

An Investigation into the Causes of Tax Evasion and Avoidance by Small and Medium Enterprises (SMEs) and Their Effect on the Zambian Economy in Chililabombwe District



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ABSTRACT: This study was purposed to investigate the causes of tax evasion and avoidance and its effect on the Zambian economy in Chililabombwe District of the Copperbelt Province. It had two-fold objectives: to examine the causes of tax evasion and avoidance in Chililabombwe District by SMEs, and to determine the effect of tax evasion and avoidance in Chililabombwe District on the Zambian economy. The study used a mixed method approach combining both qualitative and quantitative paradigms in which 110 sample size was targeted. One Hundred and ten (110) questionnaires were distributed and 79 were returned representing 72%. Purposive and convenient sampling techniques were used. Quantitative data was analysed through the SPSS version 16 while qualitative data was analysed through content analysis focusing on main unfolding themes from the interviews. The study discovered that there are loopholes in the Zambia Revenue Authority's (ZRA) tax administration system which are due to inefficiencies or inadequate competence of tax collectors, which taxpayers exploit in evading and avoiding tax. The investigation also revealed that on account of the established loopholes, certain revenue collectors collude with taxpayers to commit tax fraud by accepting bribes from them while poor sales, high tax rates, and lack of tax education to SMEs were noted to be among key reasons for tax avoidance. Consequently, the study ascertained with concern that the levels of development in the district, in terms of social amenities, schools, road network, and youth / women empowerment programmes are very low. The study concluded that tax evasion and avoidance were real and rife among the SMEs on account of the factors cited and that mitigative policy measures were required without any further delays. Arising from the results of the study, it was strongly recommended that for tax evasion and avoidance to be mitigated, the revenue authority needs to urgently reform the tax system to make it equitable and fair coupled with rigorous tax education to the traders for sufficient tax knowledge and thereafter digitize tax remittances with ease for the traders to file returns without need for middle persons. Tax morale and ultimately revenue collection can be improved through tax education programs, integrity of tax collectors, and reduction of tax rates chargeable to SMEs. Enhanced training and sensitization to create awareness, reduce compliance cost, and simplify online technology for the overall positive impact on compliance among the SMEs are elements of paramount import for the success of the nation in meeting its socio-economic goals through guaranteed revenue collections by the Revenue House.

KEYWORDS: Tax Evasion, Avoidance, Effect, Economy, Chililabombwe, Zambia.

1. INTRODUCTORY BACKGROUND

Taxes are said to be an immensely vital instrument and primary source of revenues to the governments. Revenue collected from taxation systems provide for the funding of critical programs (e.g. health care, education), services (e.g. law enforcement, public utilities), and infrastructure (e.g. road construction, environmental protection) that are highly beneficial to any functioning society. It has been asserted that the manner in which tax revenue is utilised by the government is a basis for supporting developmental activities in less developed economies (Worlu & Emeka, 2012).

According to Christopher, (2019), Small and medium businesses (SMEs) are often regarded as the backbone of any healthy economy; they generate growth, create jobs, and expand market prospects. Small and medium-sized enterprises (SMEs) make up the vast majority of businesses globally and are critical contributors to employment creation and global economic development. They constitute the backbone of most economies, representing for over 90% of firms, half of global gross domestic product (GDP), and 60%–70% of employment. According to estimates from the World Bank, SMEs account for up to 60% of all employment and

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up to 40% of GDP in emerging nations. 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 number of jobs and enhances the level of entrepreneurship that is associated with flexibility, speed, risk taking and innovation. (Twesige & Gasheja, 2019). With the SMEs being the largest employer, and therefore, possible source of huge tax revenue, there should be a lot of attention by any government to ensure that the established tax system is sacrosanct and does not leave room for fraudulent activities such as avoidance, evasion or collusion by tax collectors.

That being said, it is worth taking into consideration that collecting revenue has been a difficult matter, primarily due to various forms of confrontation such as tax evasion and corruption. Taxes are a main source of income for many countries. In Africa, the governments could actually be considered to be tax-dependent. Even so, taxpayers in these countries do not necessarily have a say in how the government spends their contributions. Additionally, taxes are an essential component to economic growth and social growth and so, there is no argument about the need for or even the benefit of taxation (Oyedele, 2012).

The main objective of taxation in many countries, including Zambia, is to pull resources in the domestic aspect in order to be able to carry out numerous public services that are in need of funding such as infrastructural development and other social services (The Government of the Republic of Zambia, 2022). Tax evasion, therefore, has a high potential to negatively affect the ability of the government to fund their day-to-day activities for much-needed developments.

The Government of the Republic of Zambia, in its quest to efficiently and effectively collect taxes, established the Zambia Revenue Authority (ZRA), on April 1, 1994, as a semi-autonomous agency under the Zambia Revenue Authority Act, now Chapter 321 of the Laws of Zambia (<https://www.zra.org.zm/>). That culminated into the former Departments of Income Tax and Customs and Excise of the then Ministry of Finance being brought together under the revenue authority. At inception, ZRA had two operating divisions named as the Direct Taxes Division, and the Customs and Excise Division. A third operating division called the Value Added Tax (VAT) Division was later created to prepare for the introduction of VAT that replaced Sales Tax (<https://www.zra.org.zm/>). The VAT Division became operational following the enactment of the Value Added Tax Act in July 1995. This important development along with policy measures on income tax rates and customs tariff reform, as well as the introduction of VAT saw the contribution from tax collections rise to more than 18 percent of GDP.

The Zambia Revenue Authority Act was thus established as a body corporate and an agency of Government under the direction of the Minister of Finance. The Commissioner General who is appointed by the President, is the chief executive of the ZRA, and is responsible for the execution of functions as directed by the Board. The reforms herein were intended to ensure efficient, fair and effective revenue collections for national development (<https://www.zra.org.zm/>).

The Zambian tax system broadly comprises income taxes, consumption taxes, and trade taxes. These taxes are collected by the Zambia Revenue Authority (ZRA) which is the corporate body mandated to collect all taxes. The Zambia Revenue Authority declared that domestic revenue collection through taxation averaged 30% of Gross Domestic Product (GDP) during the 1970s with 11% of the total tax revenue emanating from the mining sector (<https://www.zra.org.zm/>). It also further states that in the 1990s, the collection dropped to an average of 13% of GDP, mainly due to a decline in mining revenues.

When compared to other southern African countries, Zambia has a relatively low revenue productivity, a common measure for revenue. When Zambia is held up in comparison to countries such as Malawi and Zimbabwe, considered fair comparisons because of their similarities in terms of history, Zambia still ranks lowest in measure with a tax revenue to GDP ratio averaging 17% while both Zimbabwe and Malawi measured just above 20% (Zambia Institute for Policy Analysis Research, 2014).

These variances have been, by the Zambia Institute for Policy Analysis Research, to the scale of the informal sector within the country and inefficiencies within the tax administration since other factors are more or less the same across the three countries. The taxation system in Zambia is designed in a manner that has allowed companies to legally avoid paying taxes. Some of the most common illegal methods are also utilised, one of which is the over-reporting of costs and under-reporting of production by tax payers who also include SMEs. The greater deal of tax avoidance and evasion revolves more around trade taxes which targets business houses as income tax taxes are collected directly from the source based on the company's employees who meet the stipulated tax bracket.

Nalishebo (2014) stresses that there was an estimation of the PAYE gap amounting to K5.2 billion, which is 6.7 % of GDP and 40.3% of the total tax revenue of the country. Nalishebo's study aimed at unmasking the potential tax that needed to be collected from individuals as a huge sum of money in excess of K5 billion remained uncollected in personal income taxes in 2015. This study further aimed to prove the possibility that just by concentrating on the wage earners who are above the tax threshold, the Zambia Revenue Authority has the potential to collect a lot more from those classified as wage earners even before taxing 10

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% of the self-employed. Another study carried out in Zambia recognised that difficulties and administrative burdens would result from collecting more revenue in the form of taxes (Phiri & Kabaso, 2017).

As noted from these studies, there is some knowledge gaps which the current study hopes to bridge. The studies above did not focus on the causes and effect of tax evasion and avoidance in the geographical area which the current study is focusing. According to Adebisi & Gbegi (2013), whenever a country's taxation system fails to establish appropriate policies to collect tax, many individuals will use this opportunity to evade paying taxes.

1.1. Problem Statement

Although tax evasion and avoidance are difficulties that every tax system faces, the Zambian situation appears to be unique when compared to the magnitude of corruption in the country. The tax base in Zambia is narrow and largely collected from the formal sector which is approximately about 15.4% of the economy (Central Statistics Office, 2015). The informal sector on the other hand accounts for about 84.6% of the economy and yet it contributes far less revenue to the national treasury in terms of taxes (ibid). There are challenges in the collection of tax revenue as revealed by the tax audits. Of the total amount of K1, 957.6 million assessed through tax audits in 2011, tax revenue of K597.7 million was collected, while penalties amounting to K370.3 million were charged for non-compliance with tax regulations (Zambia Revenue Authority, 2011). The revelations of the tax audits are an indication that tax evasion and avoidance are challenges in Zambia with the potential to adversely affect domestic revenue collection and ultimately the economy as a whole. Though there are few studies that have been carried out on tax evasion in other countries in the region, not much has been done in Zambia, particularly focusing on the current study's focus.

In Zambia, tax has long been a useful tool for raising income, but tax evasion and avoidance are a big issue that prevents tax from being collected to its full potential. For example, as at 2010, according to Central Statistics, there were around 500,000 workers in the formal sector while the informal sector was estimated at 4.2 million workers. The informal sector with such a high level of informality is a recipe for failure to meet the principal objectives of a tax system (Central Statistics Office, 2010). This state of affairs has led to the government not meeting optimally the demands of providing social services such as education, health, water and sanitation, decent wages, road infrastructure, telecommunication services, servicing internal and external debts. This study, therefore, is of paramount importance as it will provide information and knowledge of causations and consequences of tax avoidance and evasion by SMEs on the Zambian economy. It is envisaged that knowledge to be garnered through this study will constitute basis for policy formulation and change of practice in tax administration in Zambia.

2. LITERATURE REVIEW

2.1 Empirical Review

2.1.1. Causes of Tax Evasion and Avoidance

There are various perceived causes of tax evasion. In order to develop methods and instruments for fighting tax evasion and avoidance, it is important to first and foremost establish a broad understanding of the different perceived causes underlying the problems. These factors can be subsumed by either contributing to a low willingness to pay taxes (low tax morale) or to high costs to comply with tax laws. Onuigbo (1986), recognized several of these factors, including:

Low tax morale - Tax morale and tax payer ethics were described by Alm and Torgler (2006). In a similar vein, Frey (1997), described tax morale as an innate need to pay taxes. Furthermore, because there is no deterrence in many nations, tax cheating tends to be more common because taxpayers don't fear getting discovered. According to the research by Allingham and Sandmo (1972), if a tax evader is caught, he will be required to pay a fine greater than the amount of tax that he evades. Additionally, Spicer and Lundstedt (1996) assert that a group of attitudes and norms are also influencing a taxpayer's behaviour. The lower a taxpayer's morale costs to act dishonestly are, the more they perceive that others have low tax morale (Frey and Torgler, 2007). Pantoja and Penaloza (2014), assert that taxpayers act in accordance with moral standards that are independent of the game.

The Absence of a "Quid Pro Quo" - Taxation is something that the ordinary person despises. Taxation, he believes, is a discredited and irritating imposition. This is due to the lack of a "quid pro quo," or something of value delivered by the government in exchange for the taxes paid. Taxes should not be paid, it is widely stated, because the government does not offer luxuries that are in any way comparable to the taxes paid. There is no promise of monetary compensation (ibid).

High compliance cost - The high cost of compliance is another aspect that contributes to tax evasion. The compliance costs for small and medium-sized businesses are higher than those for bigger businesses, according to Haig and Ecker-R (1935), who also found that compliance costs for VAT are higher in most countries than compliance costs for other taxes. Similar research was conducted by the World Bank between 2006 and 2011 on developing nations about the cost of VAT compliance, and it was

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discovered that these expenses are "regressive". As a result, it will be more visible when taxpayers purposefully fail to comply and pay their taxes.

Inequitable Distribution of Amenities - Citizens in many sections of Zambia dislike paying any kind of tax or rate because they believe the government has been unjust in distributing utilities and other necessities of life. Most civil unrest in various sections of the country stems from this mind-set.

Misuse or Mismanagement of Collections - Made the news media frequently publish stories about how government officials mispend taxpayer funds. Evidence of waste of public funds abounds, whether in the shape of inflated contract costs, uncompleted but paid contracts, or illegal crimes including the use of various ways and loopholes to deplete monies voted for ministries and governmental agencies before the fiscal year ends. The cumulative result is that many honest taxpayers have resolved to never pay theft due taxes again, or to pay under duress. Jackson and Milleron (1986), found that the increase of taxpayers not complying with taxes is because of the complexity and the evolution of the tax system over time.

Absence of Spirit of Civic Responsibility - Most Zambians, owing to illiteracy and ignorance, are unaware that they have various obligations to the government, one of which is tax payment. They would rather argue that the government should create more money to remedy her difficulties, even if the government thinks she is poor. The majority of Nigerians lack a sense of civic duty, which is a key contributor to tax evasion. Other academics have linked the causes of tax evasion and avoidance to various sources at various times. For example, Orewa (1957), looked at the characteristics of evasion and discovered that total evasion occurs when taxpayers have a large degree of inter-district movement.

High tax rate and no strict penalty – There is general consensus among academic scholars that the the higher the tax rate the more likely the taxpayers are to evade and/or avoid filing taxes (Slemrod (2007); Sousa et al., 2008;). Allingham and Sandmon (1972) also stated that the motive behind the tax evasion would be upon the gain and loss the taxpayer would make if he would be caught.

2.1.2. Effects of Tax Avoidance and Evasion on Economy

Tax evasion and tax avoidance are fundamentally different from one another. One is permitted by law, whereas the other is unlawful (Skanda and Kumarasingam, 2002 as cited by James and Nobes, 2008). Tax avoidance is the legal use of the tax system for one's own benefit in an effort to lower the amount of tax that is due by legal ways. Contrarily, tax evasion is the umbrella term for actions used to avoid paying taxes in an illegal manner (Sharma and Dang 2011 as cited by Mohammed and Mohammed, 2012). It is also believed that the shadow economy is connected to both tax avoidance and tax evasion. According to Schneider and Enste (2000), cited by Faseun (2001), the shadow economy is one in which individuals hide their true income and taxable income that they have earned through legal activities such as business and monitoring in order to avoid paying taxes.

Government has repeatedly protested against the two aforementioned evils, yet businesses and all other people with taxable income utilise tax avoidance strategies to avoid or reduce taxes, or they intentionally employ false procedures with the assistance of tax officials to evade the whole tax burden. Tax evasion has an effect on both the social and economic aspects of an economy. First, it was discovered that tax evasion has a detrimental effect on government spending and economic expansion. This would result in low economic growth and have a detrimental impact on public-run firms. Fishburn (1981) and Nourzad (1986) discovered that inflation had a positive link with tax evasion because they came to the conclusion that the impact of inflation would result in a drop in the real value of an individual's income. However, if the person made the decision to forgo paying the tax, he would ultimately save his money and his purchasing power for later. Furthermore, Tanzi (1977) and Olivera (1967) argued that tax cheating would be extremely obvious in a nation experiencing hyperinflation. There are several effects to the economy resulting from tax evasion and avoidance as outlined below.

Firstly, Government income is harmed by tax evasion and avoidance. As Toby (1983) points out, the taxpayer engages in evasion through a variety of methods. Moral norms are eroded, and inflationary pressures are created. This claim might be supported by the fact that people and businesses have a lot of money at their disposal as a result of tax avoidance. Companies pay bigger dividends, and people take home more money. This increases the amount of money in circulation without increasing the amount of goods and services available. As a result, inflationary patterns emerge, in which vast sums of money pursue a small number of items. The GDP per capita is a country's measure of income per person. There will undoubtedly be a loss in income as a result of paying taxes because there is an outflow of income. However, there are instances where people do not pay taxes and their income does not decrease as a result. Therefore, as tax evasion increases, so does the GDP per person. On the other hand, Kafkalas (2014) noted that as GDP per capita rises, people tend to evade less because their income is rising.

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Secondly, the revenue base could be eroded through tax evasion. Where base erosion is substantial, then the fundamental revenue, efficiency and equity goals of the tax system are compromised. This may lead to a budget deficit due to low tax revenue and therefore increased domestic borrowing by the government to finance the deficit. Increased government borrowing from the domestic market will lead to higher interest rates and discourage investment. Some forms of tax evasion like dumping will have the effect of killing the local industry leading to unemployment and slow economic growth, tax evasion poses welfare implications. It constitutes a deadweight loss for the society. In any case, tax evasion causes two additional types of social costs: taxpayers spend time and money trying to hide their tax avoidance, and auditing expenses to find tax evasion are covered by tax authorities. Therefore, a given tax system affects not only the level of tax evasion or the size of a nation's shadow economy, but also the amount of resources wasted in the concealment-detection battle between taxpayers and the tax authority. Tax enforcement and concealment along with cheating are expensive for both the individuals involved and the society at large because these resources could instead be used for productive purposes (Sandmo, 2004). This cost may therefore be viewed as an additional tax that society must pay (Ranguma, 2010).

Thirdly, Richard (2010) also discovered that tax fraud effects lower state revenues, which in turn weakens the state's ability to meet its obligations. The revenue losses and accompanying increases in public spending are frequently wholly disproportionate to the sums paid in bribes. The reduction of the distributive function of tax collection, which results in a rise in income inequality, is one of the additional repercussions of corruption in this area (Ranguma, 2020). Another significant area of impact is the exaggeration of shortages and proliferation of corruption throughout the entire public sector as a result of corruption in one area diverting resources away from public spending. The degree of risk aversion, taxpayer wealth and pay, the total tax burden on the economy, the structure and effectiveness of the enforcing authorities, and other structural and institutional factors are all factors that influence the extent of corruption and tax evasion in the economy.

On the other hand, Fjeldstad (1996) stresses that tax evasion has had a variety of fiscal effects and there are a number of reasons responsible for this. One of them is revenue losses from noncompliance and corruption become significant at a time of substantial budget deficit. Second, horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ because of different opportunities for tax evasion (Alm & Martinez, 2001). Again, Shome (2005) stressed that an important adverse effect of tax evasion is perhaps on equity.

Toby (1983) affirmed that, tax evasion has undoubtedly affected adversely the government revenue generation capability and the economy as a whole and observed that, the taxpayer indulges in evasion by resorting to various practices. This then builds up what is known as inflationary trends where large money chasing few goods. Russo (2010) reported that, in Italy, one of the effects of tax evasion is loss of revenue to the government. In addition, resources spent evading taxes represent a deadweight loss to the economy. Another effect of tax evasion is discussed by Matsaganis and Flevotomou (2010) who stressed that tax evasion raises significant issues from the point of view of efficiency. In sectors that are less subject to the administrator's scrutiny as in the informal economy, there will be more investment. Inefficiency leads to lower revenue intake for the government, its functional capacity, efficiency and effectiveness suffer because of tax evasion. It is noted that effectiveness declines as compliant taxpayers realise that the government is unable or unwilling to take corrective action, and, therefore, feel increasingly comfortable in joining the rest in the act of tax evasion.

2.2. Theoretical Frameworks

This study was guided by two theoretical constructs, namely: the economics of crime model, and the theory of taxation.

The **Economics Crime Model** was developed by the economist Becker in 1968 when he was working on the problem of how to stop criminals from committing tax crimes and weather stopping was desirable. The economics of crime model is the theory used in almost all compliance research studies; the theory was first used by Allingham and Sandmo in (1972). Nehemiah (1995) goes further to say that a rational individual will maximize the potential satisfaction of the tax evasion gamble, balancing the gains achieved from successfully cheating against the risk of being detected and punished. This approach concludes that the compliance depends on the probability of audit verification and how severe the punishment which comes with it. Hence the model gives the impression that compliance is dependent on tax compliance enforcement. It is clear to see that with comparative analysis that there is an increase in declaration of incomes, if the probability of detection is high and how frequent the audits are and their verification.

On the other hand, the **theory of Taxation** holds that taxation has been a problem for governments and people alike since the dawn of civilisation (Eftekhari, 2009). Over time, the subject of taxation has sparked a great deal of debate and violent political battles. Three basic theories—the **ability to pay principle**, the **benefit method**, and the **equal distribution concept**—are typically used to categorize taxes. The "capacity to pay premise" is, nonetheless, the driving force for this study.

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The ability-to-pay principle states that taxes should be assessed in accordance with a person's capacity to pay. It states that "he that hath" rather than "him that hath not" should pay for public expenditures. The ability-to-pay principle dates back to the sixteenth century. The Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean- Baptiste Say (1767-1832), and the English economist John Stuart Mill expanded the idea scientifically (1806-1873). This is the true foundation of a "progressive tax," as the tax rate rises as the taxable amount does. The most equitable tax system is one that follows this notion, which has been extensively adopted in industrialized economies. The most common and widely backed defense of financial capacity is the justification of sacrifice. Because the taxpayer gave up money to the government that he would have utilized for his own personal use, paying taxes is seen as a deprivation by him. The equity of sacrifice in this theory can be quantified in absolute, proportional, or marginal terms, hence there is no reliable method for doing so. As a result, equal sacrifice can be quantified as follows: each taxpayer gives up the same amount of utility for the last unit of income; (ii) each sacrifices the same proportion of utility for the last unit of income; and (iii) each gives up the same utility overall

2.3. Gaps in the Literature

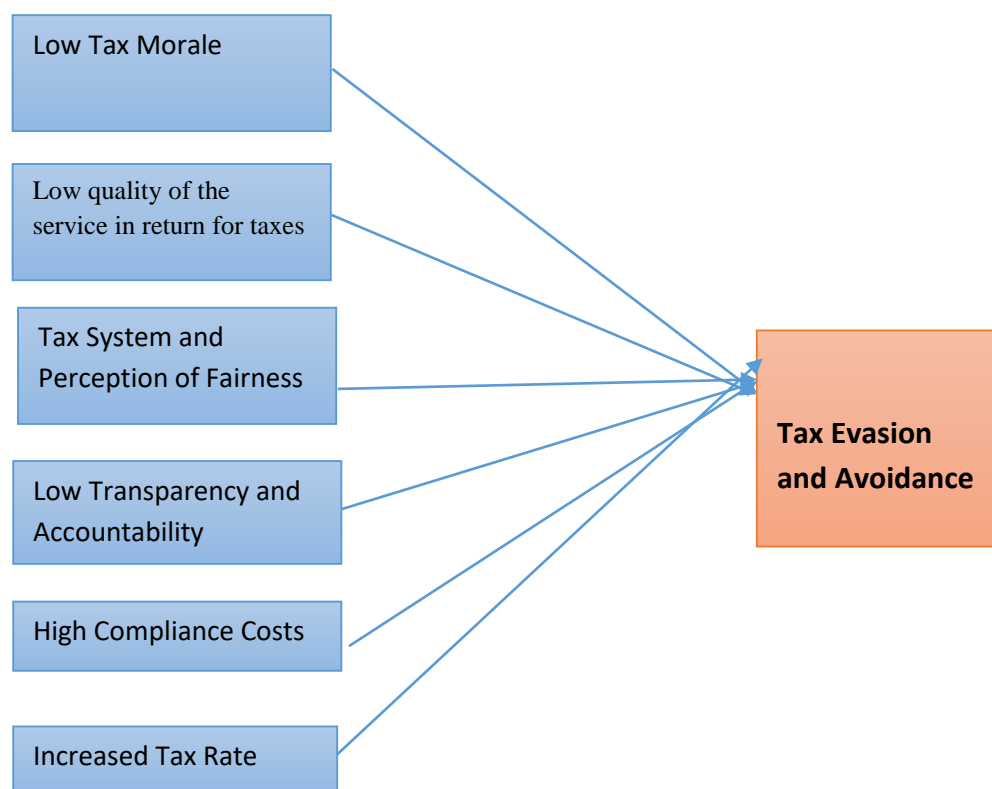
From the reviewed literature, it is apparently clear that no systematic study has been done on tax evasion and avoidance with its effect on the Zambian economy in the subject matter district of the Copperbelt Province. A lot of studies which have been done in West Africa and other countries simply looked at tax evasion and avoidance without tackling the overall effect part. In any case, even if these studies alluded to the effect aspect, the jurisdictions and contexts are too different not to allow another similar study to be done here in Zambia. This implies that the current study is of paramount importance in trying to answer long standing questions of tax avoidance, evasion and associated consequences to the Zambian economy. This is crucial because the lifeblood of the nation's economy revolves around collection of taxes from its citizens to enable it provide various social services. This gap in literature will be bridged by this study which will also constitute an entry point for future studies.

2.4. Conceptual Framework

This study has been guided by the conceptual model diagrammatically constructed below. This model displays low tax morale, low quality of service, tax system and perception of fairness, low transparency and accountability in tax funds utilization, high compliance costs, and increased tax rates as independent variables with tax evasion and avoidance as dependent variables.

Independent Variables

Dependent Variables



Source: Author(s)' Construction (2023)

Figure 1.1 Conceptual Framework

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2.4.1. Operationalization of Variables

- 2.4.1.1. **Low Tax Morale** - Taxpayers' willingness to pay taxes differs widely across the world. It cannot be viewed as simply depending on the tax burden. It permeates into the socio-cultural and moral fabric of society in giving individuals the moral urge for self-regulation and responsibility for the general welfare of humanity. This is a citizenry responsibility.
- 2.4.1.2. **Low quality of the service in return for taxes** - In general, citizens expect some kind of service or benefit in return for the taxes paid (Pashev, 2005; Brautigam et al., 2008).
- 2.4.1.3. **Tax System and Perception of Fairness** - The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Allingham and Sandmo, 1972; Chipeta, 2002).
- 2.4.1.4. **Low Transparency and Accountability of Public** - Lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government.
- 2.4.1.5. **High Compliance Costs** - In an attempt to assist SMEs to lower or minimize their tax compliance costs and reduce their tax burden, governments often may give them subsidies of tax holidays in some business areas but the crucial point is that the higher the compliance costs, the more likely are these entities to evade and /or avoid tax.
- 2.4.1.6. **Increased Tax Rate** - Poor economic performance has affected income levels of consumers which affect their business and any slight upward adjustment to tax rates increases the propensity not to pay.

3. METHODOLOGY

The study used a mixed method approach combining both qualitative and quantitative paradigms in which 110 sample size out of the 1500 study population was targeted. One Hundred and ten (110) questionnaires were distributed and 79 were returned representing 72%. Purposive and convenient sampling techniques were used. Quantitative data was analysed through the SPSS version 16 while qualitative data was analysed through content analysis focusing on main unfolding themes from the interviews. Self-administered questionnaires which were pretested and validated were used to collect primary data. Data was first collected using a survey questionnaire and followed by in-depth interviews. Data was collected as the traders were doing their business. Secondary data were obtained from SMEs, selected traders, and ZRA officials. The researcher also used this method in trying to ensure close to precise correlation of the district's socio-economic development status and the revenue collection. The levels of public infrastructure development and social service provisions were the main focus. A pilot study was also undertaken as part of the quality control measure. Quality control was necessary to ensure acceptability, level of validity and reliability of research findings (Oso & Onen, 2009). Strict adherence to ethical considerations received due attention prior, during and post the study.

4. FINDINGS AND DISCUSSION

4.1. Causes of Tax Evasion and Avoidance

Respondents were asked to indicate the causes of tax evasion. Responses show that the main causes of evading to pay tax intentionally were lack of direct benefit to pay tax (mean score 4.37), 83.3%, low tax morality (mean score 3.97) 70%, high tax rates (mean score 3.7) 56.7%. Beside this complex tax system (mean score 2.97) 30%, low transparency and accountability of public funds management (mean score 2.57) 23.3%, and increased tax rates (mean score 2.33) 13%, are the other causes of refusal to pay tax intentionally.

People "view tax as an expense," claims Tom Cardamone, director of Global Financial Integrity. It's an investment; it's not. It is deposited into government coffers for the purpose of enhancing infrastructure, healthcare, etc. The basic issue with how people regard taxes is this (Law Review, 2012); high tax rates may be one of the factors influencing someone's fervent search for loopholes and subsequent tax avoidance behaviour.

Some key informants shared a collective view that:

"Poor sales of goods and services are caused by a variety of economic factors, including low consumer income levels, consumer preferences, and tastes, government policies, etc. Therefore, poor sales have an impact on the operations of our businesses and trade. When we experience poor sales, paying taxes become difficult, and increases the possibility of tax evasion and avoidance as it were. According to the research, interviewees strongly agree that paying taxes to the government is unfair because it has negatively impacted their sales. There are frequent power outages and high fuel prices which have impacted negatively on our business... as sales have been reduced."

The other factor which came out prominently in encouraging tax avoidance and evasion by SMEs was corruption. It was indicated that Zambian government tax officials are notoriously corrupt, and the poverty gap keeps growing. They contend that shoddy government actions combined with high levels of corruption caused economic crises that had a negative impact on virtually everything, including businesses. According to the study, 42.67% and 27.33% of respondents, respectively, strongly agree and

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agree that high levels of government officials' corruption force traders to evade and avoid taxes because they believe their money is not being put to worthwhile endeavours that will also benefit them.

Another respondent stated, *"Yes, I believe we should pay tax, but it should not be a lot of money as you know we are small businesses we do not own companies, but tax we must pay."* According to the list you gave me, I believe the company that sells smartphones can pay the K1500 annual fee. At least it provides a one-time collection and saves funds to be paid at year's end. Other taxes like that are bad for a small company like mine. The tax system does not appear to be fair to me. I must make payment, just like a store owner. A lot of injustice exists today. As a consequence, I will find a way not to pay...I do not see myself volunteering

On the other hand, according to the study, 36.67% of respondents thought that tax administration system flaws were one of the reasons for tax evasion. Additionally, 24.67% of respondents concur that tax system flaws encourage tax evasion in the nation. Contrarily, 12.67% and 1.33% of respondents disagreed or strongly disagreed that tax net loopholes were a major contributor to tax evasion. They believed that one of the primary causes of tax evasion was *high compliance costs* combined with high taxes levied by the government on traders. However, 18.67% of the respondents are unsure as to whether tax system flaws are the primary driver of tax evasion. According to them, the main causes of tax evasion are corruption, lax enforcement of tax laws, and bribery of tax collectors.

Tax evasion is one of the most serious issues that have arisen in Zambia in terms of tax management. Many Zambians, particularly traders, wilfully or deliberately refuse to honour their tax duties by distorting facts and statistics relevant to an assessment after a tax due has been incurred in order to reduce the liability. Notwithstanding increases in tax revenue mobilization, the revenue generated by taxes is insufficient to sustain the annual budget. There have been numerous obstacles with direct tax collection, resulting in a loss of government revenue. The finding revealed that most Zambians, particularly traders, feel exploited or deceived when it comes to paying taxes since they believe it is a waste of their money. Most people believe the tax is too expensive, given the type of their business and the taxes they must pay on a monthly, quarterly, or annual basis. This has compelled businesses and traders to bribe tax collectors in order to avoid paying taxes. Furthermore, because of the high rate of corruption among government officials, most taxpayers believe their money is being wasted at the expense of their hard work and struggle to make ends meet. Some believe that tax collectors who visit their businesses to collect taxes abuse them by forcing them to pay excessive taxes. In order to evade or avoid paying taxes, people constantly look for or make loopholes in the tax administration system. If the agencies responsible for collecting taxes are inefficient, loopholes might be made. According to research by Whait (2012), trust in these institutions can raise tax morality and lower tax evasion. Taxpayers' behaviour is typically governed by rules and easily understood institutions. When revenue collectors collude with taxpayers to evade tax, loopholes could also be made in an effort to do so.

According to conventional wisdom, raising tax rates will result in a growth in the size of the shadow economy. The first person to examine the scope and impact of tax evasion was Guttman (1977). He also points out that government regulations and policies are a contributing factor to the underground economy and suggests changing them to deter unreported activities.

4.2 Effects of Tax Evasion and Avoidance

Tax evasion and avoidance creates a parallel economy and has had phenomenal social and economic impact on the Zambian economy. Most of the respondents agreed on the view that tax evasion and avoidance have been causing reduction in the country's economic growth (mean score 4.7) 96.6%, Decrease in country's reputation (mean score 4.6), impact on moral (mean score 3.9), increase in corruption (mean score 3.9), increase in inflation (mean score 2.7). Tax evasion and avoidance have resulted in the diversion of resources for the purchase of real estate and luxury housing locally and abroad by the privileged few.

The researcher also observed that the district has difficulties in providing public social services in health, education, water, road infrastructure, telecommunication and electricity. The interviews of selected ZRA officers and other entrepreneurs reviewed that lack of funds were factors for the low levels of development in the district. The food inflation rates were equally high in the district. *"If the tax collections are inadequate, there is no way government can provide all these social services and develop the district infrastructural,"* said one of the interviewees.

The study has revealed untold underdevelopment of the district due to tax evasion and avoidance as the government cannot have sufficient revenue to finance social services and infrastructural development. The cost of living has skyrocketed in the district and many social services are poor.

The phenomena overall affect the revenue collection by the Zambia Revenue Authority which ultimately has negative implications on government's provision of social services like health, water, education, road infrastructure, employment, etc. as notably observed in the study site in which a number of roads, schools, markets, health and water facilities are in dilapidated states while many youths are unemployed including graduates from colleges and universities.

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Tax evasion and avoidance affect government's socio-economic development (Akinyele et al., 2016). Thus, taxes build capacity to provide security, meet basic needs or foster economic development and they build legitimacy and consent in helping to create consensual, accountable and representative government. As revealed by Okafor (2012), tax revenue and growth of the economy have positive and significant relationship. This is consistent with the findings of this study that tax evasion and avoidance stifle the growth of the economy.

A more corrupt culture, according to Alm and Martinez (2013), may encourage more tax evasion because corrupt authorities seek more money through bribes; on the other hand, a more corrupt society may be more likely to support tax evasion since it provides more chances for bribery. Thus, according to Naiyelu (1996), the success or failure of any tax system depends on the extent to which it is properly managed; the extent to which the tax law is properly interpreted and implemented. The finding of this study again is consistent with the assertion of Okafor (2012).

It is in line with the above issues that the researcher examined the effect of these interlocking problems on economic development and growth of the Zambian economy, government revenues, and unemployment rate as measures of development and growth indicators in Zambia. The study also found that the weakness in tax laws is a major hurdle that needs to be dealt with appropriately if tax evasion is to be addressed, because the Zambian income tax structure has multiple tax rates applicable at different rates to different categories, the study shows that this brings about tax dodging from multi sector companies. According to ZRA (2015), this might be caused by business owners perceiving the rates of fines and penalties as being very low and therefore having little influence on their behaviour. Therefore, this implies that the law-making body should revise the laws by increasing penalties and fines to the point that is just enough in influencing the behaviour of compliance. Basing on this, the findings have shown that cost of compliance has significant effect on tax compliance level.

During this study a further look into SMEs found that most of them were in the informal sector. According to the Zambia Revenue Authority, informal sector are businesses not registered with the government authorities, hence the reason it is hard to tax them or collect tax from them. The difficulty in taxation comes from many reasons such as you cannot keep track of their operations because of lack of record keeping on operations and they usually deal with cash, it was also discovered that the amount of businesses registered for value added tax is very low with most of the SMEs unaware of the tax laws that exist, and this caused by the poor literacy on tax systems from lack of tax education.

The results of the study showed that the challenge that tax administrations face when trying to catch those committing this fraudulent behaviour is that tax evasion is a transaction and income which are undervalued or unreported in the national income statistics. These transactions have not been officially recorded hence they do not exist unless a thorough audit investigation is undertaken to unearth these buried actions

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The study discovered that there are loopholes in the Zambia Revenue Authority's (ZRA) tax administration system which are due to inefficiencies or inadequate competences of tax collectors, which taxpayers exploit to their tax evasion and avoidance advantage. The investigation also revealed that certain revenue collectors collude with taxpayers to commit tax fraud by accepting bribes from them while poor sales, high tax rates and lack of tax education to SMEs were noted to be among key reasons for tax avoidance. The phenomena overall affect the revenue collection by the Zambia Revenue Authority which ultimately has negative implications on government's provision of social services like health, water, education, road infrastructure, employment etc. as notably observed in the study site in which a number of roads, schools, markets, health and water facilities are dilapidated states while many youths are unemployed including graduates from colleges and universities, the situation respondents attributed to inadequate government funding due to low tax collections. It was also observed that the district's inflation rates are quite high.

6.2 Recommendations

Arising from the study, the following are the possible implementable policy measures to curb the vice:

- 6.2.1. There is need for tax officials' tax administration training, public tax education, visits to self-employed locations, equitably dispersing resources, and youth tax education should be carried out by the ZRA. The Zambian government should use additional publicity strategies, such as radio announcements, television commercials, post-bills, and the use of town criers, to alert taxpayers to changes in tax laws, policies and the necessity of compliance. In order to meet the demands of the job, qualified personnel should be hired, and Revenue employees should generally undergo training and retraining. In order to protect employees from fraud and other corrupt practices, it is also important to provide them with a competitive salary package.

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- 6.2.2. Tax remittance system should be simplified for every tax payer to be able to pay. It should be as simple as recharging credit on a mobile cell phone and in fact cell phones should be devices for tax filing by SMEs. To this end, the issuance of tax clearance certificates must be properly decentralised, meaning neither the assessor nor the collector may do so. To consistently audit tax remittance by collectors at all levels, the Audit Unit of the Authority needs to be strengthened. This action will significantly reduce tax officials' corruption.
- 6.2.3. Finally, since taxpayers are the single most important group of stakeholders (SMEs) in the tax system as they are the bedrock of the tax system and the source of all revenue generated by tax authorities, the study recommends that in order to ensure growth of the Zambian economy through taxpayers' tax compliance, funds generated from tax revenue should be strictly employed to creation of employment opportunities to Zambians and making available revolving loanable funds to SMEs in every district markets.

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