure to tax education
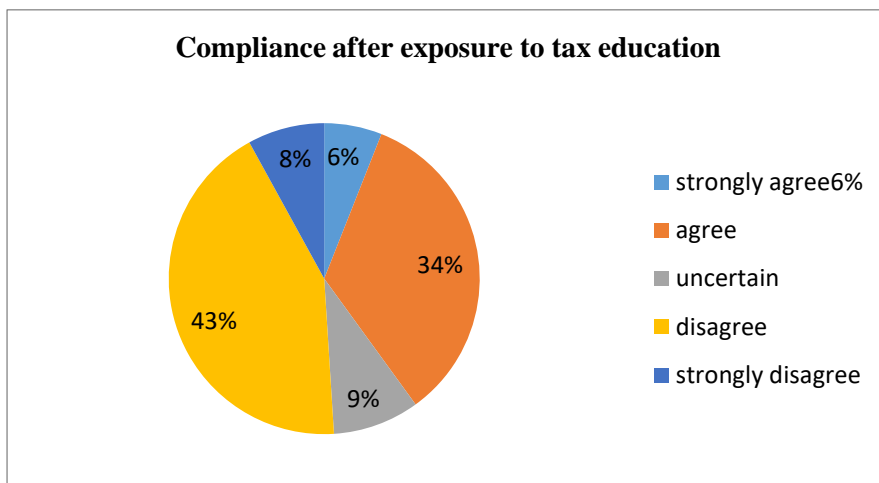
6% strongly agrees that exposure to tax education influences compliance behaviour positively, 34% agrees, 9% is uncertain while 43% disagrees and 8% strongly disagrees. All in all 40% are in agreement that SMEs who have through tax education become tax compliant meaning tax knowledge has a positive influence on tax payer behaviour as also stated by Palil (2015). 9% are uncertain in support of Bautigama (2015) who failed to conclusively conclude on the impact of tax education. 51% seem to believe that tax education does not change the behaviour of SMEs meaning tax knowledge has no influence on tax compliance among SMEs. The measure of central tendency lies among those that believe tax knowledge has not much impact on SME tax compliance behaviour.

The following table shows how respondents rated the adequacy of tax campaigns conducted by SMEs

Table 26: Tax campaigns

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
7	12	2	11	3

Figure 21: Tax awareness campaigns
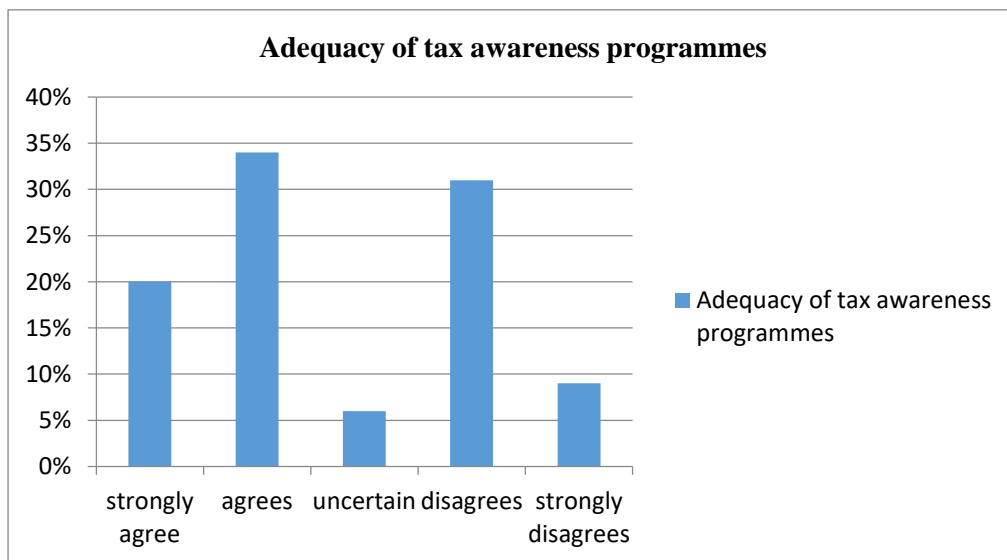
The data shows that 20% are strongly agree that the Revenue Authority conducts enough tax awareness programmes, 34% agrees, 6% is not certain, 31% disagrees while 9% strongly disagrees. In total 54% agrees that adequate campaigns are run by the Authority meaning SMEs are exposed to enough knowledge but they still decide to not comply which is in line with Harris (2012). However 6% is uncertain while a total of 40% disagrees that the tax authority is conducting awareness meaning the SMEs lack knowledge which is why they don't comply. The measure of central tendency lies within the group that believes there is enough knowledge among SMEs and it has failed to boost compliance.

The following table shows how respondents opinioned the effectiveness of Presumptive tax as a form of taxation for SMEs

Table 27: Effectiveness of PTax

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
4	7	10	9	5

Figure 22: Ptax effectiveness
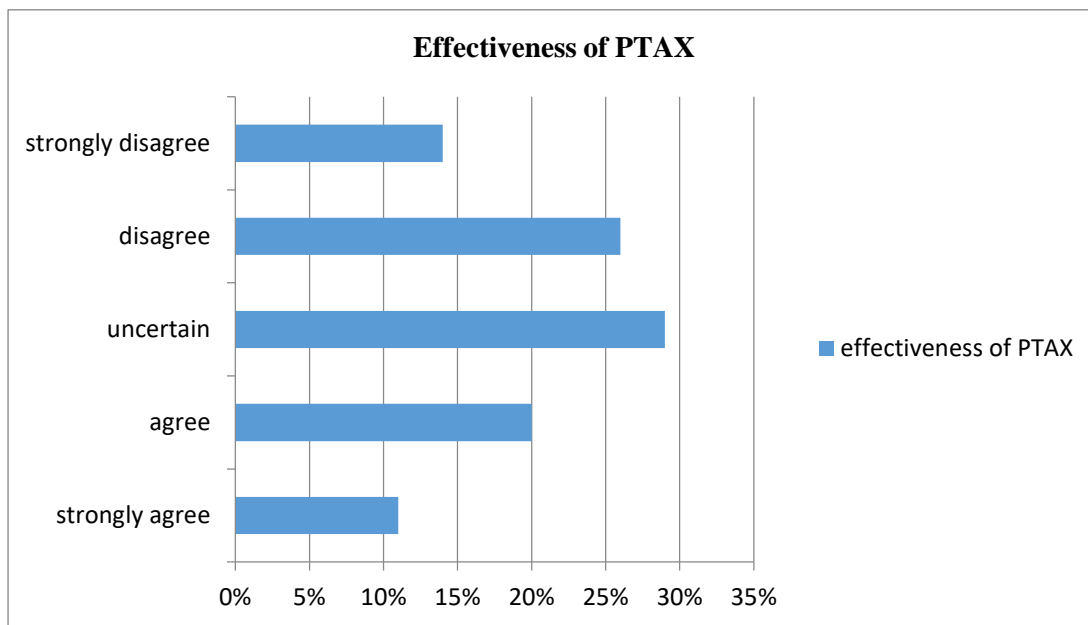
The data collected suggests that 11% strongly agree that presumptive tax is an effective method of taxation, 20% agrees, 29% is uncertain while 26% disagrees and 14% strongly disagrees. Combined the data suggests that 31% agrees on the effectiveness of ptax meaning taxing the SMEs using Presumptive method is the only way to bring SMEs into the tax net as argued by Ayee (2013). A total of 31% is unsure on the effectiveness while 40% disagrees on the effectiveness of presumptive tax and this is in line with Haji (2015). The measure of central tendency lies within those that are against the use of presumptive tax dismissing it as ineffective.

4.2.3a Factors that can influence tax knowledge

The following table shows how respondents opinioned the effects of simplifying the tax code in order to improve knowledge and compliance among SME.

Table 28

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
2	6	7	14	6
6%	17%	20%	40%	17%

Source: Primary data

6% of the officials strongly agreed that simplifying the tax code would increase knowledge resulting in positive compliance among SMEs. 17% agreed and 20% was uncertain of the impact. However 40% disagreed and 17% strongly disagreed. In total 23% agreed that the complexity of the tax code has a negative influence to compliance this means the non-compliance is being caused by complex laws resulting in lack of knowledge among SMEs in support of Saad (2013). The 20% that was uncertain are in line with Holmes and Nicholls (2017) who said tax complexity on its own can't justify the change in tax policies. The remaining 57% does not agree that changing tax laws will influence tax compliance. As argued by Hasseldine (2014). This measure of central tendency of this data lies within those that don't agree that tax complexity will increase knowledge and boost compliance.

4.2.4a: Perception of Tax system.

The following table shows what tax officials thought of existence of corruption among tax officials.   **Table 29**

Strongly agree	Agree	Uncertain	disagree	Strongly disagree
1	13	5	14	2

Figure 23: Corruption among tax officers

Corruption among officials

- strongly agree
- agree
- uncertain
- disagree
- strongly disagree

6% 3%
37%
40%
14%
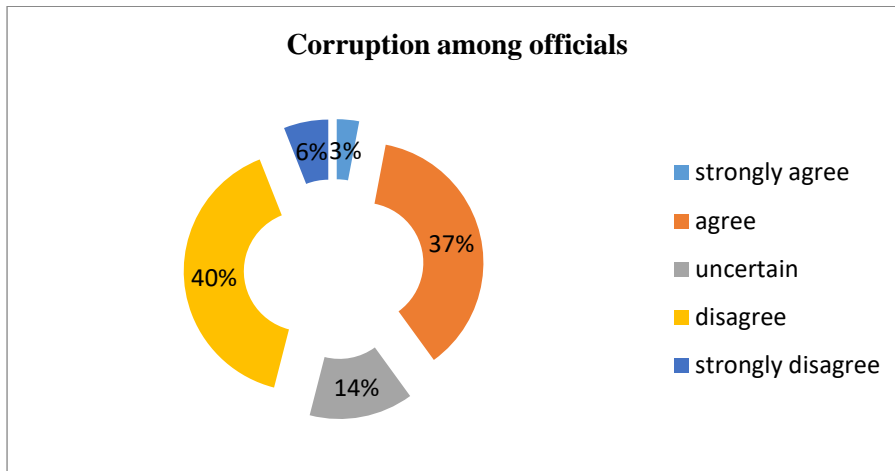
Only 3% strongly agreed that tax officials are corrupt, 37% agreed, 14% was uncertain, 40% disagreed and 6% strongly disagreed. Collectively, 40% agreed that tax officials are corrupt. This means tax official behaviour could be influencing negatively towards compliance as stated by Joulfaian (2012). 46% does not believe there is corruption among tax officers therefore no stimulus whatsoever. The measure of central tendency being the mode lies within the group that disagrees there's corruption among officials.

4.2.6a: Methods of increasing Tax awareness

In this part respondents were asked to select a method which should be adopted by policy makers to influence compliance and their opinions are depicted in the following table:

Table 30: Methods of increasing tax awareness

Method	frequency	%
Increase tax awareness	6	17
Increase tax audits	7	20
Increase tax penalties	2	6
Introduce tax modules at school	20	57

17% of the officials believe that an increase in the tax awareness campaigns will increase tax compliance, while 20% thought tax audits will influence. The other 6% thought increasing tax penalties while 57% thought introducing it at school will do the work. In total 74% are in agreement that awareness through campaigns and tax education is the best.

Interview Analysis

This section presents the data obtained through interviews with Tax officials:

4.2.2b: Tax knowledge and compliance behaviour

The following are the responses from tax officials on how they rate compliance among SMEs

Respondent A

He argued that SMEs are a very difficult group to tax and they associate taxes with politics. He further went on to say it is almost impossible to tax all SMEs.

Respondent B

She said SMEs can't be bothered with issues of taxation. Those that comply will be in need of a tax clearance only.

Respondent C

They just don't comply at all.

Respondent D

They are not compliant; they wait till they are discovered.

Responded E

A lot needs to be done: There's no compliance at all. Tax is an unnecessary cost to them.

From the analysis of the responses it is apparent that SMEs are a difficult group to tax. This is in line with Mustafa (2015) who argued that they do not comply because they lack

knowledge. The non-compliance could be caused by various other factors but it apparent that compliance levels are not satisfactory.

The following are the responses on adequacy of knowledge among SMEs about tax matters

Respondent A

They don't have knowledge and they don't even want to know about taxes.

Respondent B

SMEs don't have knowledge, there's need for extensive tax payer education.

Respondent C

I think Zimra hasn't done enough, so there isn't much knowledge among SMEs.

Respondent D

No they don't, if they had adequate knowledge they would comply.

Respondent E

They know they have an obligation, but the technical know-how is insufficient

Based on the above responses of , it is evident that there isn't enough knowledge about tax matters among SMEs leaving it as a possible factor influencing tax compliance among SMEs. All of the officials argue that there is no compliance among SMEs. This is line with Mckerchar (2015) who argued that tax knowledge is an essential element in voluntary compliance system.

Respondents gave the following answers on the effects of tax education on compliance among SMEs.

Respondent A

Yes they become compliant, a sense of duty is created and they become sensitive.

Respondent B

Not really, they are more influenced by others. They would rather keep all the profits to themselves.

Respondent C

Yes they do but it's to a lesser extent. Old habits are not easy to drop and remember the economy is bad so it's not easy to pay taxes.

Respondent D

Yes they are, but only for a short time then revert back to their non-compliance behaviour. Extensive enforcement is required to keep them in line after tax education.

Respondent E

No they don't, they still look for loopholes to avoid taxes by submitting nil returns.

Even though the entire officials believe there is no adequate knowledge among SMEs, only 3 (60%) of them seem to believe that increasing tax education will increase tax compliance. The other 2 (40%) seem to be believe that increasing tax knowledge does not have significant influence on a taxpayers behaviour. This supports Harris (2012) who argued that tax knowledge is not related to compliance behaviour. However the modal response is among those that believe tax knowledge will impact positively but for a short time.

The following are the responses on the adequacy of tax awareness campaigns by the tax authority.

Respondent A

Not really, they normally invite registered clients; the informal sector is left behind. However the informal sector is interested in import rebates on customs duty but not paying taxes.

Respondent B

In terms of quantity, I would like to believe they are quantity but an issue arises on the quality. All adverts are about corruption giving the Tax payers that its mandate is to stop corruption instead of collecting revenue.

Respondent C

Yes they do but most SMEs will not attend, they actually believe it's for large companies

Respondent D

Yes, I think we are doing our best though attendance by SMEs is minimum.

Respondent E

No, I don't they are adequate. They are only done when there legislation changes in which tax campaigns are supposed to be a continuous thing.

2(40%) of the respondents do not believe the Revenue Authority conducts adequate tax awareness campaigns. This suggests that lack of knowledge could be causing the resistance to taxes. However 3(60%) believe the authority is conducting adequate campaigns, but the officials still believe the designs of the campaigns are wrong. There is a belief among other officials that the Revenue Authority is not pursuing its mandate of collecting revenue but rather of stopping corruption.

The following are the responses on the effectiveness of presumptive taxation of SMEs.

Respondent A

No it's not, as long as it targets some types of businesses and leaves some it can't be effective.

Respondent B

It is, since it requires no accounting records. However the current rates are still too high

Respondent C

No its not, the rates are too high. Rates should be reviewed to match current economic conditions.

Respondent D

As long as it's not collected at source it can never be effective. Presumptive tax on transporters should be collected at licencing point and for hair salons, Why not make the owner of the saloon collect it.

Respondent E

The fact that one can use it indefinitely makes it ineffective.

Only 1(20%) of the interviewed officials is of the opinion that presumptive tax is an effective method of taxation as posited by Ayee (2013). The argument is that since there's no recording keeping among SMEs, there no other way of taxing SMEs. The other 4(80%) are against presumptive tax citing that it encourages informalisation in line with Zivanai et al (2016). This suggests that presumptive tax is not the best method of taxing SMEs.

4.2.3b: Factors that can influence tax knowledge

The following are the responses obtained from tax officials on the effects of complexity of tax law on compliance

Respondent A

What do you mean simplifying it, they don't even know it. So simplifying it changes nothing.

Respondent B

I think for basic compliance, tax law I simplified enough

Respondent C

Compliance has nothing to do with the complex tax laws.

Respondent D

Payments and computations are done by tax consultants who understand the tax code already so for one to say I don't pay taxes because tax law is complex is just a scape goat.

Respondent E

Compliance is about culture and attitude, complexity has nothing to do with it

All the respondents did not think tax complexity affected tax compliance anyhow. Responded B and D actually believe that if one really one wanted to pay tax, they can actually approach tax offices or consultancies for assistance therefore using the complexity of tax law is just an excuse as supported by Adam and Smith (2013).

4.2.4b: Perception on tax system.

The researcher found it necessary to find the opinion of tax officials on the existence of corruption among themselves.

Respondent A

Yes to some extent, considering the statistics on dismissals and suspensions because of corruption.

Respondent B

No they are not, it is a perception created by the Revenue Authority itself.

Respondent C

No they are not; it is just a general assumption. However one or two bad apples exist.

Respondent D

It takes 2 be corrupt; the statement can't be true on its own. Nonetheless you will find some that are corrupt.

Respondent E

Yes some of them are, it's the nature of the job and the poor economic performance

On the grounds of the responses received from tax official, it can be concluded that corruption does exist among tax officials and this negatively affects tax payer behaviour as argued by Sari and Huda (2013).

4.2.5b: Major contributing factors to non-compliance

Following are the responses of tax officials on the major contributors to non-compliance among SMEs.

Respondent A

There is little appreciation or lack of knowledge on the use of tax payer monies. They feel there's nothing in for them.

Respondent B

The eroded economy and marginal profits

Respondent C

They don't understand why they have to pay taxes, they don't see the benefits.

Respondent D

Poor enforcement strategies by tax authorities. The penalties are not stiff and why issue a tax clearance which is valid for a year?

Respondent E

Because they know everyone else is not paying and it's easy to get away with it.

3(60%) of the respondents are of the opinion that SMEs do not pay tax because they don't appreciate or approve government expenditure. This is in line with Webley (2014) who posited that as the government is not spending tax payer monies on developing the economy SMEs will always evade paying taxes.

4.2.6b Methods of increasing tax awareness

The following shows responses of tax officials on the strategies that can be employed by policy makers to increase awareness and compliance.

Respondent A

Intensifying tax campaigns and introduction of tax payer education at school

Respondent B

Knowledge is power- increase awareness and campaigns

Respondent C

Increase tax incentives for SMEs and increase accountability on government expenditure

Respondent D

Increase follow up methods

Respondent E

TV and radio campaigns

3 (60%) of the respondents believe that increasing tax campaigns would increase tax compliance meaning tax knowledge is the missing link to compliance among SMEs. Another 2(20%) believes the Authority has to intensify its enforcement methods through regular audits which means low probability of detection is driving non-compliance among SMEs

4.2.3 Chapter summary

This chapter looked at the analysis and presentation of data collected. Data was analysed using the Microsoft Excel (Worksheets and charts) and was presented using various data presentation techniques such as bar graphs, pie chart, doughnut charts and tables. Data which was being analysed and presented was primary data that was collected by the questionnaires and interviews. The data was also analysed according to the research objectives. The following chapter looked at summary, conclusions and recommendations.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of research findings summary of all chapters, conclusions drawn from the study and recommendations emanating from the major findings. The recommendations are referred to as researchers' views on topic understudy basing with the research findings.

5.1 Summary of Chapters

5.1.1 Chapter 1

Chapter one is noted as the preliminary chapter as it contains vital components of the study which is the background of the study and problem statement. The background of the study introduces the problem at hand by sighting activities occurring at the area of the study. The research evaluates the impact of tax knowledge on tax compliance among SMEs. This chapter also encompasses other components such as: research objectives and questions, limitations, delimitations and definition of terms

5.1.2 Chapter 2

Chapter two is enriched with literature review which relates to determinants of tax non-compliance. Kirchler et al (2016) and Mckechar (2015) were the main authors in Chapter 3 who argued that the absence of tax knowledge might lead to on compliance behaviour among tax payers either intentionally or unintentionally. This chapter also contains ideas from several other authors concerning the topic under study.

5.1.3 Chapter 3

Chapter three contains research design of this study, thus descriptive research design complimented with qualitative approach. The chapter also contains research instruments used

in data collection and these were designed to align with the research questions. The research instruments include the questionnaire and interview guide presented to two sample groups of SME representatives and tax officials.

5.1.4 Chapter 4

Chapter four aims on presenting and analysing the research findings in statistical format, pie charts, data tables and graphs were also used to enhance visual aid on presentation of research findings. The conclusion were made by the research basing on the modal response

5.2 Summary of findings

The aim of the study was to evaluate the impact of tax knowledge on tax compliance among SMEs in Zimbabwe, with specific research objectives being: to establish if SMEs in Zimbabwe possessed tax knowledge, to identify the possible elements that constitute tax knowledge among SMEs, to establish how SMEs perceive the current tax system , to identify the other factors that could be influencing noncompliance among SMEs and to identify methods which could be adopted by tax Authority to increase awareness and compliance SMEs.

The study revealed that SMEs in Zimbabwe do not comply with tax law , they poses only basic tax knowledge and lack a deeper understanding of tax issues however this is insignificanly influencing the non-compliance behaviour among them. A question that has been raised by previous researchers (for example Sing 2013) is whether the enhancement in knowledge automatically increases tax compliance. It emerged that enhancing tax knowledge on its own without addressing the high tax rates and corruption will not positively impact on tax compliance behaviour among SMEs in Zimbabwe.

The results also exposed that the tax awareness design currently in use in Zimbabwe is ineffective. The newspaper, internet and workshops emerged as the least favoured methods of obtaining information by SMEs. The tax authority (ZIMRA) was also accused of presenting

itself as an anti-corruption board and ignoring its mandate which is to pursued and collect revenue.

5.3 Conclusion

The research study was conducted successfully and the impact of tax knowledge on Tax compliance among SMEs was determined. The researcher gathered enough evidence to answer the research questions of this study.

5.4 Recommendation

Tax Education

Before one can submit accurate tax returns, they need to be in possession of accurate financial records. Therefore the government needs to take an active role in enabling the capacity of SMEs in areas of training so that they can be equipped with basic financial and accounting skills. Such training programs could be put in place by Zimra in conjunction with the Ministry of Small and Medium Enterprises so that all identifiable SMEs are trained to have the ability to keep accurate financial records. Open house events where tax officers advise tax payers free of charge on their tax statements can improve taxpayers knowledge of taxes important to them. This will go a long way to enable ZIMRA objectively recover tax from as many SMEs businesses as possible.

An introductory tax course should be introduced, perhaps as an elective subject at the beginning of higher learning education so that students are aware of their responsibilities as future taxpayers. This education method could be expected to help cultivate responsible taxpayers in Zimbabwe as currently, tax courses are only taught to accounting students at diploma and degree levels.

Enforcement strategies

Registering a small business for tax and expecting it to willingly return and pay taxes is being over expectant of any tax authority. Zimra is advised to adopt early enforcement strategies

like following up the 1st return in the 1st month of registration to encourage compliance. It is easier to follow up and encourage a tax payer as early more possible than a year later. In this regard new registrations should be issued tax clearances which are valid for 3 months only so that they are encouraged to keep a relationship with the revenue authority.

Tax campaign design

A change in the campaign design by ZIMRA from corruption to persuading tax payments will go a long way. Mentioning corruption every time creates mistrust among SMEs. Adverts which incorporate and publicize social needs that have been addressed by tax payer money will change noncompliance behavior. For example a bill board on newly constructed highway written 'Tax payer money at work' will encourage everyone including SMEs to comply. This kind of campaign increases identification with the state and generates a feeling of belonging as identification increases tax compliance.

They could center on a negative image of tax evasion by presenting the negative effects of lacking government funds such as bad school system, broken down roads, and an insufficient health system, and thus prompt feelings of shame and guilt in tax evaders that can lead to more compliant behavior.

5.4 Area of further research

The area of tax education related to tax knowledge and levels of compliance, particularly among SMEs offers opportunities for additional research. Instead of using a survey, other methods of data collection (For example, interviews or experiments) or a comparison of behaviour of tax educated SMEs against those not tax educated may provide different results. It is expected that two-way communication via an interview could produce other meaningful results; however, non-anonymous methods such as interviews can be problematic in revealing the truth, especially when questioning respondents regarding tax compliance matters, as failure to appropriately address the questions would harm or embarrass respondents

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Appendix 1

My name is **R15503J** student at the Midlands State University. Am currently studying towards a Bachelor of Commerce Accounting Honours Degree and am conducting a research study on **'Evaluating the impact of tax knowledge on tax compliance among SMEs in Zimbabwe'.** This research is done in partial fulfilment of the degree program. Kindly assist by answering the following questions. Please answer all questions honestly so that the research is as complete as possible, your responses will be used for academic purposes and treated confidentially at all times so you can be entirely open in your responses.

Instructions

Please tick where applicable

Tax knowledge and compliance among SMEs

1.) How long have you been in business

Less than 1year ☐   between 1 and 5yrs ☐   more than 5years ☐

2.) Are you registered for tax?

Yes ☐   No ☐

3.) If no, please state why

…………………………………………………………………………………………………

………………………………………………………………………………………………

4.) If yes, do you declare your actual income and expenditure every month?

Never ☐   Rarely ☐   Sometimes ☐   All the time ☐

5.) Name the tax heads that you are aware of

…………………………………………………………………………………………………

6.) SMEs lack adequate knowledge about taxation

Strongly agree	Agree	Uncertain	disagree	Strongly disagree

7.) Do you know the difference between presumptive and income based taxation

yes ☐   No ☐

8.) Do you believe that if you were more educated about tax, it would encourage you to be more tax compliant?

Strongly agree	Agree	Uncertain	disagree	Strongly disagree

Factors that influence tax knowledge

9.) What is your level of education

O'level and below ☐   Certificate/ Diploma ☐   Degree and above ☐

10.)   Have you ever attended any tax course or workshop?

Yes ☐   No ☐

11.)   Do you know about e.filing

Yes ☐   No ☐

12.)   Tax law is complex and difficult to comprehend

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

Perception of the current tax system

13.)   Tax monies in Zimbabwe are used for their rightful use

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

14.) Tax evaders should be punished

Strongly agree	Agree	Neutral	Disagree	Strongly

				disagree

15.) Tax officials are corrupt

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

Other factors that may influence tax non compliance

16.) In your opinion, which factor contributes the most to non-compliance among SMES?

Lack of tax knowledge ☐   High tax rates ☐

High compliance costs ☐   Low probability of detection ☐

Methods of increasing tax awareness and compliance

17.) In your opinion what should the government do to increase tax compliance among SMEs?

Increase tax workshops ☐   Increase tax audits ☐

Increase tax penalties ☐   Introduce tax modules at school ☐

18.) How would you want to receive tax information?

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Thank you

Appendix 2

QUESTIONNAIRE FOR TAX OFFICIALS (ZIMRA EMPLOYEES)

My name is **R15503J** student at the Midlands State University. Am currently studying towards a Bachelor of Commerce Accounting Honours Degree and am conducting a research study on **'Evaluating the impact of tax knowledge on tax compliance among SMEs in Zimbabwe'.** This research is done in partial fulfilment of the degree program. Kindly assist by answering the following questions. Please answer all questions honestly so that the research is as complete as possible Your responses will be used for academic purposes and treated confidentially at all times so you can be entirely open in your responses.

Instructions

Please tick where applicable

Taxation knowledge among SMEs

1.) How long have you worked in the taxes environment?

Less than a year	
Between a year and 3years	
More than 3years	

2.) SMEs do not comply with tax laws

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

3.) The SME tax payers have adequate knowledge about taxation

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

4.) Tax knowledgeable SME owners are tax compliant

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

5.) The authority conducts adequate workshops to create awareness among SMEs.

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

6.) Presumptive tax is an effective method of taxation for SMEs

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

7.) Simplifying the tax code would increase tax compliance among SMEs

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

8.) Tax officials are corrupt

Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

9.) In your opinion what should the government do to increase tax compliance among SMEs?

Increase tax workshops ☐   Increase tax audits ☐

Increase tax penalties ☐   Introduce tax modules at school ☐

10.) How should the Tax Authority enhance it methods of imparting tax knowledge to SMEs in order to increases awareness.

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Thank you

Appendix 3

INTERVIEW GUIDE FOR TAX OFFICIALS (ZIMRA EMPLOYEES)

My name is **R15503J** student at the Midlands State University. Am currently studying towards a Bachelor of Commerce Accounting Honours Degree and am conducting a research study on **'Evaluating the impact of tax knowledge on tax compliance among SMEs in Zimbabwe'.** This research is done in partial fulfilment of the degree program. Kindly assist by answering the following questions. Please answer all questions honestly so that the research is as complete as possible your responses will be used for academic purposes and treated confidentially at all times so you can be entirely open in your responses.

Taxation knowledge among SMEs

1.) How long have you worked in the taxes environment?

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2.) Using your experience with SMEs , how do you rate their compliance behavior?

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3.) Do you think SMEs have adequate knowledge about tax matters?

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4.) Do you think SME owners who have been exposed to tax education are more tax compliant?

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5.) In your opinion, is the Authority conducting adequate tax awareness campaigns?

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6.) Do you think presumptive tax method is an effective method of taxing SMEs?

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7.) Do you think simplifying the tax code will increase compliance among SMEs.

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8.) "Tax officials are corrupt". What is your comment on the statement?

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9.) What is causing the high levels of non-compliance among SMEs?

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10.) What are the generic strategies that can be employed by policy makers to increase awareness to taxpayers in order to enhance compliance by SMEs?

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