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Assessing the Turnover Tax Compliance among SMEs in Informal Sector: A Case of Lusaka Central District

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Abstract
The study, aimed to assess turnover tax compliance among SMES in informal sector as a case study of Lusaka central district. The study adopted three major specific objectives which were to analyze turnover filing and payment patterns among SMEs, to assess the effectiveness of tax awareness programs in promoting compliance and to examine the impact of the broader business environment on turnover tax compliance. Furthermore, the study was bucked by Tax Compliance Theory, which aims to ascertain the economic, psychological as well as institutional factors that influences taxpayer behavior. In this regard, the study employed a descriptive research design through use of a mixed method approach with a sample size of 50 SME's that were selected randomly as well as ZRA officers who were purposively selected from Lusaka Central District. Data was collected through a survey using structured questionnaires and was analyzed using STATA in order to generate quantitative tabulations of statistical results, whereas qualitative data was thematically analyzed. In this regard, the study findings revealed that less than 50% of SMEs in informal sector meet their turnover tax obligations on an annual basis, as respondents identified key barriers that exist in creating this gap. Therefore, the key barriers included factors such as inadequate tax awareness, unwieldy filing procedures, unpredictable business environment which are heavily characterized by economic variations as well as limited resources. Further, officer respondents from ZRA also reported some of the challenges especially in the remitting tax payment by the SME's in within business such as system failures and other factors including late payments tracking as well as misunderstandings surrounding tax regulations, which are a clear hindrance to the compliance efforts. Furthermore, the study recommended enhancement of tax education initiatives and well as programs that are tailored to the SMEs. Additionally, the study also recommended the simplification of tax filing processes and procedure in order to create an environment for SME's to be compliant as well as enlightening support from the Zambia Revenue Authority (ZRA). Moreover, the process of fostering a more stable economic environment will not only serve as essential for reassuring compliance but a key development for a compliant market. In conclusion, this research underlined critical need for targeted intervention to improving tax compliance rates amongst SMEs, which leaves a solid and vital ground for an increased government revenue that provides support to sustainable growth of the SME sector in Zambia.

Keywords: Turnover Tax, SMEs, Tax Compliance, Lusaka Central District, Tax Compliance Theory, Business Environment, Tax Awareness

1. Introduction

1.1 Background

Small and Medium enterprises have significantly materialized as an economic driver for economic expansion, especially in developing economies like Zambia. Many research studies conducted in southern Africa demonstrates that SMEs positively guarantees and supports the growth and expansion of GDP which accounts for approximately of 70% of local employment as well as 50% of national GDP (Zambia Development Agency, (2022). Overlooking the central importance of SME's, many of them repeatedly face higher rates of mortality due to factors that are often linked to various tax-related challenges including multiple taxation as well as burdensome compliance obligations (International Labor Organization, 2021). In this regard, the approach of the Zambian government towards taxation of SMEs is frequently similar to larger corporations which positively overlooks their unique characteristics as well as needs (Chileshe & Mbewe, 2020) [5].

The introduction of turnover tax systems was mainly for the purpose of alleviating tax compliance burdens by simplifying tax procedures especially for smaller businesses. However, this development has not fulfilled its essence due to significant challenges that are faced amongst SMEs in Lusaka Central District. Conversely, local reports indicate that less than 50% of SMEs do meet these procedures such tax filling which is one major requirements that leads to substantial revenue losses for the central government (Zambia Revenue Authority, 2023) [31]. A study that was conducted by Mwenda & Mwewa, (2022) [18] on tax issues in Zambia identified factor that contributes to low compliance which includes the inadequate awareness of tax by many businesses in Lusaka as well as the complexity of filing procedures and the unpredictability of business environments

The factors identified in the aforementioned studies for example Mwenda & Mwewa on tax issues in Zambia is a major backdrop which demonstrates a clear need for a comprehensive assessment of factors that influences the turnout of turnover tax compliance amongst SMEs. In this regard, understanding such challenges is not only a direction for the implementation of vital developing strategies that enhances compliance but also the provision of support of all SMEs that may bring fourth growth and ultimately improve government revenue collection. The clear focus on addressing such issues, is very cardinal especially for the provision of insights leading to more effective tax policies which tailored to the unique needs of SMEs in Zambia.

1.2 Statement of the Problem

Despite major changes as well as improvements in the process of collecting taxes by the Zambia Revenue Authority in Zambia, turnover tax compliance still remains an issue especially amongst SMEs within the informal sector of the Lusaka central district. According to the Zambia Development Agency, (2020) [29]. SMEs in Zambia contributes positively to the economic development of the nation around 70% of local employment is distributed amongst SMEs which also provides 50% of the national GDP in Zambia, yet many of the businesses fail to comply with their tax obligations, specifically turnover tax.

The Zambia Revenue Authority also added that less than 50% of the SMEs do file and pay their turnover taxes as this is one of the major reason for the significant losses of revenue for the government. In this regard, ZRA, (2021) identified factors leading to such losses which includes inadequate knowledge about tax, difficult as well as long filling procedure as well as environments that are not stable business operations marked by major market shift for example inflation which is frequently associated with low compliance.

However, despite many attempts by the government to simplify the SME taxation procedure through initiation of turnover tax many businesses in Lusaka district either do not register for it or chronically cannot report their earnings. Such non-compliant qualities amongst SMEs call in for failure collect taxes effectively which as well prevents SMEs to become formalized with access financing and business growth. Furthermore, the failure to strategies effectively to provide certain services to SMEs like tailor-made tax education structure and support mechanisms compounds the issue to a larger extent. A study by Chisanga, (2021) [6]. Demonstrates that few SMEs in Zambia are aware of their obligations to pay taxes as well as potential benefits which are accruable from compliance. In this manner, the recognition of such complications is not only cardinal for the government to collect taxes through ZRA but important for increasing compliance in formal and informal sector for the expansion of legal business environments and greater revenue generation by Government.

1.3 Objectives

1. To assess turnover tax compliance among small and medium enterprises operating in the informal sector within Lusaka Central District.

1.3.1 Specific Objectives

1. To analyze turnover filling and payment patterns among SMEs.
2. To assess the effectiveness of tax awareness on turnover tax compliance.
3. To assess effects of business environment on turnover tax compliance.

1.4 Theoretical Framework

1.4.1 The Path Goal Theory

The theory was created by Robert House in Ohio state university in 1971 and was revised in 1996. The theory was selected on the basis that it explains the various elements that affect means in which taxpayers behave through demonstration of three main aspects that determine the level of compliance which includes the following; i. Economic Deterrence Model ii. Psychological Factors and iii. Institutional Factors.

The first aspect of the theory is Economic Deterrence Model which argues that compliance is a standard quality which is the result of a risk vs the calculated benefit made by SMEs especially if there is a balanced weigh up of the financial risks of non-compliance against their perceived gains from tax evasion. In this regard, ZRA (2023) [31] added that the likelihood of getting caught or detected and the number of penalties is critical especially in the process of determining levels of compliance behavior.

Additionally, Psychological factors can be regarded as social norms, moral duties as well as a sense of justice in the tax system. One of the major examples of psychological factors is a stustaion where an SME believe how fair the tax system is and witnesses their peers complying, then such firms are more sensitive in following up tax regulations (Chisanga, 2021) [6]. In such a manner, trust in the tax structure set is therefore essential for fostering compliance among SMEs.

The last aspect of the theory is Institutional Factors which clearly pinpoints the deep essence of tax awareness as well as education of SMEs by tax authorities to clearly articulate what is obliged of the taxpayer and consistent enforcement which is a critical factor to boosting rate of compliance (Azmi & Kamarulzaman, 2010) [3]. Furthermore, the framework guides the analysis in which economic, psychological as well as institutional factors are associated with the compliance of the SMEs in the submission of turnover tax amongst SMEs in informal sector of the Lusaka Central District. The examination of the influences leading to effective turnover tax compliance by SMEs will offer insights into better tax strategies that positively influence compliance amongst SMEs as well as means in which the challenges can be tackled given the background.

2. Literature Review

On a global perspective, many reports surrounding turnover compliance have been recorded especially amongst SMEs which culminates into significant issues which has been echoed across many regions, particularly in Africa and Zambia. Global research demonstrates that SMEs are documented to be global drivers of economic growth which accounts for a huge percentage in the provision of employment opportunities and innovation. According to Ariyo (2005) [2], up to 65% of productive units are SMEs, this constitutes a major source of employment as well as production in both developed and developing economies.

Furthermore, despite the global recognition of SMEs for a positive contribution, many are faced with enormous challenges especially in the compliance with tax obligations because of factors such as limited resources, complicated regulations and inadequate tax education (OECD, 2020) [20]. In this regard, many of these challenges are well common in economies where many of the SMEs operate in informal sector especially in many African economies where there is less tax education. Furthermore, under such environments, tax obligations are often perceived to be unclear or not fair or too heavy to bear by small businesses. This has been compounded by a lack of trust in government institutions and the perception that tax revenues have not resulted in evident public services (Stem & Barbour, 2005) [26]. These are the reasons many SMEs remain informal, further constraining growth potential and hindering government collection of increased revenue.

Another study by Cyrlje (2015) [7] to investigate the effects of tax literacy as an instrument of combating and overcoming tax system complexity, low tax morale and tax non-compliance in Croatia concluded that tax literacy in the financial dimensions possesses specific tax oriented financial knowledge on accounting and numeracy skills required for managing tax calculations. Tax literacy was intended to help individuals receive information about taxes, to explain those taxes within a domestic system as well as regional and international system. The aim of this paper was to stress out that the complexity of the taxation system as well as some other problems like those that low tax morale and low tax compliance might be combated through promotion and implementation of tax literacy initiatives and programs. By acquiring basic knowledge of taxation and public expenditures, individuals become able to efficiently manage their personal finances and understand the basic logic of possible effects of fiscal policy. On the other side, if individuals are not taught the basic concepts of taxation and never acquire needed numeracy skills, they might be more prone to problems like indebtedness or noncompliance of their tax obligations. Another study conducted a study to determine how enhanced tax knowledge and tax attitudes affect the compliance behaviour among the taxpayers in New Zealand concluded that the compliance behaviour of the taxpayers after acquiring the tax knowledge did not have significant relationship with tax compliance behaviour (Lin and Carrol, 2000).

Findings of the research done by Mukhlis *et al*. (2013) show that tax knowledge is strongly influenced by the education level of the taxpayers. Their research concluded that basically the SME sector businesses can understand their tax obligations when there is the aspect of justice and tax benefit can be received in real terms by businesses in the SME sector in East Java. Similar research done by Mukasa (2011) [16] gave the result that the tax knowledge and perceived 10 fairness taxes have a causal relationship with tax compliance. Therefore, it is important to analyse the role of education as far as the role of the tax, the tax knowledge and a sense of justice taxpayer to tax compliance businesses, especially SMEs crafts field in East Java. In areas of taxation laws and the role of tax in national development, it is necessary to increase public awareness through knowledge of the tax system, especially to explain where and how the money collected is spent by the government (Rizal, 2010). Heightened awareness would encourage people to register as taxpayer. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is. Knowledge is related to the ability of a taxpayer to understand and comply with taxation laws.

With Kenya Revenue Authority (KRA) as the main tax authority in Kenya, Taxpayer Education Unit was formed in the year 2005. It was formerly known as Taxpayer Services under the Commissioner for Corporate Support Services. It then moved to the Marketing & Communication Division in 2008 as a section mandated with internal and external education. Its function is compiling and disseminating effective practices through advocacy programs to stakeholders and taxpayers.

According to Oladipupo and Obazee (2016) in their investigation on the impacts of tax payers' knowledge and penalties on tax compliance amongst small and medium enterprises in Nigeria using a survey research design. The data obtained from questionnaire were analyzed using the Ordinary Least Square regression method. The results showed that tax knowledge had a positive significant impact on tax compliance Thus, the study shows that tax knowledge has a higher tendency to promote tax compliance small and medium scale business owners should also seek to advance their tax knowledge and awareness for the mutual benefits of the governments and taxpayers.

Tax knowledge is an understanding of essential tax concepts within a country (Fauziate *et al*; 2016) It is important in determination of the correct tax liability in the era of self-assessment and according to KRA policy which is aimed at Trust and facilitation whereby it is expected that the taxpayer is aware and educated on the tax rules and regulations. Newman *et al* 2015 established that the SMEs in developed countries do not comply to the tax laws and noted that introductory classes be introduced at the basic learning levels.

Mckerchar and Hansford (2015) states that absence of tax knowledge may lead to tax noncompliance and Nyamwanza *et al* (2014) [19] stated that tax awareness is not the only contributor of tax noncompliance. Tax awareness is the knowledge of which is required to be able to fulfil the various obligation by an individual whereas education involves impacting the know how to an individual with a view of producing a positive result.

In Zambia for instance, SMEs are the backbone of economic stability, providing about 70% of employment and 50% of the GDP (Zambia Development Agency, 2020) [29]. On the contrary, the Zambia Revenue Authority (ZRA) reports that less than 50% of the SMEs are in compliance with the turnover tax obligation (ZRA, 2022) [30]. Some of the major difficulties faced by Zambian SMEs are a general lack of awareness regarding their tax obligations and complexities in filing. Additionally, most government policies fail to address the special needs of such enterprises, they have treated them no differently from large corporate entities without considering their specific challenges.

Given the significant issues that SMEs face, a dedicated means for recovery in improving the compliance of SMEs towards turnover tax through an improved strategy that can enhancement tax education programs as well as simplify tax processes as well as procedure and the creation of a supportive business environment.

3. Research Methodology

A mixed method approach was used where a combination of qualitative and quantitative collection of data is adopted. The design was adopted on the basis that it enables triangulation of data and especially since quantitative findings provides measurable patterns including qualitative insights which provides contextual understanding in assessing turnover tax compliance among SMEs.

The study targeted SMEs in Lusaka central with a sample size of 40 as well as 10 ZRA officer making a total of 50. Quantitative data was collected through a survey using a structured questionnaire, and this data was necessary for eliciting patterns on tax filing, payment habits of SMEs as well as the effectiveness of tax awareness programs. Furthermore, qualitative data was collected using an interview guide through in-depth interviews with selected SME owners and tax officials from the Zambia Revenue Authority (ZRA). With this ground, the interviews dug into personal experiences as well as attitudes towards the obligations of taxes and the perceived effectiveness of current tax policies in line with the educational initiatives.

Furthermore, quantitative data was analysed through the use of Stata were as qualitative data was analysed thematically through excel. Furthermore, mixed-methods approach allowed triangulation of data and resulted in valid findings that put forward actionable recommendations for policy and tax authorities on how best to enhance turnover tax compliance amongst SMEs in Zambia.

4. Results/Findings

4.1 Business Type

Gender of respondents	Percent (%)
Retail	65%
Service	35%

Table 1. The above table presents results that were provided after a question was posed on the type of business type the respondent fall into. However, based on the data provided, the majority of respondents were under retail and represented with 65% and 35% of the other position were under service delivery.

This suggests that turnover tax compliance concerns may be particularly relevant to retail operations. Additionally, 35% of respondents identified as “Service” providers, showing a moderate presence of this business type.

4.2 How long have you been in operation?

Years of operation	Percent (%)
2-5 Years	40%
5-10 Years	40%
More than Years	20%

Table 2. The graph above represents the responses to the question, “How long have you been in operation?” Most of the respondents reported to have been between 1-10 years, because it is categorized into two as these are (1-5Yrs) and (5-10Yrs), both being rationed at 40% each, indicating that the demographic make-up for business enterprises in this research is relatively young and still adapting to regulatory requirements. Additionally, 20% of businesses fall in the “10 years” category, while others have a smaller segment of operation. These results show that most of the businesses are still in their early stages, which could be the cause of less familiarity with turnover tax guidelines or adherence to them.

4.3 Estimate your annual turnover?

Turnover	Percent (%)
K100,000- K500,000	65%
K500,000-K100,000	10%
Less than 100,000	25%

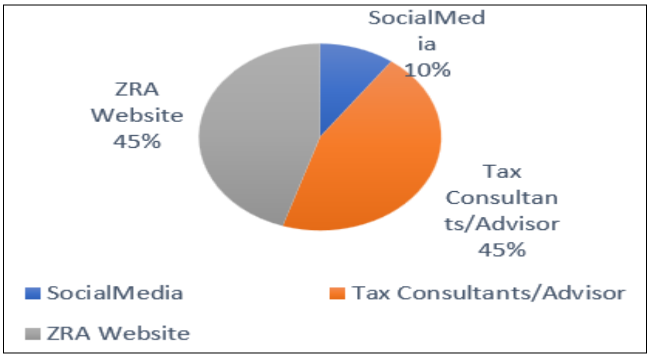
The above table shows the results of respondents’ answers to “Estimate your annual turnover.” By far, 65% of businesses reported an annual turnover in the “K100, 000-K500, 000” range, indicating that many respondents represent huge businesses. On the other hand, 25% estimated turnover less than “K100, 000” range, while a smaller share of (10%) reported a turnover exceeding “K1,000, 000.” The given statistics have implications on the compliance levels which have challenges on taxes that may be varying across turnover levels especially with smaller businesses potentially facing various difficulties.

4.4 Are you aware of turnover tax regulations?

Tax Regulations	Percent (%)
Yes	90%
No	10%

Table 4. The above table shows the responses that were provided by the respondents after the question was asked if respondents were aware of turnover tax regulations, in this regard, 90% of the respondents answered “Yes,” which means the majority of businesses around Lusaka central district and also demonstrating an excellent understanding of this regulation. Additionally, less than (10%) portion of respondents reported “No,” which indicates that minority of responds were uninformed. However, the described situation means that very much of positive results is being done in explaining tax legislation to businesses. Nevertheless, this also mean that some businesses are still not completely aware of tax regulations.

4.5 How do you stay informed about Turnover Tax regulations and changes?



The pie chart above outlays responses that were provided as a result of the question "How do you stay informed about turnover tax regulations and changes?" in this regard, the chart demonstrates 45% of the responses depend on the information provided through ZRA website which is a clear indication that some respondents are clearly drawn upon digital resource information. Moreover, another set of respondents 45% depended on the tax consultants as well as advisors which demonstrates that some respondents deeply depend on validated information in the sector while 10% of the respondents reported social media. The findings presented shows that digital communication is a key avenue through which information is shared, even as traditional sources and advisors continue to play an important role in informing business communities.

Turnover Tax Compliance

4.6 Have you experienced any challenges with turnover tax compliance?

Challenges	Percent (%)
Yes	40%
No	60%

Figure 5. The table above illustrates the responses to the question, "Have you experienced any challenges with turnover tax compliance?" A larger number of respondents 60% provided the response "Yes," meaning that most face problems regarding this issue. On the contrary, 40% responded "No," indicating that it is rather easy for others to deal with the compliance. The division indicates widespread difficulties that may require further support or resources for businesses failing to manage compliance.

4.7 What are the challenges you face in complying with Turnover Tax requirements?

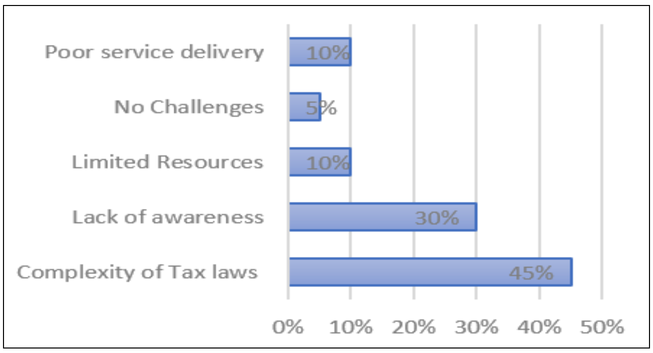


Figure 6. The graph above shows the responses to the question, "What are the challenges you face in complying with the Turnover Tax requirements?" From this result, 45% of the respondents said that the main challenges are "Complexity of regulations", which indicates the structures of tax laws being very complicated. Meanwhile, 30% said "Lack of awareness," there was an information gap. A minor fraction stated "poor service delivery" at 10%; they find it a burden financially to meet the requirements and lastly No challenges 5%, gapping respondents not facing no challenges in the process. This distribution emphasizes the demand for simpler regulations and better educative resources for businesses.

Turnover Tax Payment Patterns

4.8 Do how frequently do you file Turnover Tax returns?

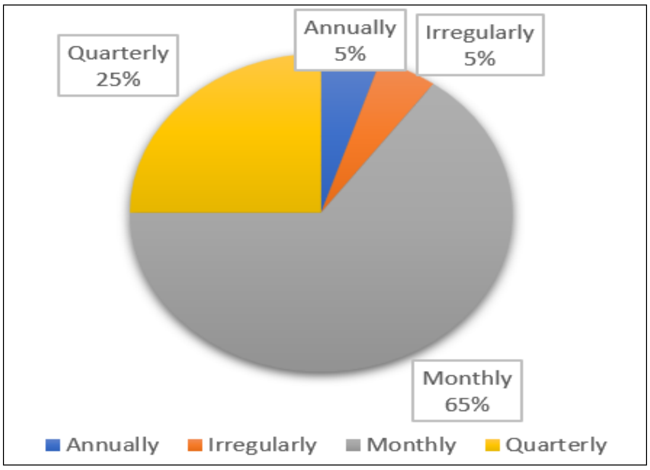


Figure 7 above is a graph depicting responses to "How often do you submit the Turnover Tax returns?" The majority 65% of the respondents reported "Monthly," which is consistent with the normal practice of making the frequency of tax filing coincide with monthly financial reporting. A smaller percentage 5% of the respondents submit "Annually," and this may indicate that they interact less frequently with tax authorities. Only 25% file "Quarterly," which could represent businesses with low turnover or not more complex operations. These responses suggest a trend toward monthly filings but indicate some variation in filing habits.

4.9 What methods do you use to file Turnover Tax returns

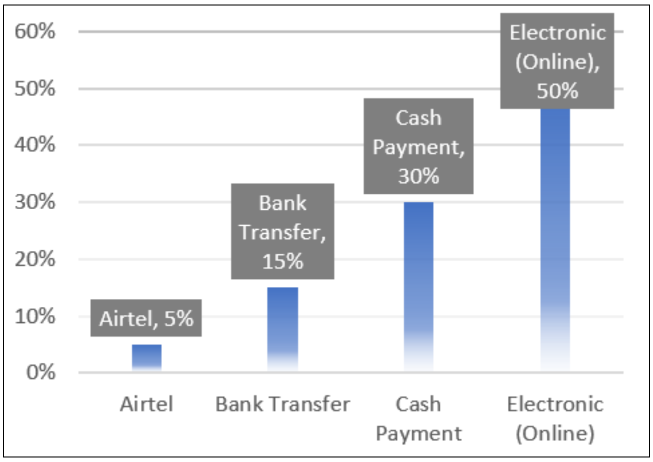


Figure 8. The methods used by respondents in filling Turnover Tax returns, as gathered from the question, "What methods do you use to file Turnover Tax returns?" are represented on the graph above. In summary the most used method by respondents is "Online portal or electronic," with 50%, indicating a preference for digital filing, which is easier. Furthermore, 30% of the respondents preferred use of manual filling systems or cash payments which is a sign that of lack digitalised systems or simply the like for traditional means. Additionally, 25% of the respondents reported to have used other third party digitalised filling systems such as bank. And only a small portion of the respondents used 5% indicating a minimal reliance on external help. Therefore, the given statistics demonstrates a strong and positive trend towards the use of online filling systems, however, the findings also reveal that some businesses prefer use of manual systems or cash due to many factors.

Tax Filling Patterns

4.10 What is your average turnover tax payments amount for the last 12 months?

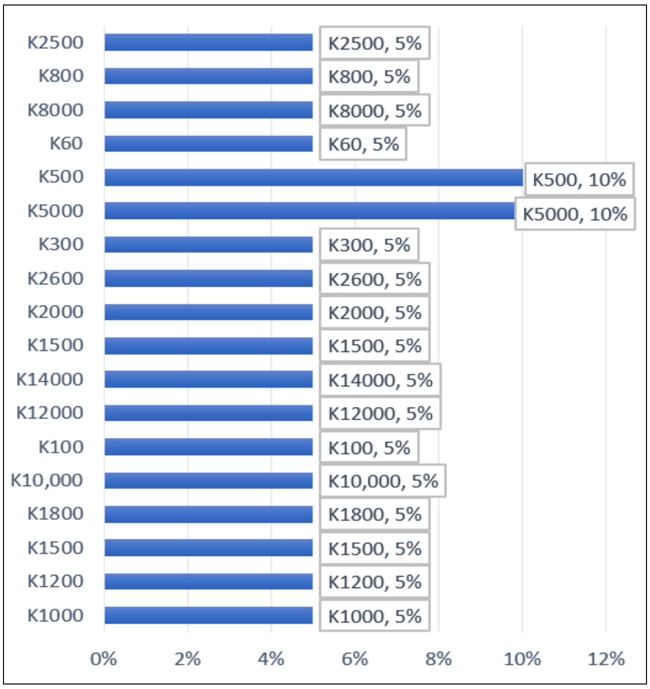


Figure 9. The chart presented above shows the average turnover tax payments of the respondent's that participated in the study. In this regard, most respondents 20% reported paying in the "K500 (10%) - K5000 (10%)" range, suggesting that this is a common tax burden for businesses in the sample. A smaller group 5% reported "Less than K100," indicating lower payments, possibly due to smaller turnover. Meanwhile, other respondents indicated payments "Exact and less than K15000," reflecting businesses with higher turnover. This distribution provides insights into the average tax payments across various business sizes.

4.11 What is the turnover tax filling rate for the last 12 months?

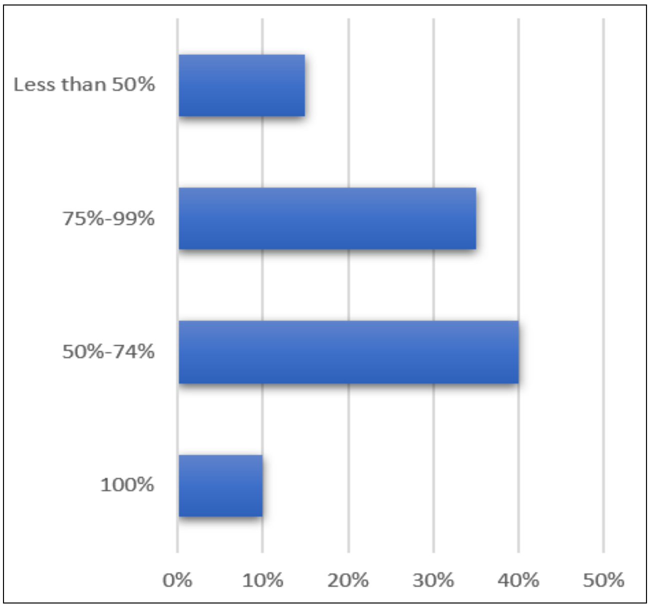
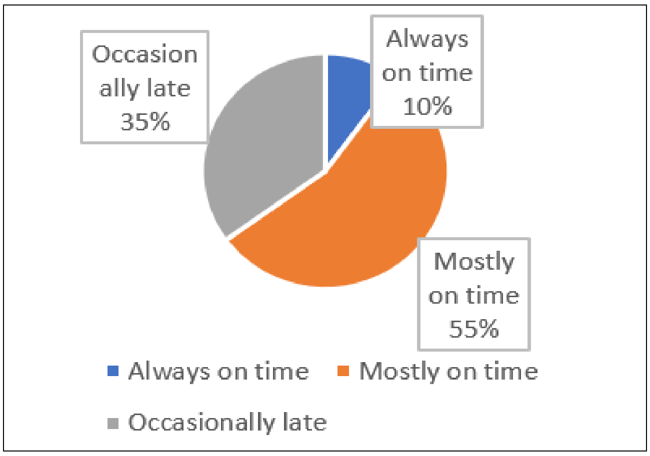


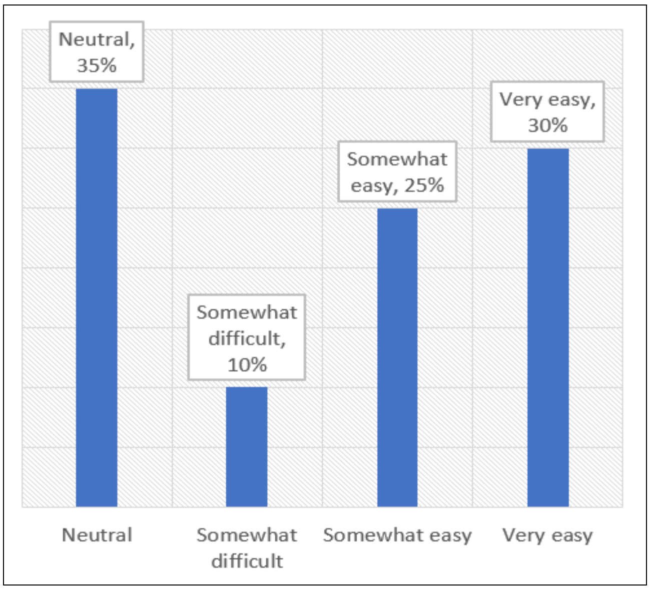
Figure 10. The bar chart above demonstrates turnover tax filling rates of the respondents in the last 12 months. However, the charts shows that 40% of the respondents scoring the highest filled about 50%-75%, which indicates that there is a good level of compliance in most businesses, followed by 35% of the respondents that filled about 75%-99% also proving a great unground for tax filling.

Additionally, the study, also shows that less than 15% of the respondents filled less than 50% annually and lastly only 10% of the respondents filled about 100% in 12 months. Therefore, the results demonstrates a higher compliance rate which reflects a positive response towards the demand of the Zambia Revenue Authority.

How timely were your last 12 months Turnover Tax Payments?

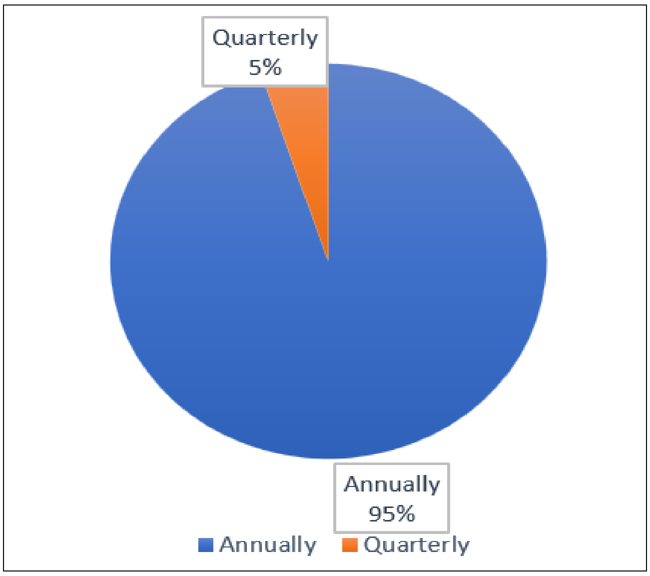


Tax Registration and Licensing



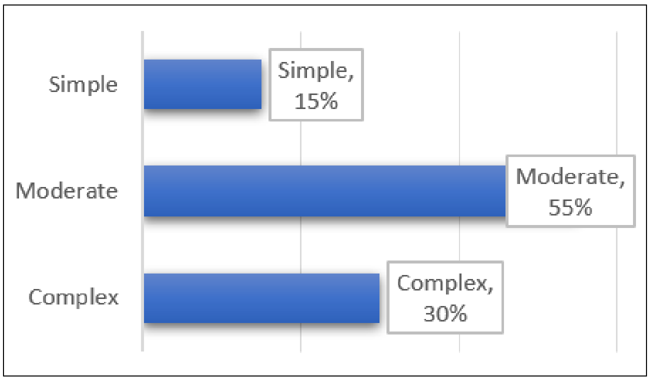
The graph above shows the responses to the question, "How easy was it to register your business for taxes?" An overwhelming 35% responded with "Neutral," which implies that most firms found process manageable. while, 25% found it "somewhat easy," and 10% rated it "somewhat Difficult," indicating that few businesses met with difficult processes. These results also suggest that although registration is easy for most businesses, some firms may experience initial difficulties in getting registered.

How often do you renew licenses?



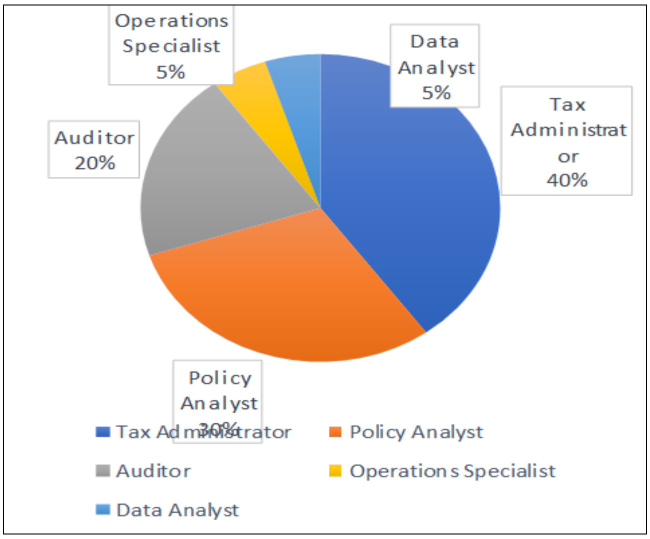
The pie chart above, presents that responses that were provided after the question about "How often do you renew licenses?" In this regard, 95% of the respondents reported annually, which indicates a positive response in line with the regulation provided by the authorities. Meanwhile, a small group of respondents reported quarterly which could be in 3 or 4 months, indicating a lapse in revenue. Ideally, the results provided suggests a huge trend in the annual renewal of operating licenses as well as the need for more frequent updates or face occasional delays.

How complex do you find tax laws and regulations?



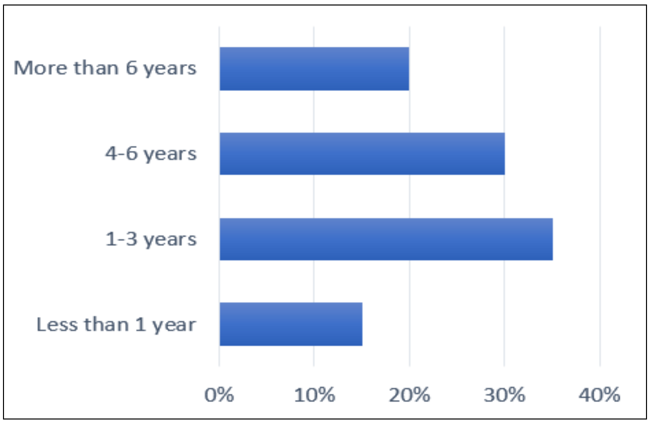
The above graph illustrates the perception of the respondents with regard to the complexity of tax laws and regulations, as posed by the question, "How complex do you find tax laws and regulations?" The majority 55% rated them as "moderate," indicating significant challenges in understanding such regulations. Another 2% considered them "complex," while only 15% found them "Simple." This distribution reflects widespread difficulty in navigating tax regulations, highlighting the attention for a simpler guideline or a well and more support for businesses.

Zambia Revenue Officers
Role/Position at ZRA



The above pie chart presents different positions or roles of the respondent officers that managed to participant in the study. The chart shows that 40% of the participants where tax administrators underpinning their major role in the day-to-day interactions with SMEs. Furthermore, the chart also shows 30% of the participants are policy analysts, making valuable contributions towards the development of the strategies as well as frameworks that looks at the increasing turnover tax compliance.
Additionally, the chart also shows that 20% of the respondents were auditors in ensuring that accuracy and accountability in the fillings systems is presented by SMEs. Lastly, operations specialists and data analysts were represented with 5% each in order to maintain an organized operational efficiency as well as data-driven decisions-making it paramount while assessing compliance patterns.

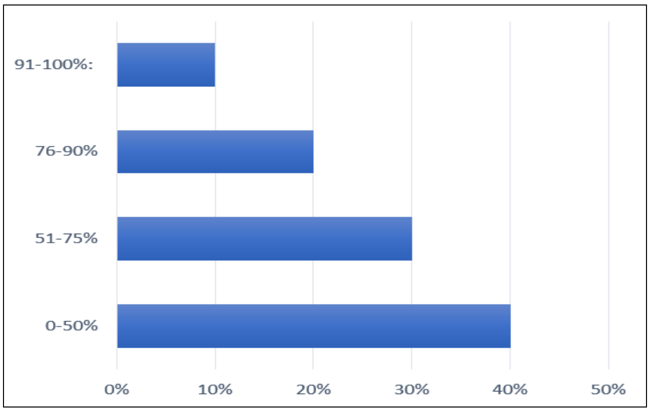
Experience with SMEs on Turnover Tax Compliance



The bar chart above presents the number of years of experience of the ZRA officers' serving different position and roles. In this regard, the chart shows that the majority of the respondents 35% had 1-3 Years f operational experience with SMEs, indicating a fairly new workforce dealing with the compliance of SMEs towards turnover tax. Additionally, 30% of the respondents reported to have had 4-6 years of experience whereas 20 of the respondents had more than 6 years of experience. And lastly only 15% of the respondents had less than 1 year.

Therefore, the mix in terms of experience levels is vital because it reflects a strategies being implemented by the ZRA that maintain institutional knowledge through a delightful and in board newer professionals to adapt to shifting dynamics in tax compliance. Furthermore, it is evident that the high level of experienced staff guarantees means to providing practical solutions to the challenges faced by SMEs, such as the complexity of the tax laws and the effects of constrained resources which are adequately met with informed solutions.

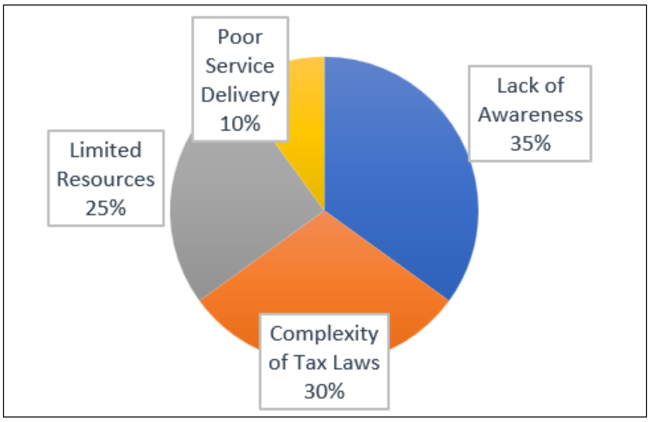
Overall Turnover Payment Rate among SMEs



The above bar chart presents the overal ratings of turnover payment rates amongst SMEs in Lusaka central district. However, chart shows that the majority of respondents were represented with 40% which rated the overal turnover payment rate at 0-50% which indicates that higher number of businesses either do not comply or partially comply with their turnover tax obligations. In this regard, 30% of the respondents rated 51-75% which indicates that some SMEs do try to comply but suffer some lapses especially in filling or making their payments.

Moreover, the 20% of the respondents rated 76-90% indicates the dire need to get rid of some of the barriers SMEs face including complexity in tax processes or access to information and challenges on the business environment side. Lastly only 10% of the respondests reported 91-100%. Therefore, it is evident that the low proportion of high compliance rates underline the signifcance of of the objectives as well as the study and therfore any oulined factor with an effect or root causes that creates low compliance amongst SMEs within the 0-50% range needs the attension of the ZRA in order to resolve and successfully improve overall compliance rates.

Common Challenges Faced by Taxpayers



From the chart above, the two major barriers are lack of awareness (35%) and complexity of tax laws (30%) indicating that the government needs to simplify the laws and increase education campaigns. Limited resources at (25%) indicate financial constraints, which may require policy adjustments, such as giving the option for payments in instalments. Additionally, only 10% of the respondents reported Poor service delivery which shows that infrastructure as well as support needs clear improvements even though it is not a major concern.

5. Discussion and Implication of Findings

The study on assessing turnover tax compliance among SMEs in informal sector as a case of Lusaka central district has demonstrated a number of challenges faced by not only by the SMEs but also the government of Zambia at large. The study demonstrated that less than 50% of the SMEs are compliant to the rules and laws given by ZRA in line with turnover tax, the study identified factors such as lack of adequate tax awareness; which poses a lot of implication in terms of submission or filling. Secondly, the study identified another factor, complicated filling procedure as well as filling processes and procedure and unpredictable business environment.

Furthermore, the non-compliance practices among SMEs leads to serious losses of government revenue and creates a harness were it gets practically impossible to expect the full growth potential of SMEs, especially upon which the economy relies for employment creation as well as economic stability.

Conversely, the study also indicated that tax education programs are necessary and pivotal to enhancing the levels if compliance among SMEs. In this regard, the tax education programs needs to be improved, the greater the level of tax awareness amongst SMEs operating both in informal and formal sector, the advantage ZRA will have to determine the dynamics of the environment and compliance of SMEs. Moreover, simplifying tax filing processes would be not only be advantageous but further reduce administrative burdens fostering compliance more manageable especially for small businesses.

Additionally, the need to create an environment that supports the establishment of stable businesses will not only foster economic growth but also provide opportunities in which economies can be sustained. Furthermore, economic fluctuations and regulatory uncertainties deter SMEs from formalizing operations. Policymakers must address these barriers to promote SME growth.

The study also shows that it is crucial for the ZRA as an authority to provide meaningful trust between the SMEs and the all authorities guiding operations of SMEs. In this regard, Engaging SMEs in understanding their challenges as well incorporating their suggestions in inclusive tax policies will have a better impact which will provide a ground for supporting the sustainability of SMEs.

6. Conclusion

In conclusion, the study identified some of the main challenges SMEs face in their operations which hinders the compliance levels, and these factors includes lack of tax awareness, complicated filing process and procedures of tax returns as well as unstable business environment. Additionally, the study demonstrates that less than 50% of SMEs comply with requirements for turnover tax, as this is a clear hindrance to the success of the government when it comes to collection of revenue hence discouraging SME growth which serves about 50% of job creation and economic stability in Zambia.

Furthermore, the identified factors require a practical intervention which should extremely provide a sustainable tax education, including a simplified turnover tax return and filling and ascertain compliance procedures as well as engendering trust between SMEs and tax authorities. Moreover, the policy makers should consult with SME owners in order to integrate their views into strategies that foster compliance but with a supporting business environment. The study recommended the following, Simplification of Tax Regulations, Enhanced Tax Education and Awareness Programs, Regular and Accessible Taxpayer Education Programs.

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