An Analysis of Factors Affecting Tax Compliance among SME’s In Zimbabwe. A Case of Bulawayo Smes.

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ABSTRACT
Zimbabwe has experienced exacerbated growth of the informal sector as deindustrialisation has translated into loss of formal employment. These Small and Medium Enterprises (SMEs) have an obligation to pay tax but as a consequence most are not tax compliant. The objective of the paper was to develop a model for tax compliance taking into cognisance variables of tax policy, tax morale and personal norms. The study was conducted from 80 businesses in Bulawayo with stratified random sampling having been utilised in sample selection. In the analysis, simple and multiple linear regressions were utilised using strata. The results reveal personal norms as highly significant contributors to tax compliance.

Key Words: Tax policy, Tax morale, Personal norms, Tax compliance, Small and Medium Enterprises.

1.0 BACKGROUND
Deindustrialisation of the Zimbabwean economy coupled with tight liquidity conditions, company closures, rising formal unemployment, nonperforming loans and low production levels has negatively affected the economic recovery. According to the Confederation of Zimbabwe Industries (CZI, 2014), manufacturing sector capacity utilisation was 36.3% compared to 43.7% in 2010 with the Purchasing Managers index for 2014 at 43.5%. ZIMASSET (2014) reveals unemployment levels above 50%. Majaka(2015) affirms that manufacturing and mining sectors shed 30100 jobs in 2014. Mtomba(2014) postulates that 75 companies closed shop leaving 9617 unemployed. Mhlanga (2015) states more than 1000 banking sector employees lost their jobs from 2009 to date owing to bank closures. The rise in formal unemployment has exacerbated the informalisation of the economy as highlighted by the table below:

Table 1: Business category

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees</th>
<th>Percentage of business owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>0</td>
<td>71%</td>
</tr>
<tr>
<td>Micro businesses</td>
<td>1-5</td>
<td>24%</td>
</tr>
<tr>
<td>Small businesses</td>
<td>6-30/40</td>
<td>4%</td>
</tr>
<tr>
<td>Medium businesses</td>
<td>30/40-75</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: FinScope (2012)

According to FinScope (2012), turnover in the MSME sector was estimated at USD 7.4 billion as at 2012, 65% of the MSMEs reporting turnover. Small and Medium Enterprises (SMEs) have an obligation to pay presumptive tax, income tax, Pay As You Earn (PAYE), Value Added Tax and other taxes to ZIMRA (Zimbabwe Revenue Authority). For tax purposes, SMEs classified as follows:

Table 2: ZIMRA definition of SMES

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Annual Turnover (USD)</th>
<th>Gross value of assets (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>6-40</td>
<td>50000-500000</td>
<td>50000-1000000</td>
</tr>
<tr>
<td>Medium</td>
<td>41-45</td>
<td>500001-1000000</td>
<td>1000001-2000000</td>
</tr>
</tbody>
</table>

Source: Finance Act, 2010

PROBLEM STATEMENT
Businesses that make profit on trade, investment and individuals that earn wages or salary from employment must remit their tax dues to ZIMRA. Makoshori (2015) reveals the tax authorities are owed an estimated $1 billion in tax arrears. In an attempt to curb the rising tax noncompliance, ZIMRA introduced tax amnesty. According to Pasi (2015), 1471 tax amnesty applications were received for the period 1 October 2014 to 31 March 2015 against outstanding unpaid taxes estimated over $1 billion. Kapeza (2015) states most SMEs are owner managed hence preparation of accounts, tax returns as well as their submission is in the hands
owner managers that lack requisite skills and competence in handling tax matters. Tax compliance is a challenge for SMEs hence the research sought an understanding of factors contributing to their tax non-compliance.

HYPOTHESIS

H₀ Tax policy can be attributed to tax non-compliance among SMEs in Zimbabwe.

H₁ There are other variables attributable to SMEs tax non-compliance in Zimbabwe.

2.0 LITERATURE REVIEW

Tax compliance is vital for governments as taxes fund government programs. Kirchler et al (2007) state tax compliance as willingness by taxpayers to pay taxes as they fall due. Alm (1992) advances tax compliance as accounting for reportable income together with paying taxes in compliance with applicable laws, regulation and court decisions.

2.1 Tax compliance theories

There are a variety of factors responsible for tax payer behaviour that in turn impact tax compliance.

2.1.1 Social-psychology theory

The theory is premised on personal and social norms as avenues of explaining taxpayer behaviour. Organisation for Economic Cooperation and Development (OECD, 2010) outlines personal norms as deeply rooted convictions concerning what one should or should not do. Personal norms underpin taxpayer tenets and tax morale which impact tax compliance either positively or negatively. According to Alm (1999), social norms reflect recurring behaviour that are judged analogously by the populace. The relationship between norms and tax compliance emanates from discussions of tax affairs between business associates, work colleagues, friends and family members. Therefore, if members of the taxpayers “social clique” are tax compliant, the taxpayer complies with paying the requisite taxes.

2.1.2 Deterrent (Economic) theory

According to Walsh (2012), tax rate impacts tax compliance as taxpayers evaluate the benefits of tax evasion with costs (penalties and fines) hence evade taxes if the benefit of tax evasion exceeds costs. Pommerehne and Weck-Hannmann (1996) state tax evasion increases with increases in the marginal tax rate. On the contrary, Allingham and Sandmo (1972), advocate that higher levels of income will be declared by taxpayers as the probability of detection increases.

2.1.3 Fiscal Exchange theory

The theory suggests that social, relational as well as psychological contracts between the government and taxpayers influence taxpayer behaviour. As the taxpayers assess the level of services and goods received from the government compared with government expenditures, there exists motivation for tax compliance. Alm (1992) states perceived availability of goods and services by taxpayers will positively influences tax compliance. Fjeldstad (2004) reveals a non-existent relationship between fiscal exchange and tax compliance in a study of South Africa.

2.1.4 Comparative treatment (equity) theory

According to OECD (2010), fairness of the tax system for all businesses translates into increased tax compliance. The taxpayer deems the tax system unfair if their business has been subjected to higher tax burden than other business. As a consequence, taxpayers will evade paying taxes or under declare taxes as they fall due. Kircher et al (2007) affirm that perceived fairness of the tax system by the taxpayer, translates into increased voluntary compliance as there is mutual trust between the government and the taxpayer.

2.1.5 Political legitimacy

Tayler (2006) reveals there is a positive relationship between tax compliance and taxpayer perceptions of governments’ trustworthiness. Torgler and Schneider (2007) postulate that group identification that arises from national pride transformed into willingness to pay taxes. According to Picur and Riahi-Belkaoui (2006), in their study of 30 developed and developing nations, tax compliance was greater for nations that had low levels of bureaucracy and corruption.
3.0 METHODOLOGY

A quantitative research design was adopted with data obtained from questionnaires. Stratified random sampling technique of SMEs across all sectors in Bulawayo was adopted in order to obtain data. Simple and multiple linear regressions were utilised so as to establish the relationship between the predictor variables of tax policy, tax morale and personal norms using strata. The regression model utilised for the study is as stated below:

\[
\text{Tax Compliance} = \beta_0 + \beta_1 \text{TP} + \beta_2 \text{TM} + \beta_3 \text{PN} + \varepsilon
\]

\begin{align*}
\text{TP} &= \text{Tax policy} \\
\text{TM} &= \text{Tax morale} \\
\text{PN} &= \text{Personal norms}
\end{align*}

4.0 ANALYSIS

A total of 80 respondents participated in the study. Of the 80 respondents 52 (65%) were males and 28 (35%) females. Seven (8.75%) out of 80 respondents were of age between 20 and 30, 18 (22.5%) were of age 31 to 40, 49 respondents were of age 41 to 50 and only six (7.5%) were of age greater than 50 years. The ages of the respondents is shown in the table below.

<table>
<thead>
<tr>
<th>Age range</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-30</td>
<td>7</td>
<td>8.75</td>
</tr>
<tr>
<td>31-40</td>
<td>18</td>
<td>22.5</td>
</tr>
<tr>
<td>41-50</td>
<td>49</td>
<td>61.25</td>
</tr>
<tr>
<td>&gt;50</td>
<td>6</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

Thirty one (38.75%) of these SME’s indicated that they have between 11 and 15 years in business. Twenty (25%) of these SME’s have managed their businesses for six to ten years while 14 (17.5%) have 15 years with their business.

Most of the SMEs are in service business 45 (56.25%) and 8 (10%) are in manufacturing business, while 21 (26.5%) are into trade.

The graph shows the number of years spent in business

![Graph showing number of years spent in business](image)
Of the 45 respondents who are in service business 28 of them are males and while 17 are females. 16 males are into trade business, while just 5 females are into trade business. Of the 8 respondents who are in manufacturing business only two are females. Table below reveals this information.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>6</td>
<td>16</td>
<td>28</td>
<td>2</td>
</tr>
<tr>
<td>Female</td>
<td>2</td>
<td>5</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>21</td>
<td>45</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 4: Type of business

Univariate Analysis

In order to investigate the relationship between tax compliance and the predictor variable of tax policy, taxpayer’s morale, and personal norms, a linear regression was fitted with one predictor at a time. The results are as shown below:

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>R-squared</th>
<th>95% CI</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax policy</td>
<td>-.3244122</td>
<td>0.0243</td>
<td>-.7876542  .1388297</td>
<td>0.167</td>
</tr>
<tr>
<td>Taxpayers morale</td>
<td>.8176326</td>
<td>0.4174</td>
<td>.5998664  1.035399</td>
<td>0.000</td>
</tr>
<tr>
<td>Personal Norms</td>
<td>.7638802</td>
<td>0.6089</td>
<td>.6258824  .9018779</td>
<td>0.000</td>
</tr>
</tbody>
</table>

According to univariate analysis (simple linear regression) the following factors were found to significantly affect tax compliance (p-value <0.05): taxpayer’s morale and personal norms. Tax policy having a p-value greater than 0.05 is in this case not a predictor of tax compliance also it only explained about 2.43 percent of the variation in tax compliance. Personal norms explained about 60.89 percent of the variation in tax compliance which is greater than the variance being explained by taxpayer’s morale of 41.74 percent. Thus a personal norm is the best predictor of tax compliance.

Multiple Linear Regressions Analysis
Multiple linear regressions analysis was also done in order to identify those factors that remain significant in the presence of all the other factors. The results are as shown below:

### Table 6: Multiple Linear regression results

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Adj R-squared</th>
<th>95% CI</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax policy</td>
<td>-.1929335</td>
<td>0.6312</td>
<td>-.4806822</td>
<td>.0948153</td>
</tr>
<tr>
<td>Taxpayers morale</td>
<td>.25742</td>
<td>0.6312</td>
<td>.0223189</td>
<td>.4925211</td>
</tr>
<tr>
<td>Personal Norms</td>
<td>.6264293</td>
<td>0.6312</td>
<td>.4467248</td>
<td>.8061338</td>
</tr>
<tr>
<td>Constant</td>
<td>7.570806</td>
<td>0.6312</td>
<td>1.826166</td>
<td>13.31545</td>
</tr>
</tbody>
</table>

The model below is the results of multiple linear regression.

Tax Compliance = 7.570806 - 0.1929335 Tax policy + 0.25742 Taxpayers morale + .6264293 Personal Norms

The model as a whole is highly significant at 5 percent level of significance since the p-value is zero. The adjusted R-squared value is 0.6312, which means about 63 percent of the variation in tax compliance is being explained by personal norm, taxpayer’s morale and tax policy. Tax policy is therefore not a significant predictor of tax compliance at 5 percent level of significance, since its p value greater than 0.05. Taxpayer’s morale (p-value 0.032) and personal norms (p-value 0.000) are significant predictors of tax compliance at 5 percent significant level, since they have p-values less than 0.05. The variable personal norm is highly significant since the p-value is zero indicating that tax compliance depends mainly on the norms of individual. The model reveals that holding other factors constant, a unit increase in personal norm, tax compliance will change by 0.626429 units. This indicates that as the norms of an individual improve, voluntary compliance increases.

### 5.0 CONCLUSION

The study reveals personal norms as the most significant contributor to tax compliance. Since the government funds its expenditures through taxes, there is need to concertize SMEs on the benefits of tax compliance so as to eradicate the negative “social clique” syndrome that has contributed to tax noncompliance.

### REFERENCES


http://www.ijmsbr.com


OECD understanding and influencing Taxpayers compliance behaviour (2010). Forum on tax administration for SMEs.


