

Effect of Turnover Tax on Small and Medium Enterprises' (SMEs) Growth in the Clothing Retail Industry: A Case Study of Lusaka



Twaambo Karen Simbyakula¹, Chrine C. Hapompwe²

^{1,2}The University of Zambia, Graduate School of Business, 10101

ABSTRACT: Taxation plays an important role in the development of every economy as well as the growth of Small and Medium Enterprises (SMEs). The purpose of the study was to evaluate the effect of turnover tax on the growth of small and medium enterprises in Lusaka and the specific objectives were; to establish the significant effect of tax incentives on SME growth in the Zambian retail sector; to find out whether the Zambian tax system espouses the basic principles of “efficiency” and “equity” in the retail clothing industry; and to assess the effect of tax policies on SMEs business profitability in the retail clothing industry. The approach adopted was mixed method. This study was based on a survey of 72 selected clothing retail stores out of the available 4433 retail businesses in Lusaka. The sampling technique applied in this research was judgmental sampling. The survey was administered using 72 questionnaires which had a 100% return rate. Data was analyzed through descriptive statistics, correlation and regression analysis and findings were presented in terms of frequencies and percentage analysis. The results demonstrated that tax incentives stimulate the growth of the business. It was also ascertained that ‘equity and fairness’ does not seriously affect the growth sort after by SMEs in the clothing retail industry. Additionally, this study established that turnover tax significantly affects the profitability of SMEs in the clothing retail industry negatively. The study recommends that government should implement innovative incentives and enhancing policies that could help businesses deal and cope with uncertainties and different macroeconomic situations. It was also suggested that policy makers should simplify the tax administration systems to make it easier for taxpayers to pay taxes willingly and easily. Furthermore, the government through the relevant line agencies should provide an enabling environment and social services that support business profitability. This paper, therefore, is a strong line of policy advocacy on the imperative need for government through the Ministry of Finance and National Planning along with its line agencies to entrench tax policy incentives (not only in respect to the subject matter subsector of this study) which do not only incentivize the SMEs ecosystem but equally give growth, sustainability and profitability of these entities for the overall socio-economic development of the nation. This is the surest way of guaranteeing job creation, poverty and inequality reductions amongst the masses of Zambia, who are lamentably wallowing in the paradox of abject poverty in the land of plenty.

KEYWORDS: Effect, Turnover Tax, Clothing Retail Industry, SMEs, Lusaka.

1. INTRODUCTORY BACKGROUND

Tax is a term used to describe a mandatory payment made by people on their wealth to help pay for government expenses (Khasawneh, Obeidat, & Al-Momani, 2008). “The amount of revenue collected often determines a country's economic growth and development. Taxes continue to be one of the most important constituents in managing nationwide income in emerging and developed nations” (Werekoh, 2022). However, tax policies that are aimed at promoting the economic growth of small businesses should be evaluated judiciously, because the inherent characteristics of small businesses can make a specific differentiated tax policy undesirable (Twesige & Gasheja, 2019). Entrepreneurship usually starts as a small business and pursues growth, whilst an SME can be described as a limited small business. In the context of this research, both these terms will be used interchangeably.

The informal sector has become the major employer in Zambia. SMEs play a vital role in the economic development of a country. Studies have indicated that SMEs contribute more than 50% of the gross domestic product (GDP) in many developing countries. More still, SMEs are the largest employers where by more than 90% of the working force is employed by SMEs (Twesige & Gasheja, 2019). Countries that have tax incentives for SMEs claim that preferential tax treatment creates a large

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number of jobs and enhances the level of entrepreneurship that is associated with flexibility, speed, risk taking and innovation. (Twesige & Gasheja, 2019)

The SMEs in the clothing industry are vulnerable, especially due to the lack of financial resources, most of the SMEs can't meet the needs of the global competition and get vitally effected by the growing pace of globalization(Daham & Peltekoglu, 2012). The Zambian clothing industry is relatively almost nonexistent with a few local designers who do not tailor the day to day clothing for regular people.In Adam Smith's Wealth of Nations (1776) he has a theory called canons of taxation (Olalekan & Oyedokun, 2019) . Summarized the canons as follows;

Equity: "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."

Certainty: "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

Convenience: "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it."

Economy: "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasure of the state."

The structure of a country's tax system is an important determinant of its economic performance and understanding the canons has played a significant role in its design. A well-structured tax system is easy for taxpayers to comply with and can promote economic development while raising sufficient revenue for a government's priorities. (Olalekan & Oyedokun, 2019). Apparently, there is arguably no tax system in the world that satisfies all the canons. According to (Olalekan & Oyedokun, 2019) It is also not possible to devise a tax system that may satisfy all the canons of taxation in an adequate measure. What is important is that the government should see that its taxation policy satisfies most of the canons of taxation.

The Ministry of Finance and National Planning is responsible for the formulation of tax policy, in Zambia and the implementing agency is the Zambia Revenue Authority (ZRA). The legislative framework relating to the regulation and administration of the taxation is provided for in the Income Tax Act 1966, as amended. The source of income and residence are the basis for liability to tax under the Zambian tax regime. (ZRA, 2022)

The Small to Medium size Enterprises pays turnover tax. "This is a tax that is charged on gross sales/turnover, any person carrying on any business with an annual turnover of K800, 000 or less is required to pay turn over tax. Turnover Tax Remittance Cards are to be submitted by the 14th of the month following the month in which the transactions occurred, manually by the 5th of the following month to which the return relates and electronically by the 14th of the month following the month in which the transactions occurred." (ZRA, 2022). The rate is 4%. This tax is the one that poses the biggest challenge, because being non-compliant attracts penalties since turnover tax is mandatory.

Overall, taxes that are levied on the production of goods often cause producers to increase the prices of goods, passing the burden of taxation on to consumers. When prices go up, there's less demand, so businesses earn less income and consumers enjoy less consumption.

1.1 Statement of the Problem

Taxes are raised by the Government of the Republic Zambia to generate revenue used to provide services to the public in various fields like health, education and infrastructure as this has helped to improve on the performance of small and medium business enterprises(Chisumpa, Munthali, Phiri, & Matafwali, 2020).Despite the services provided, small and medium business enterprises' performance in Zambia is still not up to par. This could be due to the increasing tax burden brought about by tax rates which are reviewed and sometimes revised annually. These rates seem to be taking an upward trend which has led to winding up of some small and medium enterprises as most of them do not celebrate their third birth day.Small and medium enterprises are mostly private enterprises and they face difficulties when dealing with the government in general and the tax administration in particular mostly in the developing countries. (Tee, Boadi, & Opoku, 2016)

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(Kangwa, 2019) argues that informal sector taxes tend to be regressive and threatening to the viability of the smallest enterprises (considering that most of them might already be paying local taxes such as trading licenses, operating permits or user fees). Further, it is also empirically proven that high tax rates increase the cost of producing goods and services, their distribution and selling, which has a potential to reduce SMEs productivity and particularly their growth (Chisumpa, Munthali, Phiri, & Matafwali, 2020)

“Developing economies like Zambia needs to further the development of its private sector by creating an environment favorable to the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Mazwi & Kasongo, 2020).

An increase in tax revenue of one kwacha per unit increases the price by more than one kwacha. When the price of the merchandise is inflated, there are not so many sales. “For this reason, an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources rather than suffocating the entrepreneurial initiatives they are out to cater for (Mazwi & Kasongo, 2020).

1.2 Study Objectives

- To establish the significant effect of tax incentives on SME growth in the Zambian retail sector.
- To find out whether the Zambian tax system espouses the basic principles of “Efficiency” and “Equity” in the retail clothing sector
- To assess the effect of turnover tax on SMEs business profitability in the retail clothing industry.

2. LITERATURE REVIEW

According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SMES die before their 5th anniversary. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens etc. (Ojeka, 2011)

In spite of the effects of turn over tax on SMEs and their growth, businesses being non-tax compliant is not an option. Finding ways around it through tax aversion, evasion etc. is ultimately the center of the many decisions made.

However, according to (Werekoh, 2022) There is a link between tax system fairness and reduced tax evasion. Small and medium scale enterprises have undoubtedly improved the standard of living of so many people especially those in the rural areas. However, the mortality rate of these small firms is very high.

Taxes are crucial, but in the case of SMEs, tax must be done in such a way that puts their income and need for survival into consideration. “It is expedient that enough profit is allowed them for the purpose of expanding their businesses. The tax policy must be one that will not encourage SMEs to remain in the informal sector or to evade or avoid tax payments (Ojeka, 2011).”

Economists argue that the resources smaller companies direct towards tax compliance are resources that could be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. (Sattari, 2012). According to a study report by (Tee, Boadi, & Opoku, 2016) the majority of small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies. This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the small enterprises.

(Freedman, 2003) Asked questions such as “Do taxes drive entrepreneurs out of business? “And whether differential income and payroll taxes affect their decisions to continue operating or to close their doors and take wage-and-salary jobs. They found that higher relative marginal tax rates on self-employment income do not necessarily increase the probability of exit.

In summary although there is some suggestive evidence that taxes exert a statistically and quantitatively significant influence on SME growth, there are also positive findings that show that some of the world’s richest people are entrepreneurs.

2.1 Significance of Tax Incentives on SMEs Growth.

(Twesige & Gasheja, 2019) noted that, in a bid to stimulate growth of SMEs, a number of countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards. This researcher also gave an example of how by removing

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the “back-end taxes, which are the taxes applied to profits made when selling security, Poland adopted the policy of encouraging investment in shares of SMEs.

(Sattari, 2012) found that R&D incentives and discounts' propriety with growth were the major determinants of the SMEs growth, and had significant relation with all the growth indexes. The proportion of the factors of research and development incentives, as well as tax discounts and exemptions from governments to enterprise growth were identified as the key elements which showed significant relationships with all the dimensions of the growth.

In addition, (Twesige & Gasheja, 2019) went ahead to highlight how several countries manage their policy on SME taxes to ensure their growth. They observed that in South Korea and India, investors benefit from reduced capital gains taxed on SME equity investments.

(Twesige & Gasheja, 2019) continued to outline that the aim of Tanzania's tax incentive programs was to attract productive investment, create employment and enhance exports. This to a very large extent is because of seeking growth for the SMEs, although it does not particularly mention growth in terms of sales and profitability.

(Twesige & Gasheja, 2019) concluded that there is a strong positive and moderate relationship between tax incentives and growth of SMEs, their research clearly confirms that tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises. Taxation of SMES has a negative effect on SMES sector growth and the economy by reducing sales, profit, and capital and employment level. Accumulation of assets is a key indicator of a firm's growth and performance.

(Ameyaw, Korang, Twum, & Asante, 2016) carried out a study in Ghana which showed that most SMES perception on tax policies is not quite appealing. Tax policies are seen by SMES as an attempt made by the government to deter their growth. Most SMES in Ghana have had enough of such policies that minimize their overall profit of business operations. Furthermore, (Ameyaw, Korang, Twum, & Asante, 2016) findings were that the research portrayed that tax policies impact SMEs growth negatively. Additionally, a conclusion was drawn that SMEs perception on tax policies look unappealing.

(Nuwagaba, 2015)'s general conclusion is that entrepreneurs who invest in SMEs do it to earn some profit as one of the major objectives and in the process, they contribute immensely to social economic development of a country. The right strategies and infrastructure should be put in place by the government and other stake holders to encourage them to be formal and grow. (Nuwagaba, 2015)

2.2 “Efficiency” and “Equity” as Basic Tax Principles

The definition given by the Business Dictionary highlights one main motive of taxation which is redistribution (Kabinga, 2016). According to this author, taxation started long before colonialism. Kings and Chiefs would demand that their subjects submit a portion of their harvest or livestock as a form of tax which enabled kingdoms to expand. Further, the researcher went on to reiterate that there is also the humanity aspect to the issue of taxation. As individuals, any contributions made towards promoting the common-good is encouraging and commendable.

After establishing how taxation came about and also its main motive, it is important to look at what makes principles of taxation appreciable. Efficiency and equity are also important principles with which to assess and evaluate a taxation system. For example, the tax system may influence the choice of products to consume, whether to operate in formal economy or in the informal economy and choice of location for investment (Yambani & Kabinga, p. 2016).

(Kabinga, 2016) explained principles of taxation as those formal guidelines which are widely accepted and/or discussed and should be considered whenever specific laws are proposed, discussed and implemented. They stem from Adam Smith's book of 1776 about the “Wealth of Nations”. The principles are discussed under the catch words;

Proportionality/Equity/Progressiveness, Certainty, Convenience and Simplicity. (Kabinga, 2016) also outlined that Equity in taxation expresses the idea that taxes should be fair as one of the principles that guide tax policy. Equity can be either vertical or horizontal. They gave an example of how it violates the principle of horizontal equity if one person buys an item in a local store and must pay sales tax, while another person buys the same item over the Internet, and does not pay sales tax. With vertical equity it is expected that high income earners pay a larger percentage of their income in taxes than lower income earners.

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Another principle mentioned in literature is "Efficiency". A tax is efficient if it distorts market processes as little as possible since economic agents attempt to limit, avoid and evade tax liability as much as possible (Kabinga, 2016).

Many countries have modernized their revenue administration systems to make it simple for taxpayers to pay taxes. Particularly the Zambia Revenue Agency (ZRA) in 2014 introduced the tax online system. This online system allows taxpayers to declare and pay taxes online (Kabinga, 2016). If we are being honest there are still some people that have a hard time navigating this new process. From this, it is clear that taxation is a complex subject that should consider many factors for it to completely be beneficial to the country.

(Yambani & Kabinga) Noticed that usually changes in the social and economic environment often foster changes in tax policies. While tax policy changes are unavoidable due to changes in government priorities, social and economic systems, the issues of tax equity and tax efficiency are highly regarded whenever tax changes are considered. They went on to state that there is no universally agreed standard of what consists a fair tax. There are divergent views on the theme of fair taxation. However, there are parameters that are often considered when discussing the issue of fair taxation.

Another author argues that a fair tax should firstly be progressive meaning those with more income pay a larger share of it in taxes, secondly a fair tax should not exacerbate inequality by giving preferential treatment to the wealth and lastly does not disproportionately benefit those who are already doing the best at the expense of the rest.

Additionally, the Tax Justice Network Africa argues that a tax system should have three characteristics for it to be considered as fair. (Yambani & Kabinga) Explained them this way:

- i. *Fairness* - where tax payers with similar characteristics should all be subject to the same tax burden (horizontal equity). Those with higher incomes should bear a heavier tax burden as a share of income than those with less ability to pay.
- ii. *Transparency* – taxpayers should have a clear understanding of (i) the legal basis for their tax liabilities, (ii) the amounts of revenue collected and from whom, and (iii) how tax revenue is used.
- iii. *Inclusiveness* - there should be scope for tax payers to engage actively with the government around both revenue and expenditure issues. This may involve creating space for citizens and civil society groups to participate directly in tax assessment processes or creating open fora for citizens to engage with local governments, tax authorities and national MPs around revenue and tax budgeting.

2.3 Effect of Turnover Tax on SME Growth in Relation to Profitability

(Sattari, 2012) conducted a similar study in Iran where organizational growth, the dependent variable of the research, was measured by means of two indicators. The first of these, sales growth, was measured by asking the respondent to assess the average increase of sales income in recent 5 years. The second indicator for organizational growth was personnel growth, measured by the average increase of the number of staff in last 5 years.

(Chambulila, 2015) In his study found that a country's tax policies and systems are greatly related with business ventures in that country and an economy that enacts favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite. (PONORÎCĂ & AL-SAEDI, 2015) Added that fixing the SME tax issue is critical to fixing the business climate in general, especially since 80% of small businesses die within seven years of its establishment. Among the factors responsible for these untimely close-ups are tax related issues, ranging from taxations to enormous tax burdens.

According to a study conducted in Nigeria by (Chambulila, 2015). Tax burden is another major problem as many business organizations are not favored by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. This author believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. (PONORÎCĂ & AL-SAEDI, 2015) stated that one foundation of SME tax design is that it is a subset of the general taxation system. So, if the SME tax system involves streamlining both policy and administration, it will require streamlining the general tax system as well.

(Ojeka, 2011) Conducted a study in Nigeria whose purpose was to establish if any relationship exists between the growth of SMEs and the tax policy environment in which they operate in Nigeria. This researcher observed that in many government

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policies, small and medium enterprises are usually viewed and treated in the same light as large corporations. This is the first and biggest mistake any government can ever do if they have any intention to encourage SME growth. (Ojeka, 2011) further argued that because of their size and nature, it makes them unique and, therefore, when dealing with SMEs unique qualities need to be considered. In levying of taxes for these enterprises in particular, issues that need to be considered are how these tax policies can be designed to bolster the growth of SMEs and the most effective ways to administer them. In the author's conclusion they summarized that tax must be done in such a way that puts their income and need for survival into consideration. It is expedient that enough profit is allowed for the purpose of expanding their businesses.

Another scholar also summed it up by saying inaccurate taxation policies and uncertainties hinder SMES from acquiring assets to strengthen their growth (Ameyaw, Korang, Twum, & Asante, 2016). Finally, from the reviewed literature it is clear that taxes for SMEs have been more harmful than beneficial as they increase running costs and slow down growth. Most of the literature reviewed recorded that the SMEs surveyed were faced with the problems of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues which were the reasons majority of the businesses were having difficulties in growth and being tax compliant.

2.3 Gaps in the Literature

Research on various impacts of taxes on SMSs has grown significantly in the last years. Several research projects reviewing how taxation affects the growth of small business in different areas have been documented. In spite of this effort, further research is required or needed as this researcher has not come across any research particularly targeting small to medium sized retail clothing industries at shopping malls in Lusaka, Zambia.

The implications of tax policies on SMEs growth has widely been reported in many economies including Zambia. This study will replicate some of the studies done in other countries and sectors using a totally different sample profile and location.

A further, more general research gap in this field is finding ways to clarify and activate interlinkage between of all the three independent variables; Tax incentives, Equity plus Efficiency and Tax Policies.

2.4 Theoretical Frameworks

This study borrowed heavily from existing research that is increasing. It was influenced by the following theories which have been put across by various scholars with regard to business growth, tax policies and incentives, tax efficiency plus equity.

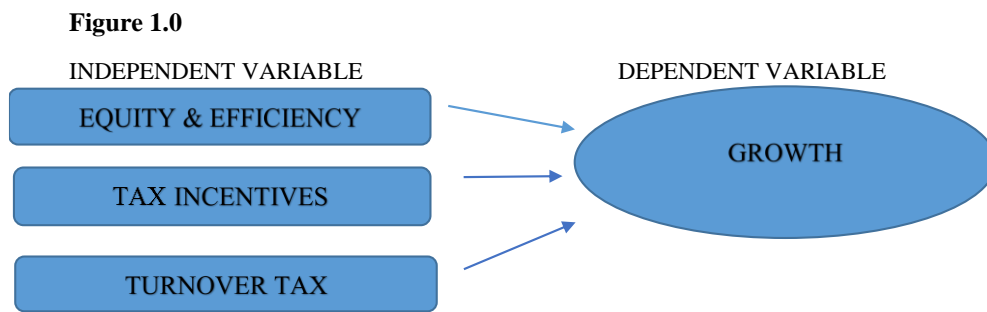
2.4.1 Adams Smith Canons Theory "the principles of good taxation were formulated many years ago. In *The Wealth of Nations* (1776), Adam Smith argued that taxation should follow the four principles of fairness, certainty, convenience and efficiency." (Futurelearn, 2022).

Smith's canon of taxation glorified the idea of equality or justice, certainty or not arbitrary contribution to nation, convenience of collection and balance of money circulation for collection of taxes from the economy as public spending requires effective taxation system as borrowing is not the long-term solution (Alam, 2020).

2.4.2 Agency Theory of Tax Incentives According to (Twesige & Gasheja, 2019) Tax incentives offer an easy way to compensate for other government-created obstacles in the business environment. Or rather, fiscal incentives respond to government failure as much as market failure. It is far harder, and takes far longer, to tackle the investment impediments themselves like low skills base, regulatory and compliance cost than to put in place a grant or tax regime to help counterbalance these impediments. Although it is a second-best solution to provide a subsidy to counteract an existing distortion, this is what often happens in practice.

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2.5 Conceptual Framework



As shown in **Figure 1** above, this study is guided by three variables aligned to the study objectives; tax incentives, equity & efficiency and turnover tax. The framework assumes that the mentioned three independent variables have a very huge impact on growth.

The growth indicators include; an increase in annual revenue, high sales, scaling the business. All these are evidence that the business is stable and infact a profitable going concern.

3. METHODOLOGY

This was an analytical research, with a mixed methods approach were both qualitative on taxpayer experiences and quantitative data from Likert scale patterned questionnaire was used. The qualitative method helped to obtain in-depth information whilst the quantitative helped with generalize the results. A questionnaire with closed and Likert scales was adopted for this study.

The sample size was 72 clothing stores in various shopping mall within Lusaka, Zambia (population of about 4433 registered SMEs in Lusaka city) at 95% confidence level. The data was obtained mainly from primary sources and a significant amount from secondary as well. The sampling technique used in this research was non-probability sampling called the judgmental sampling because in as much as taxes are a legal requirement, not everyone has information or an opinion about it. Questionnaires and interview schedules were used to collect data. Measures of reliability and validity in the study were prioritized with strict adherence to ethical considerations.

To analyze the effect of the tax system on SMEs growth, regression method, particularly multiple linear regressions was the major statistical tool that was used. Multiple regression equation fitted for this study was:

$$AR = \beta_0 + \beta_1AT + \beta_1BP + \beta_1KAT + \beta_1CTP + \beta_1TSF + \epsilon$$

Target sample size was calculated by a sample size onlinecalculator.

4. FINDINGS

4.1 Effect of Tax Incentives on SMEs

There is a strong positive relationship between annual revenue and tax incentives of the SMEs in the clothing retail industry as the coefficient of correlation indicated. This suggests that the more tax incentives the SMEs have the higher their revenue. This data confirms the theory that the higher the amount of tax payable, the lower the revenue realized by the SMEs in the said industry.

4.2 Does the Zambian Tax System Espouse Efficiency & Equity?

There is a weak negative correlation of -0.065 between annual revenue and equity, this suggests that equity and fairness does not seriously affect the amount of revenue realized by SMEs in the clothing retail industry. Other scholars found that efficiency and equity are important principles with which to assess and evaluate a taxation system. This is probably true for many other types of businesses and investments but is not accurate for the retail clothing industry in Lusaka.

4.3 Effect of turnover Tax on SMEs Profitability

There is a strong positive relationship between annual revenue and profitability of the SMEs in the clothing retail industry as the coefficient of correlation indicates 0.971. This suggests that the more the annual revenue of the SME, the higher the amount of profit made. It showed that business profit and tax policies greatly depend on one another for survival.

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Table 7: Coefficient of correlation analysis of the variables describing the objectives

		Tax_Knowledge	Amount_of_Tax	Equity_and_Fairness	Business_Profitability	Annual_Revenue
Tax_Knowledge	Pearson Correlation	1	.063	.036	.052	.821
	Sig. (2-tailed)		.601	.763	.662	.001
	N	72	72	72	72	72
Amount_of_Tax	Pearson Correlation	.063	1	-.023	.097	-.612**
	Sig. (2-tailed)	.601		.845	.417	.002
	N	72	72	72	72	72
Equity_and_Fairness	Pearson Correlation	.036	-.023	1	.212	-.065
	Sig. (2-tailed)	.763	.845		.073	.587
	N	72	72	72	72	72
Business_Profitability	Pearson Correlation	.052	.097	.212	1	.971
	Sig. (2-tailed)	.662	.417	.073		.000
	N	72	72	72	72	72
Annual_Revenue	Pearson Correlation	.028	.959**	-.065	.075	1
	Sig. (2-tailed)	.815	.000	.587	.533	
	N	72	72	72	72	72

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2023)

5. DISCUSSION OF FINDINGS

5.1 Effect of Tax Incentives on SMEs

Most studies indicate that there is a positive relationship between annual revenue and tax incentives of the SMEs. This is the case with the findings of this study. A similar study carried out by (Twesige & Gasheja, 2019) noted that, in a bid to stimulate growth of SMEs, a number of countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards. Further, the researcher also gave an example of how by removing the “back-end taxes, which are the taxes applied to profits made when selling security, encouraged investment in shares of SMEs in Poland as the policy was adopted. Therefore, a conclusion has been drawn that in a bid to stimulate growth of SMEs, incentives are vital in every economy. SMEs perception on tax policies looks unappealing only because they do not have adequate information on the tax system including, incentives, suggesting that the more tax knowledge the SMEs have the higher their revenue and contribution. Overall, there is a strong positive relationship between tax incentives and growth of SMEs, which clearly confirms that tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises.

5.2 Does the Zambian Tax System Espouse Efficiency & Equity?

While (Kabinga, 2016) in their research report highlighted that tax policy changes are unavoidable due to changes in government priorities, social and economic systems, the issues of tax equity and tax efficiency are highly regarded whenever tax changes are considered. This study indicates that there is no significant relationship between annual revenue and equity, which suggests that equity and fairness does not seriously affect the amount of revenue realized by SMEs in the clothing retail industry.

Contrary to this research, (Yambani & Kabinga, p. n.d)’s results were that Efficiency and equity are also important principles with which to assess and evaluate a taxation system. They gave an example stating that the tax system may influence the choice of products to consume, whether to operate in formal economy or in the informal economy and choice of location for investment. This is probably true for many other types of businesses and investments but is not accurate for the retail clothing industry in Lusaka.

When it comes to efficiency, the findings were that Zambia Revenue Authority (ZRA) in 2014 introduced the tax online system. This online system allows taxpayers to declare and pay taxes online. This confirmed (Kabinga, 2016) findings. However, the study found that there are still some shop owners that have a hard time navigating through this new process of filing tax returns. It is, therefore, evident from this that taxation is a complex subject that should consider many factors for it to completely be beneficial to the country.

5.3 Effects of Tax Policies on SMEs Profitability

The results demonstrate that there is a strong positive relationship between annual revenue and turn over tax for the SMEs in the clothing retail industry by the study. (Sattari, 2012) conducted a similar study in Iran where organizational growth, the dependent variable of the research, was measured by the same indicators of this study. Their results showed that fixing the SME

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tax issue is critical to fixing the business climate in general, especially since 80% of small businesses die within seven years of their establishment. Among the factors responsible for these untimely close-ups are tax related issues, ranging from taxation to enormous tax burdens. Therefore, this means that the more the annual revenue of the SMEs, the higher the amount of profit made.

(Chambulila, 2015)'s findings in a similar research were that businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite. Generally, this is a standard principal regardless of the country or type of investment.

Contrary to (Ojeka, 2011)'s research findings from a survey conducted a study in Nigeria whose purpose was to establish if any relationship exists between the growth of SMEs and the tax policy environment in which they operate in Nigeria. This researcher observed that in many government policies, small and medium enterprises are usually viewed and treated in the same light as large corporations. This is the first and biggest mistake any government can ever do if they have any intention to encourage SME growth. Fortunately, Zambia has an entirely different system of taxation for small businesses. Mandatory electronic filing of Turnover Returns is expected for every taxpayer whose turnover is below K800, 000 per annum.

The findings showed that the Zambian policy makers realize that tax must be done in such a way that puts their income and need for survival into consideration. Either way, SMEs perceive taxes as an unpleasant expense.

5.4. Implications of Findings

Zambia revenue authority almost 10 years ago introduced the online tax system like many other countries that have modernized their revenue administration systems to make it simple for taxpayers to pay taxes. It is convenient because it allows taxpayers to declare and pay taxes online. However, there are still a number of SME tax payers that have difficulties navigating the system as demonstrated in this study. Tax administrators should invest time and resources in online filing literacy education for these shop owners in order to achieve efficiency and fairness envisaged in a progressive tax system.

The lower tax rates for enterprises have a significant effect on the profit. An increase of tax revenue of one kwacha per unit increases the price by more than one kwacha. The exemption from turn over tax for a couple of years will help small medium enterprises grow. SMEs experience greater challenges as compared to large companies when it comes to generating internal resources. There is need, therefore, to ensure minimized taxes for these smaller entities in order to allow for their sustainable growth and sustainability in keeping with the principle of the firm as a going concern.

While two of the theoretical frameworks were in line with the finding of this study, the results of this research held a different view from the Adam Smith theory. This study indicates that there is no significant relationship between annual revenue and equity, which implies that 'equity and fairness' do not seriously affect the amount of revenue realized by SMEs in the clothing retail industry.

The general view is that the tax system may influence the choice of products to consume, whether to operate in formal economy or in the informal economy and choice of location for investment. This is probably true for many other types of businesses and investments but is not accurate for the retail clothing industry in Lusaka according to the findings of the study.

Further, this study contributes to the literature on SMEs growth by complementing empirical evidence on the financial and tax policy factors that affect SMEs growth in the industry and related sectors, which constitute basis for policy direction and change of practice.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

Overall, there is a strong positive relationship between the dependent variable which is annual revenue and independent variables which are: tax incentives, equity and fairness plus turnover tax. In response to the purpose of this study, the results demonstrated that all three variables stimulate the growth of the business while the other side of the coin findings portrayed that unfavorable tax policies impact SMEs growth negatively.

6.2 Recommendations

Based on the findings made from this study, the following recommendations are therefore made:

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- a. Government through the Ministry of Finance and National Planning along with its line ministries and agencies must implement innovative incentives and profitable policies that could help business concerns to deal and cope with uncertainties and different macroeconomic situations. Also, small business owners should be educated on issues such as taxes they are expected to pay and the incentives and exemptions they are eligible for.
- b. Policy makers should simplify even further their tax administration systems to make them simpler for taxpayers to pay taxes. This includes clear and simple tax regulations, and an undemanding tax filing process.
- c. The government should provide an enabling environment, social services, and policies that support business growth, profitability, and sustainability through efficient and fair tax systems adopted and applied.

Future Study

Some suggested areas for further studies include: the perception of tax authorities / regulatory bodies towards the growth of Small and Medium Enterprises (SMEs) in the retail clothing sector in Lusaka.

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