MIDLANDS STATE UNIVERSITY

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Faculty of Commerce
Department of Accounting

AN ANALYSIS OF TAX COMPLIANCE PROBLEMS OF SMALL TO MEDIUM ENTERPRISES IN A ZIMBABWE ECONOMIC ENVIRONMENT.

BY

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APPROVAL FORM

This Research Dissertation Report has been under our supervision as University Supervisors. We approve its submission for examination to Midlands State University as a partial fulfilment for the requirements of the award of Master of Commerce in Accounting Degree of Midlands State University.

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RELEASE FORM

I certify that the following student: Enfa Tavarwisa, Student Number: **(R176595P)** was under my supervision. I further certify that she attended all the scheduled meetings with me and that she has fulfilled all the requirements that I set before her as the supervisor. It is my professional judgment that the dissertation is of a sufficiently high standard as to be submitted with my name attached to it as the supervisor. I hereby release the student without reservation to submit her dissertation for marking.

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DECLARATION

I Enfa Tavarwisa declare this dissertation as a true copy of the original research of my own work, except to the extent indicated in the acknowledgements, references and comments inside the research, and that it has not been submitted in part or in full to any university for the award of a degree.

_____

MAY 2018

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DEDICATION

I dedicate this project to my late Father Jack, who told me just before he died that education is key to my success and to my lovely mother Tsitsi for unwavering support. May the almighty God hold them in the hollow of his hands.

ACKNOWLEDGEMENT

ABSTRACT

Tax is one of the major stream of revenue to the government of Zimbabwe and thus the Zimbabwe Revenue Authority must continuously assess and improve its operations to maximise revenue collections and efficiency in administering tax collection. The Revenue Authority was continually missing its revenue collection targets for period 2012 up to 2016 even though it was the same period SMEs were emerging and making enormous economic contributions to the national GDP and country's budget. This therefore suggested that SMEs were not complying with their tax obligations thus research objectives were to investigate the relationship between attitudes, normative beliefs and control beliefs with tax compliance to establish the problems being encountered by SMEs in tax compliance. A detailed literature review was outlined and variables as attitude, subjective norms and perceived behavioural control towards tax compliance were detailed. The research was a quantitative survey carried at Kurima house with different client care offices being the stratums from which random respondents were selected to answer the questionnaires. Most of the respondents agreed that planned behavioural control influences tax compliance but from the analysis done using Pearson's correlation it came out that there is a negative relationship between attitudes and tax compliance as well as perceived behavioural control but there is a positive relationship between tax compliance and subjective norms. In addition, impact of planned behavioural control on tax compliance, linear regression was employed and both attitudes and perceived behavioural control have no significant impact on tax compliance whilst subjective norms had a positive relationship. Therefore, the Zimbabwe Revenue Authority may use the results obtained from this research to identify areas of concern that influence tax compliance if added in the tax environment and if not added will create a problem. Future studies can dwell on the same research but however increase sample size in order to increase the certainty from which inferences would be drawn

ABREVIATIONS

OECD   Organisation for Economic co-operation and development

SMEs   Small to Medium Enterprises

SPSS   Statistical Package for Social Scientist

TRB   Theory of Planned Behaviour

TRA   Theory of Reasoned Action

VAT   Value Added Tax

ZIMRA   Zimbabwe Revenue Authority

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1.1   Introduction

The Zimbabwean government must ensure that it implements policies that enhance revenue collection and safeguard any leakages. This is because tax is an important source of revenue to developing countries according to Tanzi and Zee (2001). In the same vein Chinamasa (2013) alluded that tax is the most reliable and significant source of revenue to the government of Zimbabwe by making a contribution of more than 60% to the national budget.

Contributions of SMEs have been up-and-coming despite all economic challenges encountered by many business operators in the country according to ZIMRA (2014). SMEs have attempted to plug the negated place left by formal enterprises which capitulated due to economic challenges according to Zivanai, Chari and Nyakurimwa (2015). SMEs have contributed considerably to economic growth, job creation and poverty alleviation to the extent that their effort and impact could not be ignored resulting in the launch of Small to Medium Entrepreneurs (SMEs) Incubation Centre in 2017. However, in spite SMEs becoming the major player in the economy of Zimbabwe, they are one economic activity which has not been contributing meaningfully to fiscus according to Gwatsvaira and Mtisi (2016).

 According to Musarirambi (2013), the sprouting of informal sector signifies a large number of potential taxpayers and thus to maximize efficiency and revenue collection in the Small to Medium Enterprises section, it is empirical to look at the problems that are deterring Small to Medium enterprises to comply with their tax obligations.

1.2   Background

"To be a beacon of excellence in the provision of fiscal services and trade facilitation" is the Zimbabwe Revenue Authority's vision and its Quality Policy (2014) states that its mandate is to

collect revenue. In the same vein, ZIMRA's internal documents outlines that one of its main objective is to enhance revenue generation and facilitation of economic development among others.

However, according to the Zimbabwe Revenue Authority, tax periods ending 2013 up to 2016 were characterised by failure to meet revenue collections targets. The Zimbabwe Revenue Authority failed to surpass its targets as it would previously do and according to the yearly Revenue performance reports by the ZIMRA Chairman, the following was achieved.

- In 2013, net collections amounted to US$3.43 billion against a target of US$3.64 billion and this net in a negative variance of 6%.

- In 2014, net collections amounted to US$3.60 billion against a target of US$3.82 billion and this net in a negative variance of 6%.

- In 2015, net collections amounted to US$3.50 billion against a target of US$3.763 billion and this net in a negative variance of 7%.

- In 2016, net collections amounted to US$3.248 billion against a target of US$3.462 billion and this net in a negative variance of 9%.

According to Trading Economics, Zimbabwe's Gross Domestic Product from 2013 up to 2016 were as follows

- In 2013, the GDP was 15.22 billion

- In 2014, the GDP was 15.83 billion

- In 2015, the GDP was 16.07 billion

- In 2016, the GDP was 16.29 billion

Nyoni (2015) highlighted that SMEs were contributing to 40% of Zimbabwe's GDP. Weighing in, Chinamasa (2016) noted that the SMEs sector contributed up to 50% of Zimbabwe's GDP. Different authors have indicated that SMEs have made contributions ranging from 40% to 60% of

the GDP for period 2013 up to 2016 per year. The International Monetary Fund (2018) has recently done a research indicating that Zimbabwe has the second major informal sector in Africa contributing 60% to GDP. This indicates that SMEs have become the largest player in the economy of Zimbabwe according to Dube (2014) and thus their contributions cannot go unnoticed in the economy.

On the other hand, activities of the formal sector have been characterised with low business resulting in company closures and retrenchment of many workers. In addition, the Confederation of Zimbabwe Industries (2014) highlighted that the formal sector was affected by challenges emanating from liquidity crunch coupled with low industrial capacity utilisation from around 39.6% in 2013 to 36.3%. The formal sector has been underperforming whilst the informal sector was making impressive contributions to GDP. Chinamasa (2014) stated that the old economy (of formal enterprises) had passed on and a new one was born (of informal enterprises). Based on this, since the formal enterprises were significant contributors to the revenue before the economic balance of power shifted to the informal sector, it can be assumed that this sector should make visible contributions to tax revenues.

In a parliamentary briefing, Nyoni (2014) stated that an estimate of 5.7 million people works in Zimbabwe's informal sector, getting an annual turnover of $7.4-billion. In the same vein, a Finscope Survey established SMEs had an estimated annual turnover of 7.4 billion or a 63.5 of GDP. However, despite the informal sector making all such contributions to GDP in Zimbabwe, they are not meaningfully contributing to Treasury according to Kadzere and Bonga (2013). This view is shared by Nyamwanza et al who stated that it seemed that Small and Medium Enterprises are struggling to fulfil their tax obligations in 2014.

1.3   Problem Statement

According to Nyoni (2015), SMEs are fraught in meeting their Tax obligations. Despite them being the key players in the economy as alluded by 0ECD (2016a), by making impressive contributions to the country's Gross Domestic Product, SMEs' contribution to tax is hardly visible. The

Zimbabwe Revenue Authority had been missing its revenue collection targets notwithstanding the major contributions made by SMEs to GDP. It is against the challenge of low tax revenues that has resulted in ZIMRA missing its targets that this research has invoked the Theory of Planned Behaviour to understand why SMEs have not made an impact on revenue collections in spite their productive performance.

1.4   Justifications of the Study

Tax is one of the major source, most reliable and significant source of revenue to the government (Tax Foundation, 2013) of Zimbabwe. ZIMRA and the country at large need to increase its much-needed revenue to finance its recurrent expenditure. This can be achieved by a successful prediction and explanation of the major economic player's behaviour (SMEs) towards tax compliance through sustainable strategies oriented towards the use of persuasion rather than coercion according to Maranda, Mbekomidze and Ifezue (2014). According to Nyamwanza et al. (2014), "the governments' responsibilities are on the increase while sources of revenue are narrowing and as a result, the Government of Zimbabwe has found it necessary to extend tax collection to SMEs and the informal sector" and this makes it imperative to conduct a research on problems being encountered by SMEs on tax compliance in order to improve design and implementation since not many researches have been conducted on such. Any positive results from the research will be a revelation to SMEs to overcome tax compliance problems.

Table 1.1: Research Objective

Objective	Hypothesis
Establish the relationship between attitudes and tax compliance of SMEs in Zimbabwe	**H1:** There is a positive relationship between attitudes and tax compliance among SMEs
Establish the relationship between normative beliefs and tax compliance of SMEs in Zimbabwe	**H2:** There is a positive relationship between normative beliefs and tax compliance among SMEs
Establish the relationship between control beliefs and tax compliance of SMEs in Zimbabwe	**H3:** There is a positive relationship between control beliefs and tax compliance among SMEs
Establish the impact of attitudes, normative beliefs and control beliefs on tax compliance of SMEs in Zimbabwe	**H4:** Attitudes, normative beliefs and control beliefs have an impact on tax compliance among SMEs in Zimbabwe

1.5   Conceptual Framework

This research is performed within the framework of the Theory of Planned Behaviour. As shown on the diagram below, the immediate determinant of behaviour is the intention behind that behaviour. Though taxes are governed by tax law which must be obeyed, the ultimate decision to obey or not to obey is a voluntary one which is based on attitudes, normative and control beliefs.
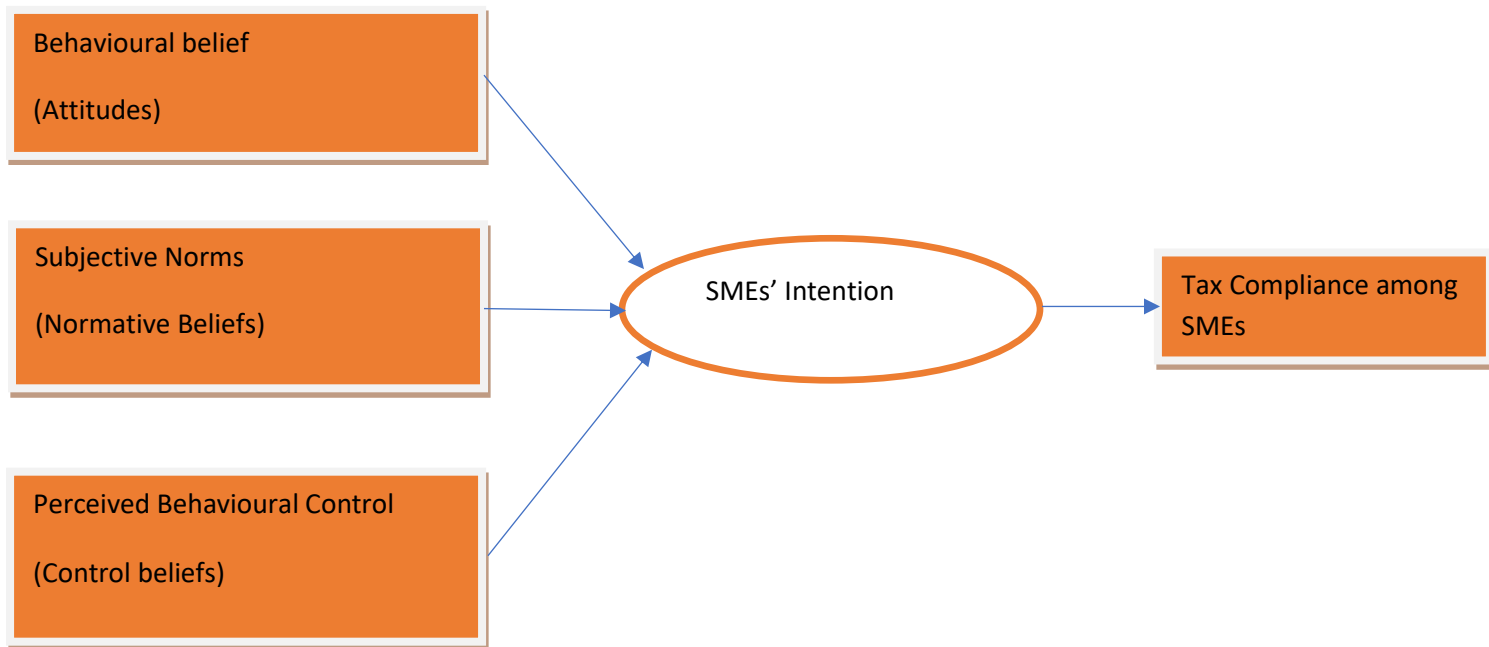
Fig 1.1: Conceptual Framework

1.6 Purpose of the Study/ Research questions

The paper seeks to answer the following questions:

- Is there a positive relationship between attitudes and tax compliance among SMEs?

- Is there a positive relationship between normative beliefs with tax compliance among SMEs?

- Is there a positive relationship between control beliefs and non-tax compliance among SMEs?

- Does attitudes, normative and control beliefs have an impact on tax compliance behaviour?

1.7 Assumptions

- Common direct taxes are corporate tax, pay as you earn (PAYE), Investment income tax, Capital gains tax, Estate duty tax and others. Examples of indirect taxes are Value added tax (VAT) and Customs and exercise duty. The operations of SMEs give rise to any or all of the above tax obligations though most SMEs operators have decided to remain in the informal sector, as they want to escape their tax obligations.

- It was assumed that the respondents would be willing to participate in the study, be co-operative and provide accurate information when responding to the research questions

1.8   Delimitations

- This was a case study of SMEs in Harare, Zimbabwe which covered the period between 2013 - 2017 and was focused on non-tax compliance issues among SMEs.

1.9   Limitations

- There is no assurance that the respondents will return all the questionnaires fully completed, since there is likely the fact that taxpayers would doubt the sincerity of the research and the researcher; hence, they would not be readily available to dispense information.

- Lack of cooperation by some stakeholders and some ZIMRA employees who were not willing to dispense information because tax information is confidential. The respondents will be taken through the ethical consideration undertaken by the researcher guaranteeing confidentiality.

- There are time constraints as the researcher was unable to get leave from work and therefore needs to make time to attend to the research. The researcher made use of weekends and out of working hours to work on the research to counter this limitation.

1.10   Definitions

Small and Medium Enterprise

The definition of SMEs depend entirely on different countries but the size of the enterprise can seem to be categorized based on the number of employees, annual sales, assets, or any combination of these, which may also vary from industry to industry according to Ward (2018). The Zimbabwe Revenue Authority (2013), defines an SME as a small business that is formally registered, with a turnover of less than US$240 000 or assets less than   US$100000 venture in any sector of the economy which may include co-operatives, sole traders and informal traders. For the purposes of this research, an SME is an enterprise which includes informal traders that employs less than 75 workers and whose turnover does not exceed US$240 000 per annum.

Tax Compliance

Zivanai et al (2015) highlighted that tax compliance is a taxpayer's willingness to pay their taxes. It as a person's act of filing returns, declaring all taxable income accurately and disbursing all payable taxes in the stipulated period without having to wait for follow up actions from the tax authority. Mwangi (2014) in the same vein highlighted that it is the degree to which a taxpayer complies with the tax rules of their country by declaring income, filing returns and paying the tax due in a timely manner.

Tax Evasion

It refers to the conscious or unconscious action and behaviour of a person who is liable to pay tax but who fails to fulfil this duty by either under reporting his tax liability or failing to account for his income generating activities altogether. Tax evasion also refers to the reduction or minimization of tax liability by illegal methods.

Chapter 2

Literature Review

2.1 Introduction

Literature review is a frame of academic text that reviews the perilous points of present-day knowledge that includes essential findings, methodological and theoretical contributions to a given subject. As a secondary source, literature review does not report new work but a summary of accredited scholars' work on a research problem. The chapter is four fold, which will start by highlighting historical background of the Theory of Planned Behaviour, then Theory of Planned Behaviour itself, imperial literature review on tax compliance behaviour and gaps in the literature in order to consolidate gaps that this study hopes to fill.

2.2 Theoretical Framework

2.21 Theory of Planned Behaviour

Background of the Theory

The Theory of Planned Behaviour proposed by Ajzen (1985) was an addition to the Theory of Reasoned Action, which was developed Fishbein and Ajzen (1975) and from earlier research such as theory of Attitude by Heider (1958). Fishbein and Ajzen (1975) indicated that Theory of Reasoned Action provided a relevant framework for understanding behaviours and defining relationships.

TRA can be of great use if applied to tax compliance behaviour, because of four general concepts of an individual behaviour of whether to comply or not comply: behavioural intention to perform the action, one's attitude towards performing the behaviour and subjective norms influencing intention to perform the behaviours which is a subject of their perception about what the people that matter to them think they should or should not perform the behaviour according to Fishbein and Ajzen (1975).

Ajzen (1985) developed the Theory of Planned Behaviour to overcome the major limitation of TRA, which ignored an individual's volitional control on his/her behaviour. TPB is an extension of the TRA which incorporates another determinant of intention that is perceived behavioral control. According to Ajzen (1985) perceived behavioral control was introduced to help account for behaviours that arise where an individual's control over the behaviour is incomplete.

Theory of Planned Behaviour

According to Ajzen (1985), the main hypothesis of the Theory of Planned Behaviour is that there is one immediate determinant of behaviour which is the person's intention to perform or not perform an action. Ajzen (1985) also indicated that behaviour attempts to provide an account of the way in which attitude, subjective norms, subjective control and intentions combine to predict behaviour. Intention itself is viewed as determined by attitude, subjective norms and subjective control toward the specific behaviour and thus the theory proposes a model which can measure how human actions are guided by predicting the occurrence of a particular behaviour, provided that behaviour is international.

Fishbein and Ajzen (1975) define attitude towards behaviour as individual's positive or negative feelings about carrying out a behaviour. They highlighted that it is determined by individual's belief concerning the repercussion of the outcome of a behaviour and their judgement about the desirability of these outcomes. In the same vein Ajzen (1985) noted that attitude is a function of behavioural belief which is the perceived likelihood that performing the behaviour will lead to certain consequences, weighted by the extent to which these consequences are valued.

Fishbein and Ajzen (1975) highlighted that subjective norms refer to the person's perception about what the people who are important to them think about their performance of that behaviour. In the same vein, Ajzen (1985) noted that subjective norm is a function of normative belief which is the perceived pressure from specified referents to perform the target behaviour, weighted by the motivation to comply with the people one cares about.

Ajzen (1985) highlighted that Perceived behavioral control is the extent to which a person feels able to enact the behavior. Ajzen (1985) further explained that it is a function of skills, resources, and opportunities to achieved outcome. It has two aspects namely how much a person has control over the behavior and how confident a person feels about being able to perform or not perform the behavior.

2.3 Empirical Literature review

The Theory of Planned Behaviour has one direct determining factor of behaviour which is a person's intention to either perform or not perform tax compliance according to Marandu, Mbekomidze and Ifezue (2014). Ajzen (1985) noted that this intention is viewed as determined by behavioural beliefs, normative beliefs and control beliefs towards the specific behaviour thus providing an account of the way in which behavioural beliefs, normative beliefs, control beliefs and intentions combine to predict behaviour. In the taxation world, there are usually opportunities for tax planning, tax avoidance and tax evasion and these can determine an individual's volition to or not to comply with taxation requirements according to Otto (2015).

In 1991, Ajzen (1991) viewed TPB to be closely related to efficacy belief concept, a concept having to do with belief of people and their capacity to produce effects. This line of thinking suggests that once individuals believe in complying with tax they will. It can be inferred that one of the roles of the tax man is to influence this belief. In practice, this can be done through tax education according to Machogu and Amayi (2013) who tried to establish the effect of taxpayer education on voluntary tax compliance among Small and Micro-Enterprises (SMEs) in Tanzania. They concluded that there is a positive correlation between the tax knowledge level and voluntary tax compliance thus recommended that tax education should start at primary level right up to university level to avoid a negative attitude and perception on tax legislation.

In his TPB framework, Ajzen (1985, 1989) has suggested behavior intention to precede actual behavior and behavioral intention is affected by either or all of attitude, subjective norms or perceived behavioral control. TPB is known to be one of the most important models employed to

explain user behavior as highlighted in a study in New Zealand conducted by Smart (2013) on determinants of tax compliance behaviour. It was found that non-sanction variables such as attitudes and beliefs are perfect predictors of behaviour for tax compliance. However, in conducting the research in New Zealand, Smart (2013) used proxy taxpayers instead of actual taxpayers, which may imply that the result of the research might not be the correct position considering that a proxy sample was used.

Marandu, Mbekomidze and Ifezue (2014) highlighted that social marketing makes use of marketing techniques to improve social well-being by changing attitudes and behaviour. Marandu, Mbekomidze and Ifezue (2014) collected data from North America, Asia, Africa, Europe, Middle East and world-wide and found out that the determinant that received most attention in terms of variable inclusion was control beliefs followed by behavioural beliefs and lastly normative beliefs. This made Marandu, Mbekomidze and Ifezue (2014) to note that control beliefs is a model with comparatively many operational dimensions, followed by behavioural beliefs and normative beliefs which has relatively few operational dimensions. Maranda, Mbekomidze and Ifezue (2014) therefore highlighted that people are more likely to do a behaviour if they evaluate the suggested behaviour as having positive results and if they think people of influence want them to perform the behaviour. However the research information was gathered through vote counting method, which is very subjective since it could not be used properly as the variables discussed in research were of little commonality and most were unique to each study. This make results difficult to compare because of lack of commonality among the variables.

Hashimzade et al (2015) noted that heterogeneous population of self-employed taxpayers were believed to have great opportunities for tax evasion in UK and thus factors such as social norms and probability of being dictated by audit in the profession were joint to enlighten the development of occupation-specific views about compliance levels and audits. Hashimzade et al (2015) in Turkey also highlighted that there a positive relationship between social setting and individual compliance level and gave the example that individual perceptions of justifying tax avoidance in a nation are confidently allied with the measures of aggregate tax avoidance in that nation. Zivanai, Chari and Nyakurimwa (2015), in the same vein alluded that the operations of Small to Medium

Enterprises may give rise to any or all the tax obligations in Zimbabwe, but most of SMEs enterprises have decided to stay informal, as their intention is to escape tax obligations. Despite the introduction of presumptive tax system in 2005 and its further enhancement in 2011 in order to enlarge the tax base with the view of the increasing informal sector activities in Zimbabwe, SMEs have remained non-compliant since it is their intention to escape tax Chinamasa (2015).

Onu and Oats (2014) noted that people will follow social norms because they aim to preserve their social relationships according to Cialdini & Trost (1998), thus will respond to norms of groups that are important to them. According to Fishbein and Ajzen (1975), subjective norms influences the intention to perform the behaviors which is a subject of their perception about what the people that matter to them think they should or should not perform the behavior. Onu and Oats (2014) further highlighted Michael Wenzel (2004a) in his research established that in Australia there is higher compliance when they observed that the country's social norm were opposed to evading tax and it was highlighted that this outcome was only factual for those people who strongly believed in being identified as being Australian.

Saad (2013) found that taxpayers appeared to have inadequate knowledge on the technical aspects of the income tax system since most of them are self-employed participants who are expected to deal with burdensome tax matters, such as PAYE. Ponorica and Saedi (2015) highlighted in Romania that global experience has shown that regulatory burden falls excessively on the Small and Medium enterprises. According to Saad (2013), in return with dealing on tax affairs, SMEs may have to incur compliance costs. The New Zealand income tax system has been criticized for being overly complex thus compliance behaviour, participants generally believed that attitude, perceived behavioural control, complexity and fairness perceptions have partially contributed to non-compliance of taxpayers.

Ponorica and Saedi (2015) in Romania indicated that Small to Medium Enterprises view the taxation system as not being just to them since they pay the same rate of tax as large organisations. They believed that tax system should apply differently to them and large organisations. According

to Ponorica and Saedi (2015), large organisations should be charged a higher rate of tax as compared to SMEs, since they are already established. Ponorica and Saedi (2015) believed that their government should simplify or make a new system with new policies that ensembles SMEs.

Razak and Adafula 2013 in a study in Ghana, highlighted that individuals had high concern for the taxes they pay. Thus since most SMEs are individuals, they have high concern for the taxes that they pay. They further highlighted that female taxpayers were the most delicate about the amount of tax that they pay and a considerable amount of SMEs are operated by women. It was found that a strong positive relationship exists between compliance decisions and alleged tax burden levels. They noted that tax administrators should take the taxpayers views into account since taxpayer's views were not considered.

Most SMEs in Kenya are cash-based having short of audit trail and accounting records in practice according to Mwangi (2014) thus resulting in non-tax compliance. Mwangi (2014) further highlighted that the uniqueness of SMEs make it stress-free for them to continue trading outside the tax bracket, issues such as mistrust and lack of a basic dialogue between Kenyan government and informal enterprises is one of the factors that impedes taxing of the informal enterprises. Mwangi (2014) therefore brought out the fact that SMEs have a negative attitude towards the government since they are treated in the same manner as large enterprises and yet there are unique enterprises and this resulted in non-tax compliance.

Ameyaw et al (2016) noted that tax compliance on SMEs has been stalled by legislation changes in Ghana, which are complex to the level that only tax advisors can interpret and understand thus posing a challenge to SMEs. Mukorah (2015) in the same vein alluded that SMEs normally engage tax advisors for most of their tax issues since they have difficult of keeping their books. In Zimbabwe, tax advisors are neither registered nor belong to any affiliation that regulates their conduct. Thus, tax advisors are therefore not accountable to the effects of their advice and the Income Tax Act states that the obligation lies with taxpayer. According to Mukorah (2015) the tax advisor's non-accountability has played a role in non-compliance. Thus, according to Ameyaw

et al (2016), SMEs possess low know-how and impartiality to issues relating to tax resulting in the recruitment of tax advisors for tax planning and thus result in payment of tax compliance costs which results in reducing the utility of an economist resulting in non-compliance. In addition, Coolidge (2013) noted that in developing economies, tax compliance costs are much heavier, as a percentage of turnover, for smaller businesses than for larger ones. Eragbhe1 and Modugu2 (2014) indicated in that in Nigeria their SMEs endure considerably high tax compliance cost burden which impedes SMEs' innovation and growth. They believed reducing the compliance costs of taxpaying SMEs by simplification or otherwise would increase their profit margin and thus increase the Government's tax revenue base. Increased attentions from governments should be received by SMEs to encourage behavioural models of tax compliance.

Razak and Adafula (2013) noted that "…. Young et al. (2013), the rules should be simple and clear allowing taxpayers to read and understand the requirement and the rules they need to follow easily and quickly. Otherwise, tax payers' intentions of compliance may reduce. Beck et al. (1991) also concurred with this view by arguing that reducing tax complexity may lead to an increased perception of fairness on tax system and subsequent reduction of tax non- compliance". Razak and Adafula (2013) also believed that the levels of accountability and transparency in governance are matters that taxpayers have less regard for in their compliance decisions in their research findings in Ghana. In addition, Razak and Adafula (2013), suggested that there is a strong positive correlation that exists between perceived levels of tax burden and compliance decisions in that policies made by tax authorities should be seen in the eyes of taxpayers to be more equitable taking the taxpayers views into account.

SMEs that have in previous years not paid their taxes are afraid to start paying their taxes currently according to Ponorica and Al-Saedi (2015), since the tax authorities will start asking about prior year's income. For this complexity SMEs are afraid to start paying taxes because Ponorica and Al-Saedi (2015) highlighted that if the tax authority has not formerly identified undeclared revenue from the sources to which the businesses activities relate they will starting all such collections. Ponorica and Al-Saedi (2015) believed such revenue should be statutorily prohibited from chasing prior years' income from these sources. Therefore, there SMEs feels it's better off to stay without

complying to tax able than to start being chased for previous years revenue, indicating that there is a positive relationship between perceived behavioural control and tax compliance among SMEs.

Nyamwanza et al (2014) looked at the attitudes and practices towards tax compliance and findings were that tax compliance was not obligatory and the fact that corruption levels among ZIMRA officers was unbearable in Zimbabwe. They highlighted that penalties are an effective measure to enforce tax compliance and that the Tax authority should increase publicity of tax obligations and compliance to SMEs. Young et al. (2013) highlighted that the rules should be simple and clear allowing taxpayers to read and understand the requirement thus showing that the tax law was the opposite. Young et al. (2013) further explained that Taxpayers' major anticipation is that revenue collected from taxes should be expended and accounted for meaningfully by the government and where such is lacking a slack can result in tax payers' commitment to pay their taxes. Johnson (2014) in addition highlighted that attitude refers to how an individual feel about engaging in a behaviour, be that positive, negative, hesitant, or confused. Nyamwanza et al (2014) explained that most SMEs were not complying with their tax obligations as most of them do not believe in the tax system and were of the view that they were too high and can greatly affect their businesses. According to Nyamwanza et al (2014) SMEs considered the process of complying as burdensome as a lot of SMEs businesses do not have employee accountants and thus hinge on consultants who charge them exorbitant fees.

Maseko (2014) made an investigation of how the unique business conditions of SMEs and their perceptions towards taxation in Zimbabwe. They carried a research Harare, Chitungwiza and Bindura and found out that SMEs operators' perceptions on tax equality and tax service excellence have the power to influence their tax compliance decisions. In their research they failed to explain which perceptions SMEs had towards taxation in Zimbabwe.

Ponorica and Al-Saedi (2015) also noted that tax evasion may be curbed among SMEs by increasing the probability of detection by audits and fines levied for non-compliance. In the same vein, according to Devos (2014) deterrence from tax evasion can be achieved through persuasive

and punitive approach which can be achieved by increasing the rate at which penalties are charged for non-compliance and increasing the probability of being detected by an audit. In the TPB these would fall under influence attitudes. In addition, Nyamwanza et al (2014)'s major conclusion was that a major method to enforce compliance was penalties. Chebusit et al (2014) in Kenya concluded that attitudes have a significant relationship with tax compliance.

Shi (2007) believed there may be some market failures that are affecting SMEs operations such as uneven information or product dominations. The existence of large companies may be making entry into the marketplace tough for an SME or such SMEs may be having difficulties in hovering finance. Level of income as one of the variable in perceived behavioural control maybe influencing tax compliance that is low income may result in negative behaviour to evade tax whilst high income level will result in tax compliance.

Some researchers have also suggested that intentions may not always be related to actual behaviour according to Carrington et al. (2010) Thus study applies TPB model may not always predict tax compliance behaviour.

2.4 Gap Analysis

Many studies on tax compliance seem to rely on the economic deterrence model that is, audits and penalties, however to deter noncompliance did not use the Theory of Planned Behaviour. It is believed that Tax authorities should therefore attempt to understand the compliance behaviour of taxpayers (beliefs, attitudes and norms) to modify undesirable behaviour and promote the perception that tax compliance should be the norm for individuals and society.

In addition, the studies detailed above show are set in 'normal' average economies. The present study is set in Zimbabwe, an economy that has been undergoing numerous upheavals for more than a decade, including the use of different currencies in this period. The economic environment is highly abnormal and business in general faces several challenges and upheavals. Whilst it is indeed a growing trend in upcoming economies that Small and Medium sizes businesses are forming a significant part of the economy, it is unique to Zimbabwe that this sector makes up the

greatest part of the economy with a slump in normal production meaning that the tax department is heavily dependent on this sector. This study takes into consideration the array of challenges for a business given that bruising economic climate prevailing in the country and how this affects the collection of revenue from these businesses. The previous studies reviewed do not contextualise the collection of tax revenue from Small and Medium Enterprises in a challenging business environment.

Chapter 3

Research Methodology

3.1 Introduction

This chapter offers a theoretical and methodological framework of this study used to obtain data used by the researcher to come up with results for tax compliance challenges being encountered by SMEs in Zimbabwe. Methodology represents a set of decisions and tools used that guided the entire research process as outlined in the Research Design in Section 3.3. The chapter will outline and validate the research philosophy and approach adopted by the study. Furthermore, the research used sampling instead of a census, looks at different sampling methods and selects the sampling method to be used for the study. The chapter also elaborates on the research instrument used; questionnaire and the data analysis process. The chapter concludes with the ethical issues considered by the researcher and limitations encountered when conducting the study.

3.2 Research Philosophy

This study used positivism paradigm philosophy approach which produces richness of quantitative results not obtained by a qualitative approach. The research philosophy assisted in structuring the study and how major variables coordinated to address the questions of the research. Since the research is quantitative in nature, statistical data was collected from a questionnaire conducted at Kurima house. The research philosophy was found useful and applicable in this study in testing hypothesis whilst maintaining minimal interaction with questionnaire respondents to obtain pure facts thus maintain objectivity according to Wahyuni (2012).

3.3 Research design

Blumberg et al. (2008) defined a research design as plan and structure of investigation to obtain answers to research questions to eliminate bias when evaluating theories and coming to up with a conclusion. According to Chirume (2015) it is the technique and strategy of action to be used in the study or research. For the purposes of this study, a survey was considered to establish SMEs

problems on tax compliance from the subject population and factors that determine their behaviour. The design was selected because it assisted the researcher to establish the nature of relationship between planned behaviour and tax compliance at a low cost, in a convenient manner and a very little level of subjectivity. However the limits of survey encountered were the fact that data collected was limited to what respondents were willing to divulge only.

3.4 Research Population

Research population is a cumulative or totality of all items, matters or participants that follow a set of specifications according to Pilot and Hungler (1999). According to Finscope Micro-SME Survey (2012), an estimate of 46 percent of the adult population in Zimbabwe operate in the SMEs sector with close to 2 800 000 million in Zimbabwe. This estimate had been widely used up to date for statistical quantity of SMEs in Zimbabwe. The unit of analysis for the study is any SMEs whether registered or not by the Zimbabwe Revenue Authority but whose annual turnover is does not exceed $240000. The researcher was interested in examining the tax behaviour of these SMEs.

3.5 Sampling Methods and Sampling Techniques

3.51 Sample

A sample refers to a subset of a targeted population from which information is gathered to investigate information about that population. Blumberg et al. (2008) highlighted that the emphasis in sampling is to come up with a representaive sample to reflect the characteristics of the population in order to learn more about the population.

3.52 Sampling

Sampling is that part of statistical practice concerned with the selection of a subset of individual observations within a population of individuals intended to yield some knowledge about the population of concern, especially for the purposes of making predictions based on inference. According to Ader et al (2008) the three main advantages of sampling are that the cost is lower,

data collection is faster, and since the data set is smaller it is possible to ensure homogeneity and to improve the accuracy and quality of the data.

3.53 Sampling frame

The population in this study are walk in SMEs clients at ZIMRA (Kurima House) office to enquire about registration with the tax Authority, submitting registration papers, coming for an audit meeting, coming for negotiating of terms of payment or activation of their Business Partner in a day will be used as the sampling frame. An estimate of 70 walk in clients in a normal working day was given from Kurima House internal documents.

3.54 Sampling methods and sampling techniques

There are several techniques of probability sampling such as simple random sampling, stratified sampling, cluster sampling and systematic sampling used to select the representative sample.

Random sampling and stratified sampling techniques were used for the purpose of this study.

Random sampling
Random sampling ensures that each unit in the population has an equal chance of being included in the sample. The units were chosen at random without following any systematic procedure. The method was properly conducted hence was free from bias and therefore resulted in a representative sample. Random sampling method was used to select a sample of SMEs who visited ZIMRA offices to enquire about registration, submitting registration papers, coming for an audit meeting, coming for negotiating of terms of payment or activation of their Business Partner

Stratified sampling
Stratified sampling was designed to ensure that a sample would not have by any chance, undue proportion of one type of unit in it. The researcher divided the population into 5 layers or strata. Stratified sampling was used to select a sample from ZIMRA offices. The respondents were divided into groups depending on the office they visit for example the Audit section (Small to

Medium clients) clients, Client Care (registration) section, Client Care (enquiries) section, Debt management section(negotiating terms of payment) and the Customs Automation(activation of Bp number). The sole purpose was to ensure that adequate information is obtained from the respondents.

Each enforcement unit represented a stratum out of which elements were selected randomly. A stratified sample can guard against an unrepresented sample. It also ensures that we get sufficient sample points to support a separate analysis of any sub-group.

3.6 Sample size

To answer the research questions and to meet the research objectives there is need to undertake an in-depth study that focuses on a small sample selected for that purpose (Saunders et al., 2009). ZIMRA has an estimate of 70 walk in clients in a day and using a statistical method suggested by Krejcie and Morgan (1970), a sample size of 25 is ideal.

For my research, l took a sample of 25 walk in clients at Kurima house, 5 per each strata.

3.7 Data Sources

This research l used both primary and secondary data, though primary data was largely used and secondary data was used to a lesser extent. This is because the research problem at hand needs a fresh and clear explanation and description which the researcher could not achieve through minimal secondary data. Primary data was collected through questionnaires while secondary data made analysis of documents such as journal articles, magazines, text books, publications, research and professional body reports, newspapers and reports. Internal data was obtained from publications such as Revenews and other internal Reports.

3.8 Research instruments

Research tools refer to the techniques used for collecting data for the purposes of the research. Research tool used to gather information in this research was questionnaires.

3.81 Questionnaires

In order to collect data in a more logical manner, a questionairre is an ideal tool as alluded by Abawi(2013). This is a technique of data collection in which each participant is asked to respond to a set of questions in a predetermined order. The researcher used a questionnaire to obtain both qualitative data and quantitative data. A provision for the tax payer's comment has been given to solicit for data and provoke thinking that helped to achieve the set objectives. According to Creswell (2014, questionnaires are either open ended or closed ended, meaning that the respondents can either choose to add their own opinion (open ended) or they can just be guided by what is on the questions without giving any of their opinion. The researcher distributed the questionnaire to walk in clients and asked them to fill them since it would be difficult to get back the questionnaire back once the client leaves the office.

Advantages of Questionnaires

- Large amounts of information were collected from a large number of people in a short period of time in a relatively cost-effective way since questionnaires were hand delivered to participants.

- The results of questionnaires were easily and quickly quantified by the researcher.

- Permitted considerable time and well thought responses.

- Questionnaires helped respondents to answer with great confidence because they remained anonymous as no name was required.

- Uniformity of the questions enabled it to be easy to analyse and interpret the data.

The disadvantages of questionnaires were that there was no way to tell how truthful the respondent was or how much thought the respondent has put in and that people read differently into each question and therefore replied basing on their own interpretation of the question.

3.82 Secondary Sources of data

According to Hox and Boeije (2005) secondary data is data collected earlier by other researchers and it might not be linked directly to a particular study area. Secondary sources of data were obtained from published external data sources such as text books, publications, journals, Research and professional body reports, Newspapers and reports. Internal data was obtained from publications such as Revenews and other internal Reports. The advantages of secondary sources of information is that gathering already published data is quick and cheap and it is possible to analyse the data and alloy it with data from other sources. The drawbacks of secondary sources of information are that it is specialised and not up to date. It is also difficult to control the quality of data from secondary sources.

3.83 The Internet

The researcher also used the internet as a source of Secondary data among other Sources.

3.9 Vulnerability of participants and Data confidentiality

Upon completion the questionnaire the clients were protected in that they did not write their name or any company details on the form, so the researcher does not know the identities of the sample. In addition, the client submitted the forms to a different person from those who gave them the questionnaire. Thus no one can link responses from clients with their identities.

3.10 Research Procedure

The research required extensive research of previous work and what other countries are doing to enforce compliance. Steps taken whilst carrying out the research are shown below

- Collection and analysis of Secondary sources of information.

- Dispatching questionnaires to respondents. The respondents were clients who visited ZIMRA offices at Kurima House.

3.11 Validity and Reliability

Mwangi (2014) stated that "Validity is the extend to which an mechanism measures what it is supposed to measure. (Kothari, 2004)" Accoring to Chirume(2015) it means that the research must be clear to ensure that the concept is practically measurable and making practical sense According to Majombo(2014), validity is concerned with the extent to which a measurement truly reflects the phenomenon under scrutiny and thus it is important to give the readers the confidence that data collected is true, accurate and valid and this is particularly important with qualitative evidence. Mwangi (2014) also highlighted that for a research mechanism to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. The researcher performed a pilot test with a randomly selected sample of 4 SMEs. Content validity of the instrument was also tested using a research expert's opinion, who is a Taxes trainer with ZIMRA. The research expert independently judged the validity of the items in the questionnaire in relation to research objectives.

Bolarinwa (2015) highlighted that reliability is the degree to which results obtained by a procedure can be replicated. In the same vein Saunders et al.(2009) highlighted that reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings. Reliability refers to the extent to which data collection techniques or analysis procedures yields consistent findings (Saunders et al., 2009). To test the reliability of the questionnaire as a research instrument, a test-retest technique was employed in which questionnaires were administering to a

group of SMEs with similar characteristics as the actual sample size but not included in the final study. The test was repeated after a day to establish the extent to which the questionnaire produced the same responses every time it is administered. The findings were found to be constant and therefore the questionnaire proved to be a reliable research instrument

3.12 Data collection procedure

An introduction letter was issued to the sampled entities for consent to collect data from the respondents. The questionnaires were administered to the respondents directly by the researcher with the help of a research assistant to save time.

3.13 Data analysis and presentation tools

In this research tables, pie charts, and graphs were used to show the results obtained from the research. These data presentation techniques will be followed by comments, interpretations and explanations of the results.

3.14 Conclusion

This chapter discussed the sampling techniques used and went on to look at research tools. The researcher looked at the advantages and disadvantages of the research tools used and outlined the steps that he took to lessen the impact of those disadvantages on research. The next chapter looks at data presentation and analysis.

CHAPTER 4

Data Presentation, Analysis and Interpretation of findings

4.1 Introduction

This chapter represents interpretations and analysis of the research findings. Statistical Package for Social Sciences (SPSS) was employed to analyse data gathered or collected through closed ended questions. The quantitative data were analysed in line with the research objective which were addressed by the research hypothesis. The data is presented on frequency tables, graphs, and charts. SPSS was used to compute descriptive statistics, correlations between variables and regression analysis. In addition, SPSS was also employed to ascertain whether data was normally distributed and questionnaire's reliability.

4.2 Questionnaire Response rate

The study targeted 25 respondents in collecting data on the tax compliance problems among Small and Medium Enterprises in Zimbabwe. Out of the 25 questionnaires that were distributed, 20 were successfully administered and returned for analysis. This was creditable with an 80% response rate because according to Mugenda and Mugenda (2003), a response rate of 50% is good to entail generalization of the findings to the study population.

Table 4.1: Response Rate

Number of Questionnaires distributed	Number of questionnaires administered and returned	Response Rate
25	20	80%

Data Source: Primary data

4.3 Reliability of the Questionnaire

Table 4.2: Cronbach's Alpha

Scale	Cronbach's Alpha	No of items
Attitudes	0.750	6
Subjective Norms	0.812	3
Behavioural Control	0.738	4
Tax Compliance	0.689	4

Table 2 shows the reliability coefficients of the sub-sections of the questionnaire which was conducted to collect data. Cronbach's Alpha was employed to compute the reliability coefficient. A reliability of $r > 0.7$ was obtained for all sub-sections. Attitudes, subjective norms and perceived behavioural control except tax compliance which was 0.689. A value of $r = 0.689$ is fair as the minimum acceptable is 0.7(Cronbach's Alpha).

4.4 Test of Normality

Table 4.3: Lilliefors Significance Correction

	Kolmogorov- Smirnov			Shapiro -Wilk		
	Statistic	Df	Sig	Statistic	df	Sig
Tax compliance	.625	20	.09	0.860	20	.08

The Table 3 shows the test for normality of the dependent variable, tax clearance. Results indicate the tax compliance data was somewhat normally distributed, $p > 0.05$. Normality of distribution of data is an important assumption which has to be satisfied before parametric tests, Pearson Correction and linear regression are used.

4.5 Demographics of Respondents

4.51 Position of the Respondent in the enterprise

The positions of the respondents in the enterprise that constituted the objects of the study were obtained from the demographic section. The expected object of this study was Small and Medium Enterprises owners, employees or tax advisors. The distribution of respondents of respondents is shown in the Table 4.

Table 1.4: Position of Respondent

Position of Respondent	Frequency	Percentage
Owner	11	5%
Employee	5	25%
Tax Advisor	14	70%
Other	0	0
Total	20	100%

Data source: Primary data

The majority of the sample, 70% were tax consultants. The distribution suggest that most of the respondents were knowledgeable with the subject matter being investigated and hence a source of reliable data as shown below.
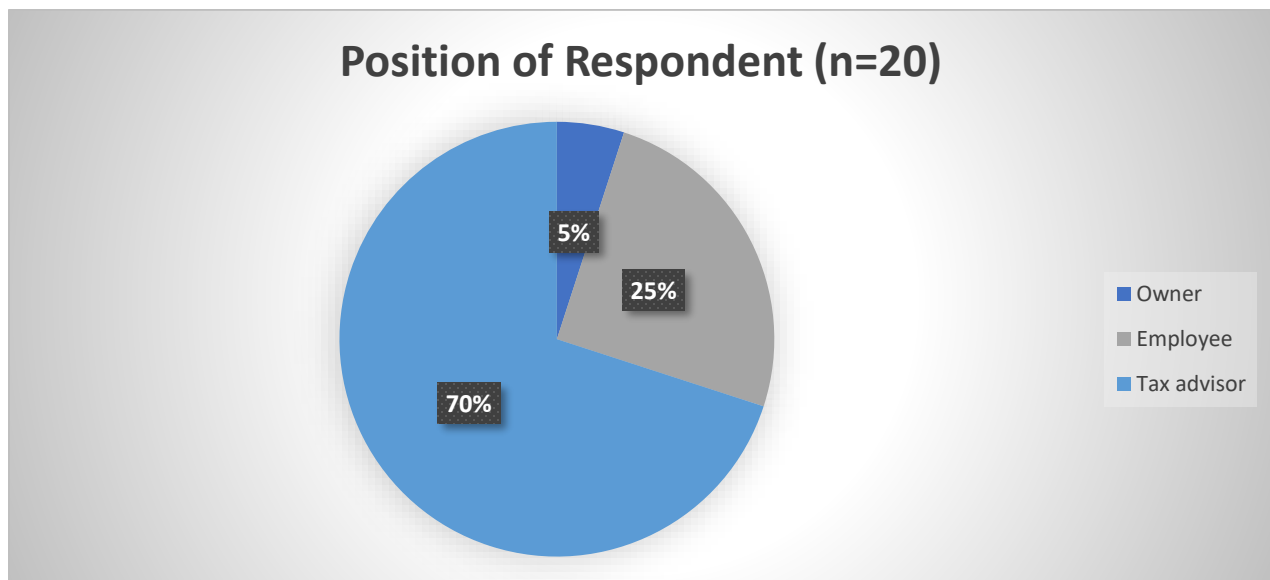
Fig 4.1: Position of Respondent

4.52 Trading Period

The trading period of the enterprise under which the respondents fall was determined and the findings are shown in table below.

Table 4.5: Period of Trading

Period of Trading	Frequency	Percentage
Never	0	0%
1 to 3 years	2	10%
3 to 6years	2	10%
Over 6 years	16	80%

Data source: Primary data

Data on table above is presented on pie chart below

Fig 4.2: Trading period

Out of the 20 respondents non-have never traded, 10% have traded for 1 to 3 years, 10% have traded for 3 to 6years and over 6 years were 80%. The modal class from the data is over 6 years of trading, this implies that the respondents had an idea that they are supposed to comply with tax issues and are most likely at one point in time had hit a brick wall with the Tax authority thus data was gathered from the correct targeted respondents.

4.53 Yearly Earnings

The researcher sought it imperative to ask the respondents to show their annual earnings as it helps to identify if the respondent falls under the Small to Medium Enterprise thus ensuring that data was collected from the correct respondent. Table below shows that the levels of turnover

Table 4.6: Yearly Earnings

Levels of Earnings	Frequency	Percentage
Less than 15 000	0	0%
15000 - 60000	10	50%
60000-240000	10	50%
Above 240000	0	0%

Data source: Primary data

Out of the 20 respondents 50% had an annual turnover of between $15 0000 -$60 000 and another 50% had an annual turnover of between 60 000-240 000 and 0% were both less than $15 000 and above $240 000. Those that fell above $240 000 are not SMEs. Thus 100% data was collected from SMEs thus showing reliability of data as shown on below graph.
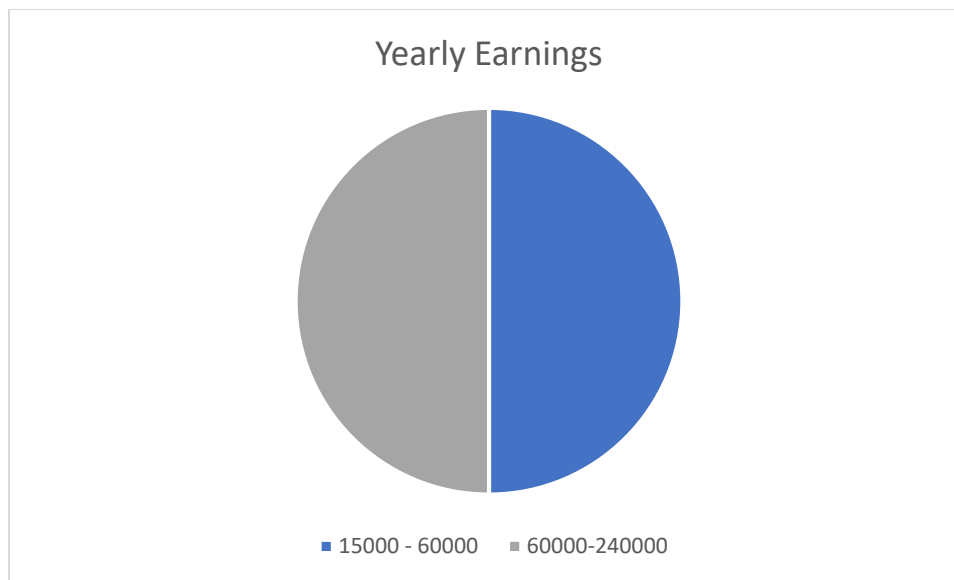
Fig 4.3: Yearly Earnings

4.6 Data Presentation by Hypothesis

4.61 Analysis of responses on aspect of the 1st objective - Effect of a Tax Payer' Attitude

The study investigated the views of the respondents on the effect of tax payer's attitude on tax compliance behaviour. The below table show the respondents' view on this effect.

Table 4.7: Tax Payer's Attitude

Tax Payer's Attitude			
Rating	*I Disagree*	*Am neutral*	*I Agree*
Probability of detection is high	0	9	11
Outcome of probability of detection as a %	0%	45%	55%
Punishment is obvious for non-compliance	2	4	1 4
Outcome of certainty of punishment as a %	10%	20%	70%
Severity of penalty is too high	0	1	19
Outcome of severity of penalty as a %	0%	5%	95%
Guilty of feeling influences me to comply	0	4	16
Outcome of guilty of feeling as a %	0%	20%	80%

Places great value on payment of taxes	0	0	20
Outcome of value on payment of taxes as a %	0%	0%	100%
Moral value influences my level of compliance	0	1	19
Outcome of moral value as a %	0%	4.6%	95.4%

Graph below show the effect of a Tax Payer's attitude on tax compliance. In all the cases the attitudes of the clients were found to have a bearing in one being tax compliant. The rate of detection was high (55%) which might compel people to pay taxes as they feared being punished, while 20% did not comply because punishment was not definite. Nearly all respondents, 95% would comply because once caught the punishment is severe. In 80% of the cases respondents would be influenced to comply because of feelings of guilty, while all respondents (100%) paid tax because the great value they place on payment of taxes and also some felt it was a moral obligation (95.4%)
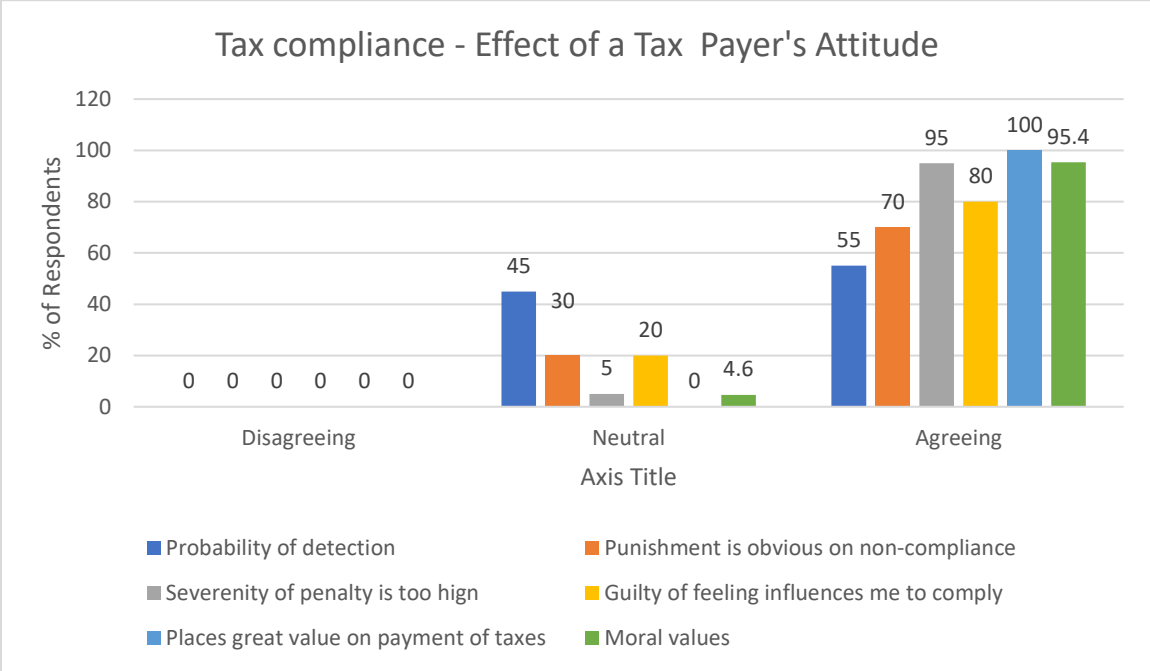
Fig 4.4 Tax compliance - Effect of a Tax Payer's Attitude

Objective 1: Establish the relationship between attitudes and tax compliance

This section sought to establish the relationship between attitudes and tax compliance. Pearson correlation was utilised to establish the relationship between the two. The table below shows the results.

Table 4.8: Relationship between Attitudes and Tax Compliance

		Attitudes	Tax Compliance
Attitudes	Pearson Correlation	1	-0.216
	Sig.(2-tailed)		0.061
	N	20	20
Tax compliance	Pearson Correlation	-0.216	1
	Sig.(2-tailed)	0.061	
	N	21	20

Results indicate that there is no relationship between attitudes and tax compliance (r = --0.216, p>0.05. The implications of the findings are the hypothesis; H1: There is a positive relationship between attitudes and tax compliance among SMEs is rejected.

4.62 Analysis of responses on aspect of the 2nd objective -Effect of a Tax Payer' Subjective norms (Effects of behaviour by people we know)

The study also established the type of relationship between tax compliance and subjective norms and the results are shown in table below.

Table 4.9: Tax Payer' Subjective norms

Tax Payer' Subjective norms			
Subjective norms	**Am not sure**	**I agree**	**I Strongly agree**
Does the perception of an important friend affect your tax compliance behaviour	0	5	15
Outcome of the perception of an important friend as a %	0%	25%	75%
Does the perception of an important friend's own behaviour affect your tax compliance	0	4	16
Outcome of the perception of an important friend's own behaviour as a %	0%	20%	80%
Does the perception of threat of losing an important friend's respect affect your tax compliance behaviour?	12	11	9

Outcome of the perception of threat of losing an important friend's respect friend as a %	0%	55%	45%
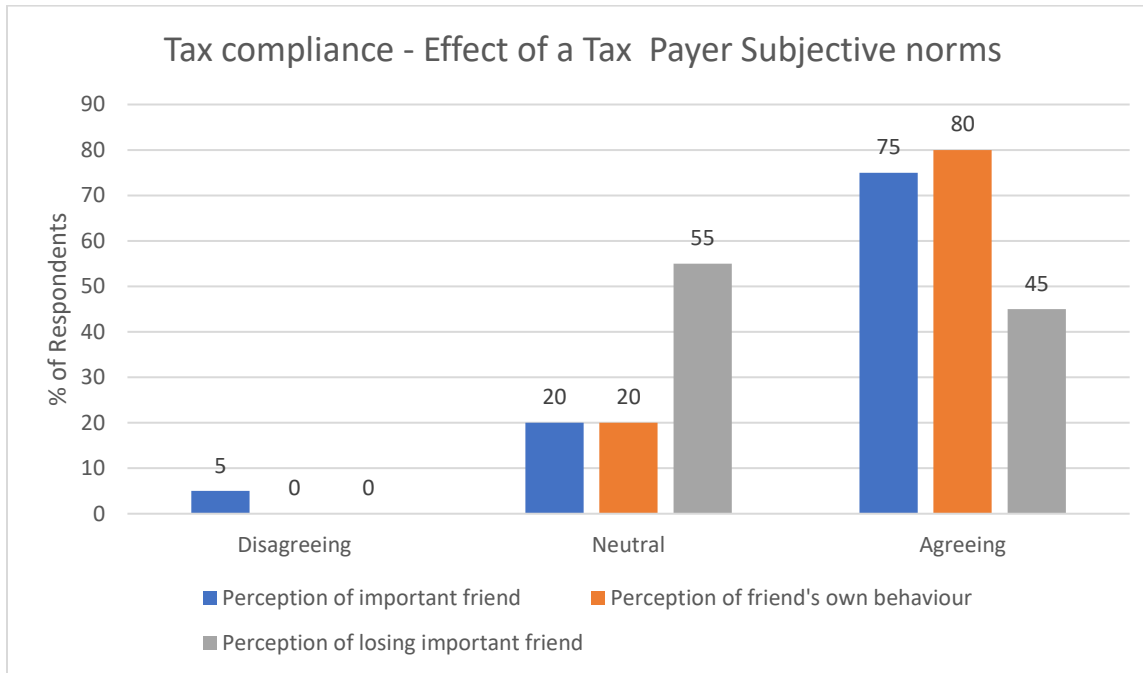
Fig 4.5: Tax Payer' Subjective norms

Figure above illustrates the effect of subjective norms, that is how behaviour of people that are known to an individual influence tax compliance. Results indicate that the way an individual perceives an important friend matters in the tax compliance behaviour. Three quarters of the sample (75%) viewed the preposition as true. In addition, the perception of an important friend's own behaviour was found to matter in tax compliance behaviour, 80% of the respondents concurred with the idea. In terms of whether the perception of losing an important friend's respect matters with respect to tax compliance behaviour, the majority, 55% were not sure, though 45% indicated that it would influence.

Objective 2: Establish the relationship between normative beliefs and tax compliance of SMEs in Zimbabwe

Table 4.10: Relationship between normative beliefs and tax compliance

		Tax compliance	Norms
Tax compliance	Pearson Correlation	1	.550[*]
	Sig. (2-tailed)		.012
	N	20	20
norms	Pearson Correlation	.550[*]	1
	Sig. (2-tailed)	.012	
	N	20	20

*. Correlation is significant at the 0.05 level (2-tailed).

The above table shows the relationship between subjective normative beliefs and tax compliance in Zimbabwe's SMEs. Results indicate that positive and statistically significant relationship between the two (r=0.550, p<0.05). Findings suggest that the hypothesis, H2: There is a positive relationship between normative beliefs and tax compliance among SMEs in Zimbabwe is adopted.

4.7 Tax compliance –Effect of a Tax Payer Perceived Behaviour Control
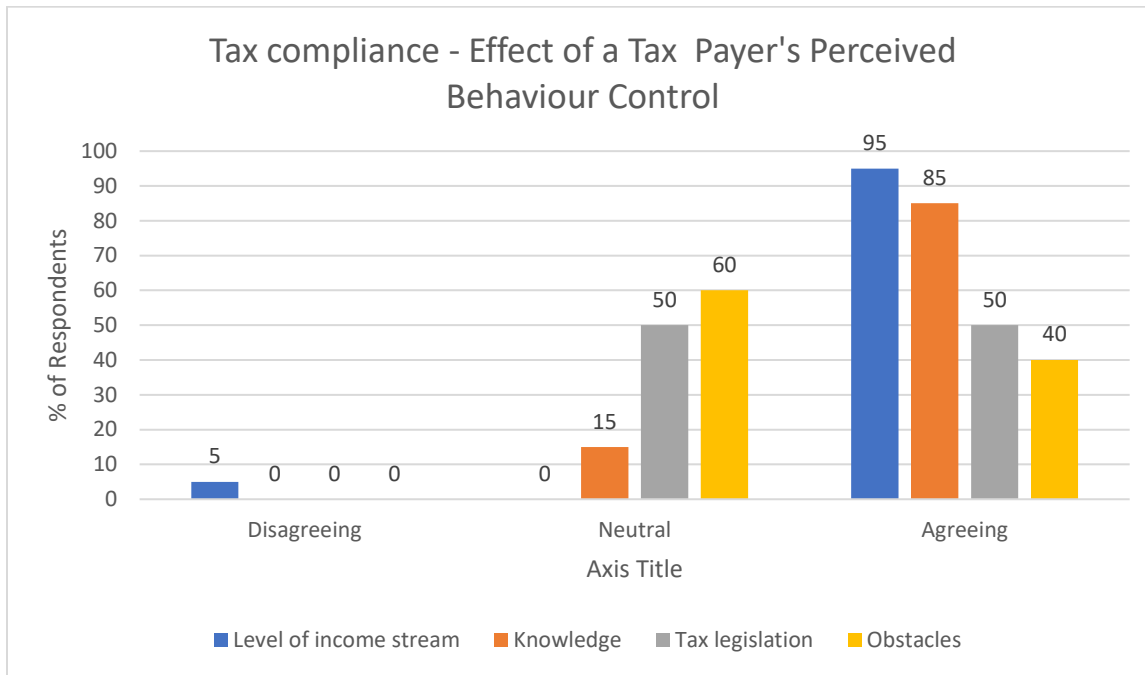
Fig 4.6: Relationship between normative beliefs and tax compliance

Graph above shows the effect of a Tax Payer' Perceived Behavioural Control on Tax Compliance. The majority, 95% viewed level of income stream as a key determinant to tax compliance. One's knowledge of tax matters was also found to be important, 85% of the respondents shared the view. An equal number of respondents 50%, consider tax legislation as complex and this might influence tax compliance, while the other half were not sure on whether the complexity of tax legislation influenced tax compliance. A significant number, though less than the majority (40%) felt that there were a number of obstacles present in the tax regime which deterred people from complying with tax procedures, though the majority 60% were not sure of the existence of such obstacles and the impact they have on tax compliance.

Objective 3: Establish the relationship between control beliefs and tax compliance of SMEs in Zimbabwe.

Table 4.11: Relationship between Behavioural control and Tax Compliance

		Tax compliance	Behavioural control
Tax compliance	Pearson Correlation	1	-.411
	Sig. (2-tailed)		.049
	N	20	20
Behavioural control	Pearson Correlation	-.411	1
	Sig. (2-tailed)	.049	
	N	20	20

Pearson correlation coefficient was computed to test whether the relationship between control beliefs and tax compliance. A moderate negative and statistically significant relationship existed between the two (r=-0.411, p<0.05). Finding suggest that the hypothesis H3: There is a positive relationship between control beliefs and tax compliance among SMEs in Zimbabwe is rejected as actually negative relationship exists.

4.64 Analysis of responses on aspect of the 4th objective - Establish the impact (influence of attitudes, normative beliefs and control beliefs on tax compliance of SMEs in Zimbabwe

To measure the influence of behavioural control, subjective norms and attitudes have of tax compliance linear regression was employed. Because data violate the scale of measure a condition which was to be met before computing linear regression, data were transformed into a continuous scale by finding the mean score for each independent variable attribute and also the dependable variable, tax compliance.

The Model summary, Anova table and the Coefficients tables are results of the regression analysis. The R shows that there is a positive relationship between the predictors and the dependent variable (tax compliance) condition which must be satisfied for regression analysis. The R-Square indicate that 42.9% of the variations in the dependent variable (tax compliance) is explained by variations in the predictors.

Table 4.12: Model Summary: Impact of attitudes, normative beliefs and control beliefs on tax compliance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.655[a]	.429	.322	.27444

Predictors: (Constant), behavioural control, norms, Attitudes

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.954	.678		2.880	.011
Attitudes	-.010	.046	-.045	-.207	.839
Norms	.111	.041	.514	2.701	.016
Behavioural control	-.408	.267	-.398	-1.526	.046

Dependent Variable: Tax compliance

The coefficients table shows the impact that predictors have on tax compliance. Attitudes were found to have no significant impact of tax compliance (p>0.05). However, subjective norms have a positive impact on tax compliance causing it to increase at the rate of 0.514 for every unit increase or decrease (B=0.14, p<0.05) and behavioural control had negative effects. Unit increase in the behavioural control caused a decline in tax compliance at the rate of -0.398 (B=-0.398, p<0.05). Consequently, a Tax compliance model can be predicted to be;

TX =1.954 + 0.514N -0.398B

Where TX is Tax compliance, N is subjective norms and B is Behavioural Control.

4.7 Chapter Summary

The findings of the research were presented in this chapter. The Responses from question were presented in tables, pie charts and graphs. The results are on the extreme end of agreeing with the Theory of Planned Behaviour with only very limited responses were not sure and disagreeing

Chapter 5

Summary, Conclusions and Recommendations

5.1 Summary

The first chapter provided a background of the thesis in which the authority has continually missed the revenue target for period 2012 up to 2016. Furthermore, this is the same period in which SMEs were the major contributors towards the nation's GDP because formal organisations had been hit by economic challenges. This therefore suggested that SMEs were not complying with their tax obligations thus research objectives were to establish the relationship between attitudes, normative beliefs and control beliefs with tax compliance to establish the problems being encountered by SMEs in tax compliance. Literature was reviewed in Chapter 2 using the Theory of Planned Behaviour. Furthermore, imperial literature review of the Theory of Planned Behaviour was detailed in bringing intentional behaviour that explain the concept of tax compliance. Research methodology was developed in Chapter 3 detailing Research design and philosophy. Positivism philosophy was the base of my study since the intention was bring the quantitative results for the relationship between behaviours and tax compliance. A survey was conducted from a sample of 25 SMEs at Kurima house randomly selected and stratified according to different sections to answer questionnaires. The outcomes from questionnaires were presented and analysed in Chapter 4 to confirm or contradict to literature reviewed. Chapter 5 will present conclusion of each question presented and analysed. Future research on tax compliance need to be conducted increasing the sample size of the survey

5.3 Major Findings

5.31 Effect of Behavioural Beliefs (Attitude) on Tax Compliance

In all the cases, attitudes of the clients were found to have a bearing in one being tax compliant from results of the questionnaire. Nearly all respondents indicated that they would comply because of fear of punishment, feelings of guilty, and the value they placed payment of taxes. This was the same as highlighted by Nyamwanza et al (2014), Devos (2014), Smart (2013) and Chebusit et al (2014). However from computing Pearson correlations, it can be concluded that attitudes and tax

compliance have no relationship. H1: There is a positive relationship between attitudes and tax compliance among SMEs is rejected. A negative relationship (r =-0.216) actually exists which might be as a result of other extraneous variables as the result is not significant (p>0.05). Most respondents agreed that attitudes are not influential to tax compliance, if an SME feels that there is an element of unfairness in the tax system, it will not affect voluntary compliance. The results of the survey have swerved from authors such as Ponorica and Al-Saedi (2015) who believed that probability of detection can deter tax evasion, penalties are a problem to SMEs and effective to enforce compliance as highlighted by Nyamwanza et al (2014), Devos (2014), Smart(2013), Hashimzade et al (2015) and Chebusit et al (2014).

5.32 Effect of Normative Beliefs (Subjective norms) on Tax Compliance

H2: There is a positive relationship between normative beliefs (Subjective norms) and tax compliance among SMEs in Zimbabwe is adopted according to Pearson's correlation. Results indicate that positive and statistically significant relationship between the subjective norms and tax compliance exists that is (r=0.550, p<0.05). Consequently, friend's behaviour and the fear of losing a friend can encourage individuals to be tax compliant. If a friend's expect or behaves in a certain manner, an individual is most likely to follow the same behaviour to maintain their friend's respect. This can be explained by a magnitude of SMEs in Zimbabwe that are not complying with tax law thus, new SMEs in the sector are following in the same norm. The results unswerved from the rest of the researchers such as Onu and Oats (2014) and Michael Wenzel (2004a) that people will follow social norms because they aim to maintain social relationships. Maranda, Mbekomidze and Ifezue (2014) was also of the same belief that people are more likely to do a behaviour if they think people of influence want them to perform the behaviour.

5.33 Effect of Control Beliefs (Perceived Behavioural control) on Tax Compliance

Based on responses given by taxpayers on the questionnaire, the majority viewed level of income stream, knowledge of tax matters were viewed as a key determinants to tax compliance whilst an

average number viewed complexity of legislation and presence of obstacles were viewed as key determinants of tax compliance. According to H3: There is a positive relationship between control beliefs and tax compliance among SMEs in Zimbabwe is rejected as actually a negative relationship exists according to Pearson correlation coefficient that was computed to test whether a positive relationship between control beliefs and tax compliance exists. A moderate negative and statistically significant relationship existed between the two (r=-0.411, p<0.05). The results swerved from the rest of the researchers such as Saad (2013) in New Zealand who believed that most tax payers had inadequate knowledge. Same as with Amayi and Machogu (2013) who stated that there is a positive relationship between the level of tax knowledge and tax compliance. On complexity of tax legislation, authors such as Razak and Adafula 2013 and Ameyaw et al (2016) in a study in Ghana as well as Beck et al. (1991) and Ponorica and Al-Saedi in Romania had confirmed a positive relationship which is also contrary to findings of this research.

5.34 The impact of attitudes, normative beliefs and control beliefs on tax compliance of SMEs in Zimbabwe

Attitudes were found to have no significant impact of tax compliance (p>0.05). However, subjective norms have a positive impact on tax compliance causing it to increase at the rate of 0.514 for every unit increase or decrease (B=0.14, p<0.05) and behavioural control had negative effects. Unit increase in the behavioural control caused a decline in tax compliance at the rate of -0.398 (B=-0.398, p<0.05).

5.4 Recommendations

- ZIMRA need to start directing its attention on changing the attitude of taxpayers both individual and significant others that are referent people for example a taxpayer's family members, colleagues, friends and community leaders whose inspiration is viewed important thus encouraging and disseminating tax compliance. Use of role models such as Oliver Mtukudzi and Jah Prayzah in tax compliance adverts can be used to encourage other fellow musicians and the community to pay tax. Business men that have done well such as Strive Masiyiwa, James Makamba and crowd pullers such as Prophet Makandiwa,

Prophet Magaya and Madzibaba Masango can also assist in the project. If such referent people encourage their constituencies to comply with tax legislation. This will go a long way since there is a positive relationship between tax compliance and subjective norms.

- ZIMRA needs to improve its level of service delivery by delivering systems that function efficiently. For example, the e-Services platform should regularly be serviced to reduce its system down time when applying for Business Partner Number, Tax clearance certificate etc. If one tax payer uses the e-platform and recommends its efficiency to a friend or a fellow business operator, then such fellow business partner sees the efficiency upon logging on and such information will circulate from one SMEs to the other since most SMEs operate in the same areas such as home industries, malls etc. in their numbers.

- The Authority can benchmark Tanzanian Revenue Authority by broadly publicizing issues to do with taxation through different types of media especially the modern social media such as Facebook, twitter, YouTube etc. One referent person can share with a friend and in no time, the news would have circulated to a lot of SMEs.

- The government of Zimbabwe is supposed to use the taxpayers' funds wisely by investing it back to the public through noticeable projects like education, public transport, roads and infrastructure and health. This will wipe out any unappealing perception of public funds misuse that is the talk of the country and likely cause voluntary tax compliance and thus increase collections of tax among SMEs.

- The tax legislation needs to be simplified and tax procedures should be clear and simplified. Use of step by step seat notes on ZIMRA websites and social media platforms on how to perform some of the tax processes and procedures can be useful to the taxpayers.

- As a measure to improve compliance among SMEs, impartation of tax knowledge is essential to both current and potential tax payers. There is need to introduce tax education from lower levels such as primary school right up to university level. The current lowest level of tax education is at diploma level, though most SMEs entrepreneurs are O levels holders and most likely not availed tax education but required to comply with tax legislation. There is a likely risk of a negative attitude or perception on tax laws and such would be difficult to change.

- Small and Medium Enterprises must get tax incentives such as lowered tax rates to allow retention of a large chunk of amount to be used for re-investing since they are still growing.

The government need to appreciate that their way of trade is unique and thus invest in them by introducing education of how to manage SMEs through their associations thus this is likely to encourage compliance as highlighted by Ponorica and Saedi (2015).

- ZIMRA should introduce Tax Amnesty for undeclared revenue for prior years for SMEs to promote compliance if they start to pay their tax due currently and going forward. Those SMEs whom are afraid to start complying because previously they had not been complying and if they start to comply, then ZIMRA would be on their backs for undeclared income for previous periods.

- According to Ponorica and Al-Saedi (2015) since most SMEs see that the taxation system as not fair for them and that they pay the same amount as large enterprises. The tax system should apply differently to large enterprise thus paying more and SMEs paying less thus encouraging SMEs seeing tax system as their own.

- ZIMRA officers are supposed to portray the highest standard of professionalism, as their motto states "We are here to serve". Issues of corruption and nepotism are supposed to be wiped out completely. This will assist potential tax payers to be confident with the Tax Authority. Introduction of a SMEs helpdesk would be most welcome. A lot of people do not approach ZIMRA because they have heard a referent person taking their nasty experience with the Revenue Authority and thus have just avoid any contact with ZIMRA whatsoever.

5.5 Suggestions for further research

This study had researched into a difficult subject by exploring the problems encountered by SMEs in tax compliance. Future studies can dwell on the same research but however using sample size which is larger to increase the certainty from which inferences would be drawn.

5.6 Summary

Chapter 5 fixated on presenting the summaries of previous chapters, the major findings of the research and finally a conclusion and recommendations of the research.

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23 April 2018

Midlands State University

Faculty of Commerce

Department of Accounting

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Dear Sir/Madam

RE: REQUEST TO CONDUCT A RESEARCH ON SMALL TO MEDIUM ENTERPRISES.

My name is Enfa Tavarwisa, pursuing a Masters of Commerce Accounting at Midlands State University. It is a requirement in partial fulfilment of the degree programme to undertake a research project. I am conducting a research on **TAX COMPLIANCE PROBLEMS BEING ENCOUNTERED BY SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE.** I do hereby request your assistance by answering questions on the attached questionnaire. All the information collected will be kept confidential and be used strictly for academic purposes only.

Yours Sincerely

Enfa Tavarwisa

GENERAL INSTRUCTIONS

Kindly attempt all questions.

SECTION A: DEMOGRAPHIC INFORMATION

1. Respondents (*Please tick in the box as appropriate, your response*)

Owner ☐   Employee ☐ Tax Advisor ☐   Other ☐

2. You have been trading for(*Please tick in the box as appropriate, your response*)

Less than 1 year ☐   1 to 3 years ☐   3 to 6 years ☐   Above6years ☐

3. Annual turnover per annum(*Please tick in the box as appropriate, your response*)

Less than 15000 ☐   15000-60000 ☐   60000-240000 ☐ Above 240000 ☐

SECTION B: Tax compliance – Effect of a Tax Payer' Attitude (Behavioural Belief)

Please tick in the box as appropriate, your response.

I am not sure	I agree	I strongly agree
1	2	3

In this country:

1	Probability of detection is high	1	2	3
2	Certainty of punishment is obvious for non-compliance	1	2	3
3	Severity of penalty is too high	1	2	3
4	Guilty of feeling influences me to comply	1	2	3
5	Places great value on payment of taxes	1	2	3
6	Moral values influences my level of compliance	1	2	3

SECTION C: Tax compliance -Effect of a Tax Payer' Subjective norms (Normative Beliefs)

Please tick in the box as appropriate, your response.

I am not sure	I agree	I strongly agree
1	2	3

In your opinion:

1	The perception of an important friend matters in tax compliance behaviour	1	2	3
2	The perception of an important friend's own behaviour matters in tax compliance behaviour	1	2	3
3	The perception of threat of losing an important friend's respect matters in tax compliance behaviour	1	2	3

SECTION D: Tax compliance - Effect of a Tax Payer' Perceived Behaviour Control (Control Beliefs)

1. Please tick in the box as appropriate, your response.

I am not sure	I agree	I strongly agree
1	2	3

In your opinion:

1	Level of income stream affects tax compliance	1	2	3
2	Fair knowledge of tax matters is important	1	2	3
3	Tax legislation is too complex	1	2	3
4	There are a number of obstacles present in complying with tax procedures	1	2	3

SECTION E: Tax Compliance Scale

1. Please tick in the box as appropriate, your response.

I am not sure	I agree	I strongly agree
1	2	3

You have been:

1	Submitting returns on time	1	2	3
2	Submitting returns correctly	1	2	3

| 3 | Paying tax obligations in full and in time | 1 | 2 | 3 |

Any further comments:

………

………

………

…….

Thank you for completing this questionnaire.