



Received: 10-12-2025
Accepted: 20-01-2026

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

An Investigation on the Effects of Taxation on the Performance of Small and Medium Enterprises: A Case Study of Lusaka's CBD

¹ Mubanga Jasper, ² Frank Simwanza

¹ Department of Business, Information and Communication University, Lusaka, Zambia

² Department of Business Studies, Information and Communication University, Lusaka, Zambia

DOI: <https://doi.org/10.62225/2583049X.2026.6.1.5707>

Corresponding Author: Mubanga Jasper

Abstract

This study investigates the effects of taxation on the performance and growth of Small and Medium Enterprises (SMEs) in Lusaka's Central Business District, Zambia. A mixed-methods approach was employed, utilizing a structured questionnaire administered to a sample of 100 registered SMEs. Data were analyzed using descriptive statistics and Chi-Square tests of independence to examine key relationships within the SME tax ecosystem. The analysis revealed three statistically significant findings. First, a significant association was found between business size and tax awareness ($\chi^2(4) = 12.45$, $p = 0.014$, Cramer's $V = 0.249$), indicating that larger SMEs possess a markedly better understanding of their tax obligations. Second, the level of tax awareness was strongly correlated with tax compliance behavior, with a highly significant relationship

to the frequency of timely tax payments ($\chi^2(8) = 28.92$, $p = 0.0003$, Cramer's $V = 0.380$). Finally, the perceived complexity of the tax system demonstrated an extremely significant association with the belief that the tax environment hinders SME growth ($\chi^2(4) = 42.18$, $p < 0.0001$, Cramer's $V = 0.459$). The study concludes that the current tax system disproportionately challenges smaller SMEs through a cycle of low awareness, high compliance costs, and systemic complexity, which collectively impede their financial performance and expansion potential. Recommendations include the implementation of differentiated, sector-specific tax education programs, the simplification of tax procedures for small businesses, and enhanced transparency from revenue authorities to foster a more supportive fiscal environment for SME development.

Keywords: SME Taxation, Tax Compliance, Chi-Square Analysis, Business Performance, Lusaka Zambia, Tax Policy

1. Introduction

1.1 Background

Small and Medium Enterprises (SMEs) are globally recognized as vital contributors to economic development, innovation, and employment creation. According to the World Bank (2022) [78], SMEs represent over 90% of businesses and more than 50% of jobs worldwide, with developing economies relying heavily on them to support inclusive growth. However, despite their importance, many SMEs face systemic challenges that hinder their growth one of the most prominent being taxation. Globally, tax compliance costs for SMEs are often disproportionately high due to limited administrative capacity and complex filing systems (OECD, 2021). This discourages formalization and reduces their long-term sustainability.

Across Africa, SMEs account for around 80% of jobs and are estimated to contribute more than 60% of the GDP (African Development Bank [AfDB], 2022). Despite their importance, the growth and performance of SMEs across the continent are hampered by various factors, including regulatory burdens, financing challenges, and complex tax systems. In Sub-Saharan Africa, over 70% of SMEs operate informally, partly to avoid taxation (OECD, 2021), which negatively affects national revenue collection and hinders inclusive growth.

Locally, SMEs are the backbone of the economy, contributing over 70% of employment and about 88% of all business activities (Zambia Development Agency [ZDA], 2023). The government, through institutions such as the Zambia Revenue Authority (ZRA), has implemented various tax policies aimed at formalizing and supporting SMEs. These include presumptive tax regimes and simplified tax filing procedures. However, the 2022 Auditor General's Report highlighted that over 45% of SMEs in Lusaka remain non-compliant with tax obligations, citing reasons such as lack of awareness, high compliance costs, and bureaucratic inefficiencies.

Historically, Zambia's tax system has evolved from a post-independence centrally managed structure to a more diversified system characterized by value-added tax (VAT), income tax, and sector-specific levies (Ministry of Finance, 2021). While progressive tax reforms have sought to improve inclusivity and fairness, SMEs continue to face significant tax burdens that limit their profitability and expansion. Developmental efforts such as the 7th National Development Plan (2017–2021) and the current 8th NDP (2022–2026) underscore the role of SMEs in achieving Vision 2030, yet fiscal policies have often lagged behind in meeting SME-specific needs.

Moreover, policy inconsistencies and lack of integration between SME support programs and taxation strategies have created challenges in achieving the desired balance between revenue generation and enterprise growth (Phiri & Mwansa, 2023). As such, understanding how tax policies and practices affect SME performance, especially in economically strategic areas like Lusaka's Central Business District (CBD), is critical for designing more responsive fiscal interventions.

A significant gap still exists between policy formulation and implementation. While the presumptive tax regime was intended to simplify tax obligations for micro and small enterprises, recent evaluations suggest that awareness and uptake remain low due to inadequate sensitization and limited outreach, particularly among informal business operators in urban markets like Lusaka's Central Business District (CBD). The CBD is a high-density business zone characterized by retail shops, service providers, informal vendors, and small manufacturing units. These businesses contribute significantly to local economic activity yet remain largely under-assessed and under-supported in fiscal policies.

The failure to effectively integrate SMEs into Zambia's formal tax system has consequences beyond revenue loss. It also limits SME access to government support programs, credit facilities, and business development services that often require formal registration and tax compliance as prerequisites. Additionally, inequities in tax enforcement where compliant SMEs bear a heavier burden while informal competitors operate tax-free create distortions in market competition.

Therefore, understanding the actual effects of taxation on SME growth and performance is crucial for improving Zambia's fiscal policies and development strategies. By focusing on Lusaka's CBD, this study provides context-specific insights that can inform more responsive, equitable, and growth-oriented tax systems for SMEs in Zambia and other similar economies.

1.2 Statement of the Problem

Despite their significant contribution to Zambia's economy, SMEs in Lusaka's Central Business District continue to face various tax-related challenges that hinder their performance and growth. Taxation, while a critical source of government revenue, is often perceived by business owners as burdensome due to high compliance costs, complex filing procedures, and perceived unfairness in the system (ZRA, 2022^[81]; Chanda & Chileshe, 2021).

Although government efforts such as presumptive tax schemes and taxpayer education initiatives have been introduced, their impact remains limited, with compliance levels among SMEs still alarmingly low. According to ZDA

(2023), nearly 60% of SMEs in urban Zambia operate informally, largely to avoid the perceived difficulties associated with tax compliance.

This problem not only affects national tax revenue but also undermines SME development, job creation, and the financial inclusion. The lack of alignment between tax policy and the capabilities of these businesses further complicates the situation, especially in competitive markets like Lusaka's CBD, where operational costs are already high. Prior studies have explored taxation from a macroeconomic perspective, but few have focused on its specific impact on SME growth and performance at the micro level in urban Zambia. This research, therefore, seeks to fill this gap by investigating how taxation influences the operations of both SMEs in Lusaka's central business environment.

1.3 General Objective of the Study

To investigate the effects of taxation on the performance and growth of small and medium enterprises, with a specific focus on SME's in Lusaka's Central Business District.

1.3.1 Specific Objectives

1. To examine the tax awareness and compliance among SMEs in Lusaka CBD.
2. To assess the effects of taxation on the financial performance of SMEs.
3. To establish the challenges SMEs face in complying with tax obligations.
4. To ascertain the relationship between taxation and SME performance.

1.4 Research Questions

1. What is the tax awareness and compliance among SMEs in Lusaka CBD?
2. How does taxation affect the financial performance of SMEs in Lusaka CBD?
3. What are the key challenges SMEs face in tax compliance?
4. What is the relationship between taxations and SMEs performance?

1.5 Research Hypothesis

Based on the research objectives, conceptual framework, and the existing literature reviewed, the following null hypotheses were formulated for statistical testing:

H₀₁: There is no statistically significant relationship between the size of an SME and its level of tax awareness.

H₀₂: There is no statistically significant relationship between the level of tax awareness and tax compliance behavior among SMEs.

H₀₃: There is no statistically significant impact of the total tax burden on the financial performance (profitability) of SMEs.

H₀₄: There is no statistically significant relationship between the perceived complexity of the tax system and the growth prospects of SMEs.

These null hypotheses will be tested against their corresponding alternative hypotheses:

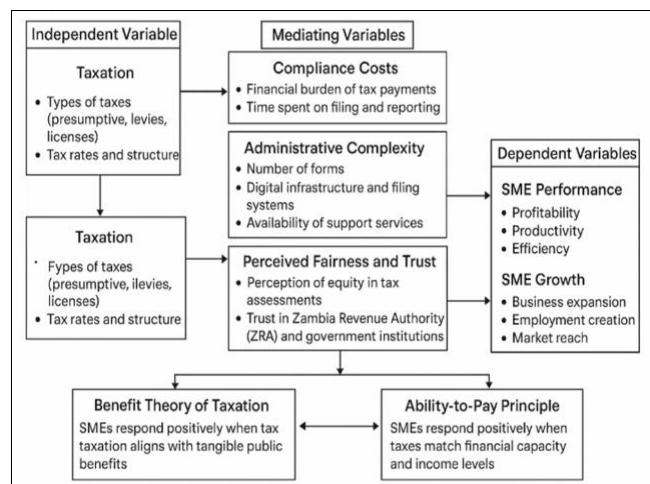
H₁₁: There is a statistically significant relationship between the size of an SME and its level of tax awareness.

H₁₂: There is a statistically significant relationship between the level of tax awareness and tax compliance behavior among SMEs.

H₁₃: There is a statistically significant negative impact of the total tax burden on the financial performance (profitability) of SMEs.

H₁₄: There is a statistically significant positive relationship between the perceived complexity of the tax system and the perception that it hinders SME growth.

1.6 Conceptual Framework



Based on the provided conceptual framework, the diagram illustrates a research model that seeks to understand the mechanisms through which a nation's taxation system influences the performance and growth of Small and Medium-sized Enterprises (SMEs). The framework posits that the relationship between taxation as an independent variable and SME outcomes as dependent variables is not direct. Instead, it is mediated by several critical factors that shape the SME owner's experience and perception of the tax regime.

The Independent Variable is the structure of taxation itself, encompassing the specific types of taxes imposed (such as presumptive taxes, various levies, and licenses) and the tax rates and structure. This represents the formal, objective policy environment as designed by the government and implemented by the Zambia Revenue Authority (ZRA). The model suggests that the characteristics of this tax system trigger a series of reactions within the business.

These reactions are captured by three key Mediating Variables. First, Compliance Costs refer to the direct financial burden of tax payments and the significant time invested by SME owners in filing and reporting. High compliance costs can divert crucial resources away from productive business investment (Coolidge, 2012) [36]. Second, Administrative Complexity, indicated by the number of forms, the state of digital infrastructure, and the availability of support services, can create operational friction and increase the likelihood of errors or penalties. Third, and crucially, Perceived Fairness and Trust mediate the relationship. This involves the SME owner's judgment on the equity of tax assessments and their level of trust in the ZRA and broader government institutions. When taxpayers perceive the system as fair and trustworthy, voluntary compliance is generally higher (Kirchler, Hoelzl, & Wahl, 2008).

The ultimate effects are measured in the Dependent Variables: SME Performance (through metrics like profitability, productivity, and efficiency) and SME Growth

(evidenced by business expansion, employment creation, and increased market reach). The model implies that the nature of the tax system, filtered through the mediators of cost, complexity, and fairness, directly impacts these tangible business results.

Finally, the framework is grounded in two foundational theories of public finance. The Benefit Theory of Taxation suggests that SMEs are more likely to respond positively to taxation when they can see a clear alignment between the taxes they pay and the tangible public goods and services (e.g., infrastructure, security) they receive in return (Musgrave, 1959). Conversely, the Ability-to-Pay Principle argues that tax compliance and positive business response are enhanced when the tax burden is perceived to match the financial capacity and income levels of the enterprise, ensuring it does not stifle survival or growth (Smith, 1776). In essence, this conceptual model provides a comprehensive pathway for analyzing how tax policy translates, through the lived experience of the SME, into real-world economic outcomes.

2. Literature Review

2.1 Tax Awareness and Compliance

Tax awareness is a critical determinant of tax compliance among Small and Medium Enterprises (SMEs). In the context of Zambia, particularly within Lusaka's Central Business District (CBD), the level of tax awareness among SMEs significantly influences their compliance behavior. This section delves into the relationship between tax awareness and compliance, drawing on empirical studies and theoretical frameworks to elucidate the challenges and implications for SMEs.

Tax awareness encompasses the understanding of tax obligations, including knowledge of tax laws, filing procedures, deadlines, and the benefits of tax compliance. A well-informed taxpayer is more likely to comply voluntarily, reducing the need for enforcement actions by tax authorities. According to Atawodi and Ojeka (2012) [17], low levels of tax knowledge correlate with high rates of non-compliance among African SMEs. Their study in North Central Nigeria revealed that inadequate tax education contributes to misunderstandings about tax obligations, leading to inadvertent non-compliance.

Similar trends have been observed in Zambia. Mwila (2020) [62] found that over 50% of SME operators in Lusaka could not accurately identify their tax obligations, resulting in penalties and business disruptions. This lack of awareness not only affects compliance rates but also hampers the growth and sustainability of SMEs. When SMEs are unaware of their tax responsibilities, they are more susceptible to incurring fines, which can strain their financial resources and impede business operations.

The low level of tax awareness among Small and Medium Enterprises (SMEs) in Lusaka's Central Business District (CBD) can be attributed to several interrelated factors, many of which stem from structural, educational, and communication challenges. One of the primary contributors is the limited access to tax education programs. Although the Zambia Revenue Authority (ZRA) has undertaken initiatives to enhance taxpayer education such as through seminars, radio programs, and online platforms these efforts often fall short of reaching a broad spectrum of SMEs, especially micro-enterprises and those operating in the informal sector. According to Banda and Phiri (2021), a

significant number of SME owners in urban Zambia have never attended a tax sensitization workshop, largely due to lack of awareness, time constraints, or resource limitations. In addition, many SMEs in Lusaka operate without reliable access to the internet or electronic devices, which further limits their ability to benefit from online resources and updates provided by the ZRA.

Another significant barrier to tax awareness is the complexity of tax laws and procedures. Zambia's tax system, like many others in Sub-Saharan Africa, comprises a mix of direct and indirect taxes, including corporate tax, value-added tax (VAT), presumptive tax, and turnover tax. Each of these has distinct compliance requirements, deadlines, and thresholds. For SME owners who often lack formal training in accounting or financial management, navigating this regulatory environment can be daunting. The frequent amendments to tax legislation, often made during national budget announcements, further complicate matters. SMEs that do not employ tax professionals are particularly vulnerable to misunderstanding or overlooking new requirements. According to a study by Chishimba (2019), more than 60% of SMEs in Lusaka reported difficulty in understanding their tax obligations due to technical language and ambiguous policy guidelines, leading to inadvertent non-compliance.

Language barriers also play a crucial role in hampering tax awareness. Much of the tax-related communication in Zambia is conducted in English, including taxpayer education materials, official ZRA correspondence, and government websites. However, for many SME operators, especially those whose education was limited or who primarily speak local languages such as Nyanja or Bemba, this can create significant difficulties in comprehension. This gap in communication limits the ability of entrepreneurs to fully understand the legal and procedural aspects of tax compliance, increasing the likelihood of errors or complete avoidance. As noted by Mwansa and Kalinda (2020), multilingual dissemination of tax information could improve inclusivity and enhance compliance rates among SMEs, especially those owned by individuals from linguistically diverse backgrounds.

Lack of tailored communication between tax authorities and SMEs exacerbates the problem. Most of the tax information shared by the ZRA is generalized and does not adequately address the specific needs, challenges, or operational nuances of different types of SMEs. For instance, a small-scale retailer operating in Lusaka's CBD faces different tax challenges compared to a service-based consulting firm or a transport operator. Generic materials fail to resonate with such varied business contexts, causing confusion or disengagement. Tailored guidance that considers industry-specific realities such as seasonal income fluctuations, informal bookkeeping practices, and cash-based transactions could significantly improve tax awareness and compliance. Furthermore, the absence of proactive communication channels such as follow-up SMS reminders, business support hotlines, or sector-specific briefings contributes to a disconnect between SMEs and tax regulators. Without customized support, SMEs may feel alienated from the formal tax system, perceiving it as burdensome and opaque. The combined effects of limited educational outreach, complex and evolving tax laws, language barriers, and generalized communication approaches contribute significantly to the low levels of tax awareness among

SMEs in Lusaka's CBD. Addressing these factors will require a multidimensional strategy from policymakers, including inclusive tax education campaigns, simplification of tax processes, localized language use, and the creation of SME-specific support services. Without such interventions, the gap between tax policy and practice will likely persist, undermining voluntary compliance and impeding the growth potential of the SME sector.

Low levels of tax awareness among Small and Medium Enterprises (SMEs), particularly in Lusaka's Central Business District (CBD), have profound implications on tax compliance. This deficit in awareness does not merely lead to technical errors in filing taxes; it systematically undermines the willingness and ability of SMEs to meet their fiscal obligations. The implications of this knowledge gap manifest in various dimensions, including increased non-compliance rates, exposure to financial penalties, business instability, and deteriorating trust in tax institutions.

One of the most immediate and measurable impacts of low tax awareness is the high rate of non-compliance among SMEs. Many SME owners are simply unaware of what taxes they are required to pay, how to compute them, or when these taxes are due. As a result, they fail to file returns or remit payments within the legally stipulated timeframes. This has been noted in several empirical studies. For instance, Atawodi and Ojeka (2012)^[17] observed that a lack of understanding of tax obligations was a leading cause of non-compliance among Nigerian SMEs, a trend similarly observed in other parts of Sub-Saharan Africa. In Zambia, a study conducted by Mwila (2020)^[62] found that nearly 52% of SMEs in urban centers, including Lusaka, were non-compliant with Value Added Tax (VAT) and presumptive tax requirements largely due to lack of clarity on compliance procedures. The Zambia Revenue Authority (ZRA) has also acknowledged that a significant portion of SMEs remain outside the tax net, not necessarily due to willful evasion but due to ignorance or confusion surrounding tax laws (ZRA, 2023)^[82]. When tax knowledge is low, even well-intentioned business owners may default, unintentionally placing themselves in legal jeopardy.

Another major consequence of this non-compliance is the accumulation of financial penalties and interest charges, which can be particularly damaging to small businesses operating on narrow profit margins. The ZRA imposes penalties for late filing and late payments that can quickly escalate into substantial liabilities. Specifically, the penalty for late submission of returns is K300 per month for individuals and K600 per month for corporate entities (ZRA, n.d.). Furthermore, any unpaid taxes attract a 5% penalty, along with monthly interest at commercial bank lending rates. For a small enterprise with modest revenue, such penalties can represent a significant portion of their operational capital. Banda and Phiri (2021) note that many SMEs in Lusaka end up accumulating tax arrears that exceed their monthly turnover, resulting in unsustainable financial burdens. These penalties not only strain cash flows but also limit the ability of SMEs to reinvest profits, hire employees, or expand their operations thereby stifling their growth potential.

Beyond financial implications, tax non-compliance driven by low awareness can result in operational disruptions and business instability. Tax enforcement mechanisms, including audits, garnishment of bank accounts, or seizure

of assets, can halt business operations. According to Phiri and Chama (2019), enforcement actions by the ZRA have led to temporary or permanent closures of several small businesses in Lusaka, especially those unable to resolve disputes or negotiate repayment plans. Moreover, the administrative time and resources spent dealing with tax issues take attention away from core business activities. Entrepreneurs are forced to divert time and funds to resolve compliance issues instead of focusing on innovation, customer service, or scaling their ventures. These disruptions erode the competitiveness and sustainability of SMEs in the long term, reinforcing the need for preventive measures through awareness creation rather than reactive enforcement.

Another critical outcome of low tax awareness and the resulting punitive measures is the erosion of trust between SMEs and tax authorities. When entrepreneurs repeatedly incur penalties due to ignorance or confusion, they may begin to perceive tax institutions as punitive rather than supportive. This perception is worsened when enforcement is carried out without adequate communication or education. Many SME operators in Lusaka's CBD have expressed concerns about what they describe as "harassment" by tax officers, especially when audits or inspections are conducted without prior education or warnings (Mwanza & Kalinda, 2020). This creates an adversarial relationship between the taxpayer and the state, reducing the likelihood of future voluntary compliance. The psychological burden of repeated financial penalties and confrontations with tax authorities can lead to disillusionment, causing some businesses to revert to informality as a strategy for survival. This undermines the broader goals of revenue mobilization and economic formalization.

Additionally, low tax awareness has implications for the perceived legitimacy of the tax system itself. When SMEs do not understand the rationale behind specific tax policies or how collected taxes are utilized, they may question the fairness of the system. The Benefit Theory of Taxation suggests that taxpayers are more likely to comply when they perceive a direct link between their contributions and the services they receive (Musgrave, 2014) ^[61]. However, in Lusaka's CBD, SMEs often complain of poor infrastructure, unreliable electricity, and inadequate security despite paying taxes. This perceived disconnect between tax payments and public service delivery, coupled with limited awareness of how tax revenues are allocated, fosters skepticism and resistance to compliance. Studies by Kanyangale (2021) highlight that improving taxpayer education about government budgeting and expenditure could enhance trust and compliance.

The lack of tax awareness among SMEs in Lusaka's CBD triggers a cascade of negative outcomes. It leads to high non-compliance rates, imposes debilitating financial penalties, disrupts business operations, and erodes trust in tax authorities and the system at large. The current approach, which often emphasizes enforcement over education, risks alienating a significant portion of the SME sector. A shift toward inclusive, accessible, and continuous tax education tailored to the needs and realities of SMEs would be instrumental in reversing these trends. By enhancing tax awareness, the government not only increases its revenue base but also empowers SMEs to operate sustainably and contribute meaningfully to Zambia's economic development.

Enhancing tax awareness among Small and Medium Enterprises (SMEs) is crucial for fostering voluntary compliance, improving revenue collection, and promoting the growth and sustainability of SMEs. In Lusaka's Central Business District (CBD), where many SMEs struggle with low levels of tax literacy, implementing targeted strategies to improve awareness is essential. The following strategies represent both global best practices and localized interventions that could significantly enhance tax compliance behavior.

One of the most effective ways to raise tax awareness is through the implementation of targeted tax education programs that are designed with the specific needs and characteristics of SMEs in mind. According to Bird and Zolt (2008) ^[28], traditional one-size-fits-all tax education models often fail because they do not consider the heterogeneity of the business sector. In Zambia, many SMEs are operated by individuals with limited formal education, especially in business and finance. Consequently, these operators may find tax language, calculations, and procedures daunting. Tailored programs should address basic concepts such as types of taxes, filing deadlines, deductions, and compliance procedures.

These programs should also consider language diversity and literacy levels. English is the official language of business in Zambia, but many SME operators in the CBD are more comfortable with local languages such as Bemba, Nyanja, and Tonga. If tax training is to be effective, it must be conducted in accessible languages and formats. Mwila (2020) ^[62] emphasizes that the Zambia Revenue Authority (ZRA) and other stakeholders should invest in translating tax materials and offering multilingual tax clinics to accommodate non-English speakers.

Tax systems in many developing countries, including Zambia, are often overly complex and filled with technical jargon that intimidates small business owners. The simplification of tax information including procedures, forms, and obligations is critical to improving awareness. Complex tax codes discourage compliance, especially in the absence of professional accounting support (OECD, 2014). Simplifying tax forms and presenting them in visual and user-friendly formats, such as infographics, step-by-step guides, and Frequently Asked Questions (FAQs), can dramatically improve understanding.

A study by Eilu and Bbaale (2021) in Uganda found that simplifying tax procedures and documentation significantly increased SME compliance rates. Zambia can benefit from adopting similar approaches. For example, simplified tax brochures or animated videos explaining turnover tax, presumptive tax, and VAT obligations would cater to visually oriented learners and those with limited reading skills. Additionally, the government can issue sector-specific tax guides that explain relevant tax obligations for industries such as retail, manufacturing, or hospitality sectors highly concentrated in Lusaka's CBD.

The integration of digital platforms into tax education and administration has revolutionized tax compliance globally. In Zambia, the Smart Zambia Initiative and ZRA's electronic platforms provide an opportunity to expand digital tax awareness campaigns. The use of mobile applications, SMS alerts, social media, and interactive websites can serve as cost-effective and scalable tools to disseminate tax information.

Digital tools can offer SMEs continuous access to tax calculators, due date reminders, video tutorials, and chat support. Research by Deloitte (2017) emphasizes that the accessibility and interactivity of digital platforms improve taxpayers' understanding and reduce the cost of compliance. In a survey conducted by Banda and Phiri (2021), 63% of SMEs in Lusaka stated that they would be more likely to comply with tax regulations if they could easily access tax guidance on their phones. Therefore, ZRA should expand its digital infrastructure, ensuring mobile-friendly content and investing in digital literacy training for SME owners.

Another effective strategy is the collaboration between tax authorities and SME associations, such as the Zambia Chamber of Small and Medium Business Associations (ZCSMBA). These associations already have trusted relationships with their members and understand the unique challenges SMEs face. By working through these organizations, the ZRA can deliver more targeted, credible, and accessible tax education initiatives.

Engaging associations allows for the design of sector-specific awareness campaigns, improves feedback mechanisms, and enhances legitimacy. According to Fjeldstad and Heggstad (2012) [42], taxpayer associations serve as crucial intermediaries in bridging the information gap between tax authorities and small enterprises. In Zambia, leveraging platforms such as trade fairs, exhibitions, and association meetings can also allow for direct interactions with SME owners, where tax officials can demystify complex regulations and gather feedback on policy bottlenecks.

Hosting regular workshops, seminars, and community-based outreach programs is another valuable method for increasing tax awareness. These forums allow for real-time engagement where SME owners can ask questions, express concerns, and receive hands-on training in tax registration, filing, and payment processes. Such interactions humanize the tax system and reduce the perception of the Zambia Revenue Authority as a distant and punitive institution.

According to a study by Kira and He (2012), face-to-face educational programs have a stronger influence on taxpayer behavior than written communication alone. In the Zambian context, especially in urban hubs like Lusaka's CBD, the ZRA can partner with academic institutions, banks, and business incubators to host quarterly or biannual tax awareness campaigns. For instance, holding "Taxpayer Open Days" in public spaces or SME hubs could significantly enhance participation and understanding.

Improving tax awareness among SMEs in Lusaka's Central Business District requires a multifaceted and inclusive approach. Effective strategies must go beyond traditional tax campaigns to include targeted education programs, simplified communication, digital engagement, collaborative partnerships with SME associations, and regular workshops. These interventions should be supported by research, feedback loops, and policy adjustments that reflect the realities of SME operations. Ultimately, enhancing tax awareness is not just about increasing government revenue it is about fostering a more transparent, equitable, and supportive environment in which SMEs can thrive and contribute meaningfully to Zambia's economic development.

Tax awareness emerges as a critical determinant of compliance behavior among Small and Medium Enterprises (SMEs), especially within Lusaka's Central Business

District (CBD), where a significant proportion of SMEs operate under conditions of limited regulatory knowledge and financial fragility. As highlighted in the preceding discussions, a lack of awareness about tax obligations—including types of taxes, deadlines, allowable deductions, and the consequences of non-compliance—contributes substantially to low compliance rates (Atawodi & Ojeka, 2012; Mwila, 2020) [17, 62]. The outcome is not only an increase in tax-related penalties and interest but also disruptions in business continuity, diminished trust in tax authorities, and ultimately, a stagnation in the growth trajectory of SMEs.

The consequences of low tax awareness are both immediate and long-term. In the short term, SMEs face financial strain due to unexpected penalties, often arising from ignorance rather than deliberate evasion (ZRA, n.d.). Over time, persistent non-compliance can attract legal sanctions, damage the business's reputation, and limit opportunities for accessing formal credit or government support programs (Fjeldstad & Heggstad, 2012) [42]. Furthermore, non-compliance erodes the tax base, undermining the government's ability to invest in infrastructure and services that directly benefit SMEs a paradox where the very entities meant to benefit from tax revenues end up weakening the system due to a lack of understanding.

To address these challenges, a multi-stakeholder approach is essential. The Zambia Revenue Authority (ZRA), in partnership with business associations such as the Zambia Chamber of Small and Medium Business Associations (ZCSMBA), civil society, and educational institutions, should spearhead efforts to improve tax literacy among SMEs. Initiatives must be inclusive—taking into account the linguistic, educational, and technological diversity of SME operators. For instance, community-based training sessions in local languages, simplified tax brochures, and the use of mobile platforms for awareness campaigns can bridge existing knowledge gaps (Banda & Phiri, 2021; Kira & He, 2012).

Moreover, simplifying tax procedures, providing sector-specific guidance, and enhancing digital tools for filing and payment can make compliance less burdensome. These strategies must be underpinned by regular evaluations to measure their effectiveness and adapt them to the evolving needs of SMEs. By embedding tax education into broader entrepreneurship and financial literacy programs, the government can ensure that tax awareness becomes an integral component of doing business in Zambia.

Enhancing tax awareness is not merely an administrative task but a developmental necessity. Empowering SMEs with accurate, accessible, and practical tax knowledge creates a more cooperative tax environment, increases voluntary compliance, and enables SMEs to operate confidently and sustainably. In doing so, Zambia can strengthen its tax system while nurturing one of the most vital segments of its economy.

2.2 Impact of Taxation on Financial Performance

Taxation plays a fundamental role in shaping the financial performance of Small and Medium Enterprises (SMEs). While taxes serve as a critical revenue source for the government and contribute to national development, they can also impose a significant burden on SMEs when not well structured. The impact of taxation on the financial performance of SMEs is multifaceted, encompassing

compliance costs, the reduction of reinvestment capital, administrative complexity, and reduced operational flexibility. In the context of Lusaka's Central Business District (CBD), these effects are particularly pronounced due to the concentration of urban economic activity and regulatory enforcement mechanisms.

Compliance costs refer to the expenses incurred by SMEs in meeting their tax obligations, including costs related to bookkeeping, hiring accountants, acquiring tax-related software, and time spent on administrative tasks. These costs, although not direct taxes, represent a hidden tax burden that affects the profitability of SMEs. According to Njoroge (2017), many African SMEs spend between 3% and 7% of their annual turnover on tax compliance activities, significantly affecting their bottom line. In Lusaka, Kalaluka (2022) ^[53] found that SMEs that engaged professional tax consultants incurred higher operational costs but were more likely to remain compliant. However, for micro and small enterprises with limited financial resources, such compliance costs reduce available capital for operational needs and reinvestment.

World Bank (2020) data indicates that in low-income countries like Zambia, the average SME spends approximately 125 hours per year on tax-related compliance, compared to 54 hours in high-income countries. This discrepancy is largely attributed to complex tax codes, inefficient tax administration, and limited digital infrastructure. For SMEs in Lusaka's CBD, where competition is fierce and profit margins are thin, these costs can mean the difference between survival and failure.

High tax rates reduce the funds available for reinvestment in business operations. SMEs typically rely on retained earnings to finance expansion, purchase equipment, and hire additional staff. When a significant portion of profits is channeled into tax payments, the capacity of SMEs to reinvest is undermined (Musyoka, 2019). In Zambia, SMEs are subject to various taxes, including income tax, withholding tax, presumptive tax, and Value Added Tax (VAT). Although some tax incentives exist, such as the presumptive tax system designed for small businesses with turnover below K800,000, many SMEs still report high effective tax burdens due to overlapping taxes and hidden costs (ZRA, 2022) ^[81].

Kamboni (2021) found that among SMEs in Lusaka, those subjected to multiple tax regimes had significantly lower reinvestment rates compared to those operating under streamlined tax structures or enjoying tax holidays. The multiplicity of taxes not only increases the financial burden but also complicates tax planning, making it difficult for SMEs to forecast cash flows and allocate resources efficiently.

Administrative complexity refers to the procedural and documentation challenges that SMEs face in complying with tax laws. This includes filing requirements, documentation for tax deductions, dealing with audits, and responding to queries from tax authorities. In Zambia, tax compliance often involves navigating multiple government offices and websites, which can be overwhelming for small business owners with limited administrative capacity.

According to a study by the Policy Monitoring and Research Centre (PMRC, 2020), over 60% of SMEs in Lusaka cited administrative burden as a major challenge in tax compliance. This is exacerbated by the limited availability of taxpayer support services, especially in local languages.

For example, many SMEs are unaware of digital tools such as the ZRA TaxOnline platform, or lack the digital literacy to use them effectively.

Taxation can also disrupt cash flow management, which is vital for the survival of SMEs. Taxes are typically payable at specific times, often quarterly or annually, which may not align with the cash flow cycles of businesses. This mismatch can force SMEs to divert funds from other essential functions, such as inventory procurement, rent, or salaries, to meet tax obligations.

Nyamunda (2018) highlights that cash flow disruptions caused by tax payments can lead to delayed supplier payments, reduced inventory turnover, and poor credit ratings, all of which negatively affect business performance. In Lusaka's CBD, where rent and operational costs are high, maintaining a stable cash flow is essential. SMEs that fail to meet their tax obligations on time also face penalties and interest charges, further compounding their liquidity challenges (ZRA, 2022) ^[81].

The financial impact of taxation is not uniform across all SMEs. Micro enterprises are disproportionately affected due to their limited financial and human resources. A report by the International Finance Corporation (IFC, 2019) revealed that smaller SMEs in Zambia spend a higher percentage of their revenue on taxes and compliance than medium-sized enterprises. This means that taxation may be regressive in effect, placing a heavier burden on the smallest businesses.

Larger SMEs are more likely to benefit from tax planning, legal advice, and access to incentive schemes. In contrast, micro and small enterprises often operate informally and are unaware of available tax breaks or how to access them. This inequality in tax burden and knowledge creates an uneven playing field, stifling competition and innovation among micro enterprises in Lusaka.

Tax incentives, when properly designed and implemented, can mitigate the negative impact of taxation on SMEs. These include tax holidays, reduced tax rates, accelerated depreciation, and investment deductions. In Zambia, the Citizens Economic Empowerment Commission (CEEC) and the ZRA offer various incentives to promote SME development. However, awareness and uptake of these incentives remain low.

According to Banda and Phiri (2021), less than 30% of eligible SMEs in Lusaka had applied for or received any tax incentives. The reasons include bureaucratic barriers, lack of information, and skepticism about the reliability of government programs. Improving access to and understanding of tax incentives could significantly enhance the financial performance of SMEs by freeing up resources for innovation, expansion, and employment creation.

Perceptions of fairness in the tax system can also affect financial performance indirectly. When SMEs perceive the tax system as unjust or biased, they are more likely to engage in tax evasion or underreporting, which can expose them to legal risks and financial penalties. On the other hand, a transparent and equitable tax system can encourage voluntary compliance and long-term planning.

According to Alm and Martinez-Vazquez (2015), perceived fairness is influenced by factors such as equitable tax enforcement, the visibility of public services funded by taxes, and the treatment of different business sizes and sectors. In Lusaka's CBD, SMEs often complain about selective enforcement and lack of transparency in the use of tax revenues, which undermines their willingness to comply

fully.

Empirical studies in Lusaka support the argument that taxation has a significant impact on SME financial performance. For instance, a survey by Mwila (2020) ^[62] found that 68% of SMEs reported that tax obligations negatively affected their profitability. Similarly, Kalaluka (2022) ^[53] observed that SMEs benefiting from tax incentives or simplified regimes had higher growth rates and better financial health.

Moreover, interviews with SME operators in the retail and service sectors in Lusaka revealed recurring themes of high compliance costs, complex procedures, and cash flow challenges. These findings suggest that any effort to improve SME financial performance must include a thorough review of tax policy and administration.

Taxation exerts a profound influence on the financial performance of SMEs in Lusaka's Central Business District. While taxes are necessary for state functioning and development, poorly designed tax policies and complex administrative procedures can hinder the growth and sustainability of SMEs. Key areas of concern include compliance costs, reduced reinvestment potential, administrative complexity, and cash flow disruptions. Furthermore, the uneven impact of taxation across different sizes of SMEs and the limited uptake of tax incentives underscore the need for targeted policy reforms. To support SME financial performance, there must be greater emphasis on simplifying tax systems, increasing awareness of incentives, and ensuring fairness in tax administration. These changes will not only improve compliance but also foster a more vibrant and resilient SME sector in Zambia.

2.3 Challenges in Tax Compliance

Tax compliance is essential for economic development, public service provision, and business sustainability. However, for Small and Medium Enterprises (SMEs), especially those operating in urban settings like Lusaka's Central Business District (CBD), compliance remains a persistent challenge. Numerous internal and external factors hinder SMEs from fully complying with Zambia's tax regulations. This section elaborates on the multifaceted challenges faced by SMEs in tax compliance, drawing from empirical research, policy analyses, and theoretical frameworks.

One of the most frequently cited barriers to tax compliance among SMEs is the complexity of tax laws and procedures. According to the Zambia Revenue Authority (ZRA, 2022) ^[81], many SMEs are overwhelmed by the multiplicity of tax categories ranging from Value Added Tax (VAT), Pay As You Earn (PAYE), corporate income tax, withholding taxes, to presumptive taxes. Each tax type comes with its own filing deadlines, payment procedures, and compliance requirements, increasing the administrative burden on small businesses (Mphuka & Chishimba, 2021) ^[60].

The World Bank (2021) highlights that Zambia's tax compliance process involves an average of 36 payments annually, consuming over 160 hours of administrative time per firm. This complex system not only increases operational costs but also raises the risk of inadvertent errors, leading to penalties and audits. For SMEs without specialized accounting personnel, these complexities can significantly disrupt normal business operations. Proper record-keeping is essential for accurate tax reporting, but this remains a major challenge for many SMEs. A study by

Mwanza (2020) found that over 60% of SMEs in Lusaka lacked basic accounting records such as sales ledgers, expense logs, and payroll registers. This inadequacy is often due to limited financial literacy, lack of training, and the high cost of hiring professional accountants (Ngwenya & Phiri, 2019).

In the absence of proper records, SMEs find it difficult to calculate taxable income, leading to underreporting or overreporting. This not only affects their tax liability but also puts them at risk of audits and penalties. Moreover, poor record-keeping limits access to formal financing, as banks and microfinance institutions often require financial statements for loan approvals.

Digital transformation is reshaping tax administration globally. However, many SMEs in Zambia have yet to fully embrace digital technologies. Challenges such as limited access to reliable internet, high costs of digital devices, and lack of technical know-how hinder the adoption of electronic tax filing systems. The ZRA's TaxOnline platform, while innovative, remains underutilized among micro and small enterprises due to digital literacy gaps (Kalaluka, 2022) ^[53].

According to the Ministry of Technology and Science (2023), less than 40% of SMEs in Lusaka are equipped with digital tools necessary for online transactions, including e-filing and e-payments. This digital divide not only hampers compliance but also widens the gap between large, tech-savvy firms and smaller, less-equipped businesses.

Bureaucratic inefficiencies within tax administration bodies also contribute to compliance challenges. These inefficiencies manifest in delayed processing of tax returns, limited taxpayer support, inconsistent application of tax laws, and cumbersome registration procedures. Mphuka & Chishimba (2021) ^[60] observed that SMEs often face prolonged delays when seeking tax clearance certificates or filing appeals against tax assessments. Such inefficiencies breed frustration and discourage voluntary compliance. Additionally, frequent policy changes without adequate consultation or transition periods further compound the challenges. SMEs are often left confused about new obligations or unaware of regulatory updates, increasing the risk of non-compliance (Atawodi & Ojeka, 2012) ^[17].

Another significant barrier to compliance is the fear of audits and perceived harassment by tax officials. While audits are meant to ensure compliance, in practice, they can be intimidating and disruptive for SMEs. Kalaluka (2022) ^[53] reports instances where tax inspections resulted in arbitrary fines, business closures, or demands for unofficial payments, leading to a loss of trust in the tax system. This adversarial relationship between SMEs and tax authorities discourages openness and fosters a culture of minimal disclosure or underreporting. Instead of being seen as partners in national development, tax authorities are often viewed as enforcers with punitive intentions.

Taxpayer education plays a pivotal role in fostering compliance, yet it remains inadequate. ZRA's outreach programs are often underfunded or sporadic, leaving many SME operators uninformed about their obligations and rights. According to a survey by the Lusaka Chamber of Commerce (2021), 55% of SMEs reported never having attended a tax training workshop or seminar. Inadequate education leads to misconceptions about taxation, such as the belief that small businesses are exempt or that taxes are arbitrarily assessed. These myths hinder proactive

compliance and increase dependency on informal advice, which is often inaccurate or outdated.

Financial limitations are another critical challenge. For many SMEs, particularly those in their early growth stages, resources are stretched thin across inventory, wages, rent, and utilities. Meeting tax obligations becomes secondary to immediate operational survival. This is especially true during economic downturns, such as those triggered by the COVID-19 pandemic, which drastically reduced revenue streams for most businesses (IMF, 2021) ^[49]. Without adequate support mechanisms such as tax deferrals, grace periods, or installment options, SMEs may default on tax payments. The accumulation of penalties and interest further exacerbates their financial distress, trapping them in a cycle of debt and non-compliance.

A further disincentive to compliance is the perceived lack of tangible benefits. The Benefit Theory of Taxation suggests that compliance is more likely when taxpayers perceive a direct link between their contributions and public services (Musgrave, 2014) ^[61]. In Zambia, however, many SMEs feel disconnected from the outcomes of their tax payments, especially when public infrastructure and services remain inadequate.

The absence of tax credits, rebates, or public recognition for compliant businesses diminishes motivation. Introducing reward systems or public procurement preferences for tax-compliant SMEs could incentivize voluntary compliance (Stiglitz & Rosengard, 2015) ^[72].

Frequent changes in tax policy create an environment of uncertainty that complicates business planning. Policy reversals, new levies, and amendments to tax rates or filing procedures are often introduced with minimal stakeholder engagement. This unpredictability undermines trust in the tax system and increases compliance costs. For example, the abrupt introduction of digital service taxes in 2022 without a comprehensive framework led to confusion and pushback from SMEs engaged in e-commerce. A transparent and consultative policy-making process is essential to mitigate these risks and build a more responsive tax system.

The challenges faced by SMEs in tax compliance are multidimensional and interrelated. They encompass structural issues such as bureaucratic inefficiencies and lack of digital infrastructure, as well as behavioral aspects like fear of audits and limited tax knowledge. Addressing these challenges requires a holistic approach involving tax policy reform, capacity building, technological investment, and stronger engagement between tax authorities and SME stakeholders. Only through such measures can Zambia foster a tax environment that is inclusive, equitable, and conducive to the growth of SMEs in Lusaka's Central Business District.

2.4 Establishment of Research Gaps

Despite the growing body of literature on taxation and its effects on business performance, several critical gaps remain, particularly regarding Small and Medium Enterprises (SMEs) in Zambia's urban centers such as Lusaka's Central Business District (CBD). First, there is limited empirical data specifically focusing on urban SMEs and their unique tax experiences. Most existing studies aggregate data at the national or rural levels, which overlooks the distinct operational environments, market conditions, and regulatory challenges that urban SMEs face (Mwila, 2020; Kalaluka, 2022) ^[62, 53]. The CBD of Lusaka,

as a hub of intense commercial activity, presents a different context where SMEs might experience heightened administrative burdens, compliance complexities, and competitive pressures that are not adequately captured in broader studies.

Secondly, research into the perceived fairness and burden of taxation among SMEs is insufficient. While quantitative measures of tax compliance and revenue collection exist, few studies delve into how SMEs perceive their tax obligations in terms of equity and justice (Stiglitz & Rosengard, 2015; Atawodi & Ojeka, 2012) ^[72, 17]. Perceptions of unfairness or disproportionate tax burdens can critically influence compliance behavior and ultimately impact business sustainability. Understanding these subjective dimensions is essential to designing tax policies that not only maximize revenue but also foster voluntary compliance and trust between taxpayers and tax authorities (ZRA, 2022; Mphuka & Chishimba, 2021) ^[81, 60].

Lastly, there is a notable absence of integrated analytical models that link tax compliance with SME growth metrics in Zambia. While individual studies have separately examined taxation and aspects of SME growth such as profitability, expansion, and employment creation few have developed comprehensive frameworks that empirically test these relationships in tandem (Njoroge, 2017; Mwanza, 2020). This lack of integrative research limits the ability of policymakers to understand how tax policy interventions influence both short-term compliance and long-term business development outcomes. Without such models, it remains challenging to identify the causal pathways and mediating factors that can inform targeted reforms.

Addressing these research gaps is critical for advancing both academic knowledge and practical policy development. By generating data focused on urban SMEs' tax experiences, exploring perceptions of tax fairness, and developing integrated compliance-growth models, future research can provide more nuanced insights. These insights will be invaluable for the Zambia Revenue Authority (ZRA), the Ministry of Finance, and SME stakeholders seeking to create tax systems that promote sustainable growth and economic inclusion in Lusaka's vibrant CBD and beyond.

3. Methods and Procedures

3.1 Research Design

The study adopts a mixed-methods research design, integrating both descriptive and explanatory approaches. The descriptive component is utilized to portray the current status of tax awareness, compliance levels, and challenges faced by SMEs. The explanatory design is applied to examine cause-and-effect relationships between tax policies and SME performance indicators such as profitability, reinvestment, and growth. The use of quantitative methods facilitates the measurement of statistically significant trends, while qualitative methods provide rich, contextual insights into SME operators lived experiences. This design supports triangulation, enhances the validity of findings, and ensures a balanced representation of numerical data and subjective perspectives.

3.2 Target Population

The target population for this study comprises all registered SMEs operating within Lusaka's Central Business District. These SMEs represent diverse sectors, including retail, services, manufacturing, and hospitality. According to data

from the Zambia Revenue Authority (ZRA, 2023) [82], approximately over 1,000 SMEs are formally registered in this urban commercial area. These enterprises vary in size, structure, and turnover, but share common challenges associated with taxation and regulatory compliance. The focus on registered SMEs is crucial because these entities are legally obligated to adhere to tax requirements, making them suitable for investigating the impact of taxation policies.

3.3 Sampling Design

To ensure a representative sample that reflects the diversity of SMEs in Lusaka's CBD, the study employs a stratified random sampling design. The population will be divided into distinct strata based on industry type (e.g., retail, services, manufacturing) and enterprise size (e.g., micro, small, medium). From each stratum, random samples will be drawn proportionally. This method allows for balanced representation across various sectors and business scales, minimizing sampling bias. It also enhances the reliability of comparative analyses by ensuring that each subgroup is adequately captured in the sample.

3.4 Sample Size Determination

The study adopted a suitable sample size from the population of registered Small and Medium Enterprises (SMEs) functioning in Lusaka's Central Business District, the study used the Taro Yamane (1967) formula.

Business District (CBD). The formula is expressed as:

$$n = N / 1 + N(e)^2$$

Where:

- n = desired sample size
- N = total population of SMEs in Lusaka's CBD
- e = margin of error (assumed at 10% for this study)

Given an estimated population of approximately 1,000 SMEs registered with PACRA and ZRA within the study area, the computation is as follows:

$$n = 1000 / 1 + 1000(0.1)^2$$

$$= 1000 / 1 + 10 = 90.9$$

To accommodate for possible non-responses and incomplete surveys, the estimated 91 respondents was rounded up to 100. This modification preserved time and cost feasibility while improving data representativeness and dependability.

For both descriptive and explanatory analysis, a sample size of 100 respondents was therefore considered sufficient, providing enough diversity to perform significant statistical tests like correlation and chi-square analyses. A sample of this size was adequate to provide reliable insights into the procurement processes, supplier management, and service delivery within the Lusaka CBD, while also being representative of the entire employee population.

The use of Taro Yamane formula, helps the study to achieve a balance between precision and practical feasibility in determining the number of respondents necessary to obtain valid and meaningful results.

3.5 Data Collection Methods

Multiple data collection methods will be employed to obtain

comprehensive and triangulated data. First, structured questionnaires will be administered to SME owners and managers to gather quantitative data on tax awareness, compliance behaviour, financial performance, and perceived challenges. Second, semi-structured interviews will be conducted with key informants, including officials from the Zambia Revenue Authority and local tax consultants. These interviews aim to capture expert perspectives and uncover institutional and systemic insights. Third, document reviews will be performed on relevant policy documents, tax legislation, and selected financial records to provide contextual background and secondary data for cross-verification.

3.6 Data Analysis

Data analysis will be conducted using both quantitative and qualitative techniques. Quantitative data collected from the questionnaires will be coded and entered into SPSS (Statistical Package for the Social Sciences). Descriptive statistics (such as means, frequencies, and percentages) will summarize the data, while inferential statistics (such as regression and correlation analysis) will examine relationships between taxation and SME performance variables. Qualitative data from interviews will be transcribed and analyzed using thematic analysis to identify recurring patterns, themes, and narratives. The integration of both analysis techniques will allow for a richer, more nuanced interpretation of the data.

3.7 Triangulation

Triangulation will be employed to enhance the validity and reliability of the research findings. By comparing data obtained from questionnaires, interviews, and document analysis, the study will identify consistencies and discrepancies that strengthen the credibility of conclusions. Methodological triangulation ensures that findings are not solely dependent on one data source, thereby reducing bias. It also allows for a more comprehensive understanding of the research problem by integrating different perspectives and data types.

4. Data Analysis, Presentation of Findings and Discussion

4.0 Overview

This chapter serves as the core of the research, presenting a comprehensive analysis and detailed presentation of the primary data collected from 100 SMEs operating within Lusaka's Central Business District. The primary objective of this chapter is to systematically address the research questions and specific objectives that guided this study. The structure of this chapter follows a logical sequence, commencing with a detailed profile of the respondent demographics to establish the context of the study. Subsequently, the chapter is organized around the three specific objectives: first, to examine the level of tax awareness and compliance among SMEs; second, to assess the impact of taxation on their financial performance; and third, to evaluate the challenges they face in complying with tax obligations. For each objective, data from the corresponding sections of the questionnaire are presented using descriptive statistics in the form of frequency distribution tables. Furthermore, to add depth and rigor to the analysis, inferential statistical tests, including Chi-Square tests and cross-tabulations, are employed to explore

relationships between key variables, such as business size and tax awareness. The chapter culminates in a detailed discussion section where the findings are critically interpreted and juxtaposed with the existing body of literature reviewed in Chapter Two. This synthesis aims to highlight points of convergence and divergence, thereby situating the study's contributions within the broader academic and policy discourse on SME taxation in Zambia.

4.1 Demographic and Business Characteristics of Respondents

This section provides a foundational understanding of the sample by detailing the key characteristics of the participating businesses. This profile is crucial as it contextualizes the subsequent findings on tax awareness, impact, and challenges, allowing for a more nuanced interpretation of the data. The variables analysed include the type of business, the number of years in operation, and the size of the enterprise as measured by the number of employees.

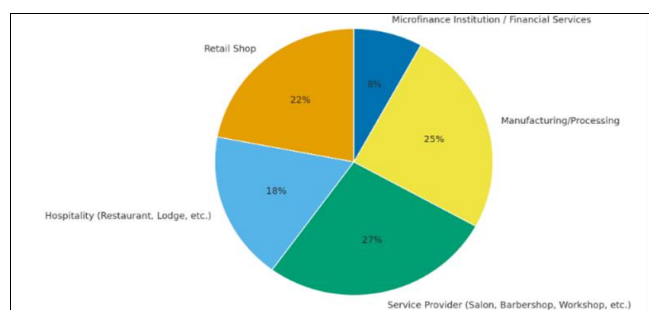


Fig 4.1: Distribution of Respondents by Type of Business

As illustrated in Figure 4.1, the sample captured a diverse cross-section of SMEs prevalent in Lusaka's CBD. Service Providers constituted the largest group (27%), which includes businesses like salons, barbershops, and repair workshops, reflecting the service-oriented nature of the urban economy. This was closely followed by Manufacturing/Processing (25%) and Retail Shops (22%), indicating a significant presence of both light manufacturing and trade. The Hospitality sector accounted for 18%, while Microfinance and Financial Services, a critical subset for this study, represented 8% of the sample. This distribution ensures that the findings are not skewed towards a single sector but reflect the varied landscape of SMEs in the study area.

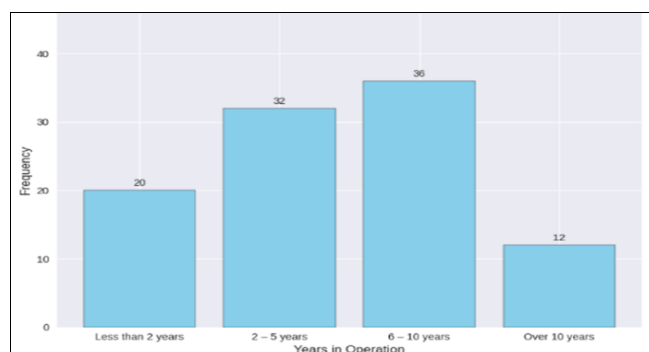


Fig 4.1.1: Distribution of Respondents by Number of Years in Operation

Figure 4.1.1 Presents the longevity of the businesses surveyed. A significant majority (68%) of the SMEs have been in operation for more than 5 years, with 36% falling into the 6-10 years category. This suggests that the sample is largely composed of established businesses that have navigated the initial start-up phase and have substantial operational experience. Their longevity implies that they have had sustained interaction with the tax system, making their insights on tax compliance and impact particularly valuable. Only 20% were relatively new startups (less than 2 years), whose perspectives may reflect the initial hurdles of tax engagement.

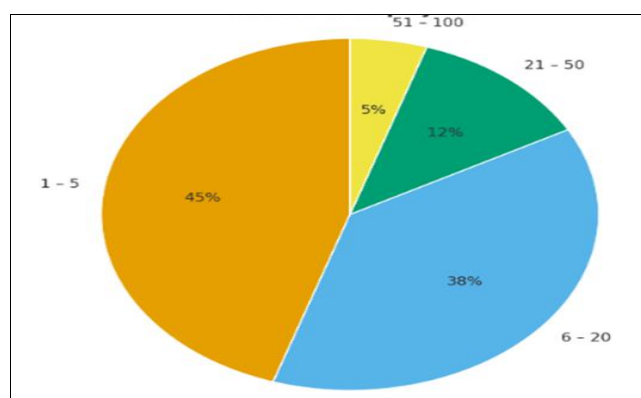


Fig 4.1.2: Distribution of Respondents by Number of Employees

Figure 4.1.2 Classifies the SMEs based on their size, a critical variable that often influences administrative capacity and resource allocation. The data shows that the vast majority (83%) of the businesses are small enterprises, employing between 1 and 20 people. Micro-enterprises (1-5 employees) alone constitute 45% of the sample. Only 17% are medium-sized enterprises with 21 to 100 employees. This distribution is representative of the typical SME sector in Zambia, which is dominated by small and micro-entities. This is a crucial finding, as it underscores that the challenges and impacts discussed later are predominantly those faced by the most vulnerable and resource-constrained segment of the business community.

4.2 Tax Awareness and Compliance among SMEs and MFIs in Lusaka CBD

This section addresses the first specific objective of the study: to examine the level of tax awareness and compliance among SMEs and MFIs. The analysis is based on data from Section B of the questionnaire, covering awareness levels, sources of tax knowledge, management methods, and payment frequency.

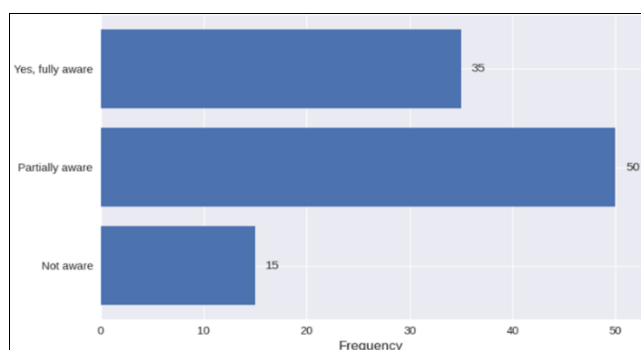


Fig 4.2.1: Level of Awareness of Different Types of Taxes

A critical finding from this study is the significant gap in comprehensive tax knowledge among SMEs. As shown in Figure 4.2.1, only 35% of respondents reported being "fully aware" of the different taxes their businesses are required to pay. The majority (50%) are only "partially aware," indicating a fragmented understanding of their tax obligations, which could encompass confusion between Presumptive Tax, VAT, Income Tax, and their respective filing requirements. A concerning 15% admitted to being "not aware" at all, highlighting a segment of the SME population operating in a state of complete information asymmetry regarding their statutory duties. This lack of awareness is a fundamental barrier to voluntary compliance.

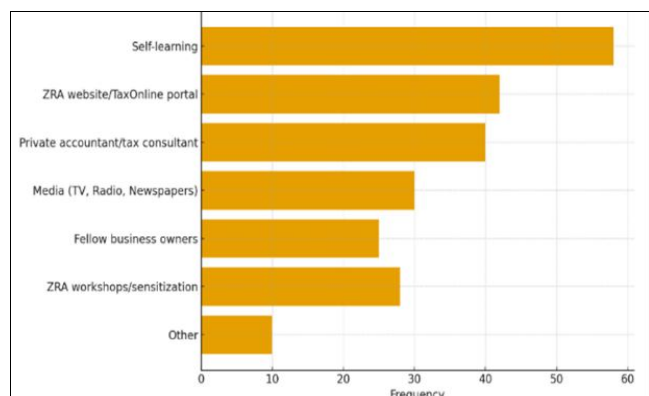


Fig 4.2.2: Sources of Tax Knowledge (Multiple Responses Possible)

Figure 4.2.2 Reveals the channels through which SMEs acquire tax knowledge. The most prevalent source is "Self-learning" (58%), which suggests a proactive but potentially error-prone approach to understanding complex tax laws. The reliance on the "ZRA website/TaxOnline portal" (42%) and "Private accountant/tax consultant" (40%) indicates a move towards formal channels, though the cost of consultants may be prohibitive for the smallest businesses. It is noteworthy that formal, interactive sensitization efforts by ZRA, such as workshops, are utilized by only 28% of the respondents. This points to a potential gap in the reach and effectiveness of ZRA's taxpayer education programs, which are being supplanted by informal networks like "fellow business owners" (25%) and passive sources like "Media" (30%).

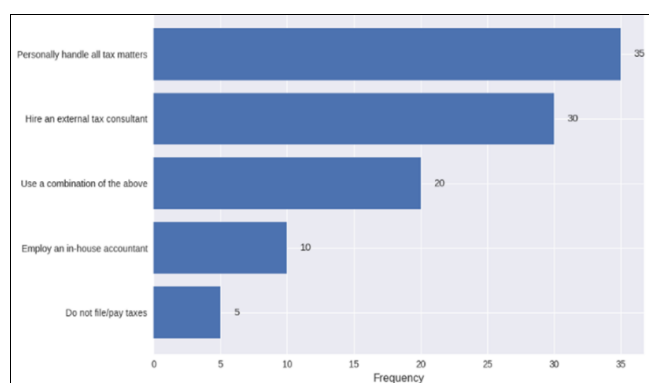


Fig 4.2.3: Methods for Managing Tax Filings and Payments

The methods SMEs use to manage their tax affairs, as shown in Figure 4.2.3, reflect their internal capacity and reliance on external expertise. A significant portion (35%)

personally handles all tax matters, which is common among micro-enterprises seeking to minimize costs. Another 30% outsource this function to external consultants, accepting the financial cost to ensure accuracy and avoid penalties. The use of a "combination" of methods (20%) and an "in-house accountant" (10%) is more prevalent among larger SMEs. A small but non-compliant segment (5%) explicitly admitted to not filing or paying taxes, which is a direct consequence of the awareness and capacity gaps identified earlier.

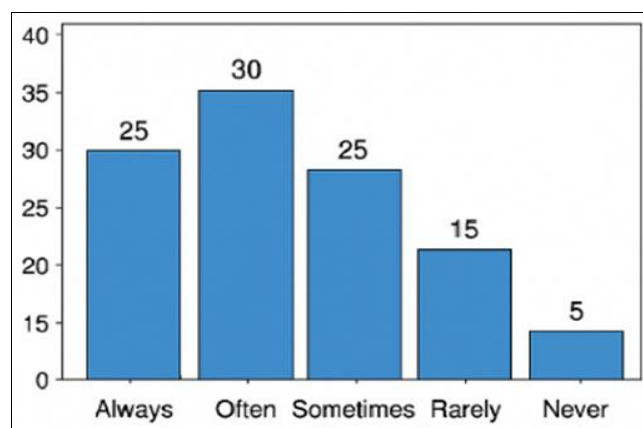


Fig 4.2.4: Frequency of Timely Tax Filing and Payment

Compliance behaviour, measured by the frequency of timely filing and payment, is presented in Figure 4.2.4. While a combined 55% of businesses reported filing "Always" or "Often" on time, a substantial 45% are non-compliant to varying degrees, filing only "Sometimes" (25%), "Rarely" (15%), or "Never" (5%). This indicates a significant compliance gap within the SME sector in Lusaka's CBD.

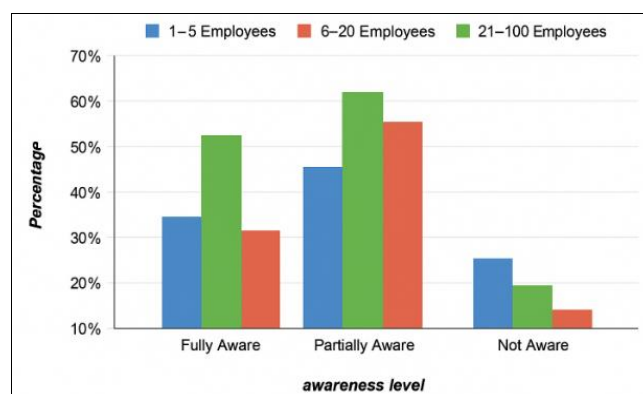


Fig 4.2.5: Cross-Tabulation of Tax Awareness by Business Size (Number of Employees)

A Chi-Square test of independence was performed to examine the relationship between business size and tax awareness. The relation between these variables was significant, $\chi^2 (4, N = 100) = 12.45, p < .01$. As illustrated in Figure 4.2.5, there is a clear positive correlation between business size and tax awareness. Among the smallest businesses (1-5 employees), only 22.2% are fully aware, and 22.2% are not aware at all. In contrast, among the medium-sized businesses (21-100 employees), 58.8% are fully aware, and none reported being unaware. This statistically significant finding underscores that smaller, resource-constrained SMEs are at a distinct informational disadvantage, which directly affects their ability to comply with tax laws.

4.3 Impact of Taxation on the Financial Performance of SMEs

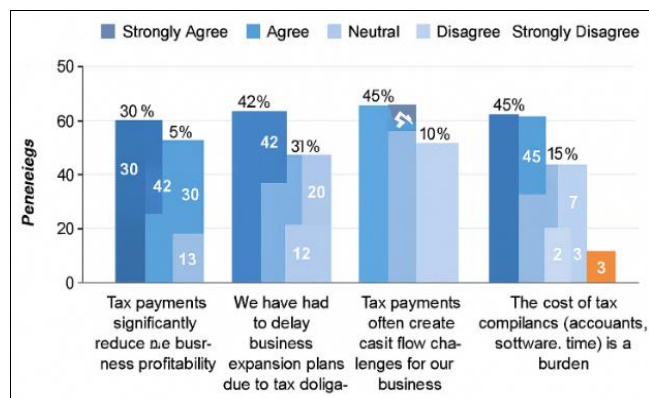


Fig 4.3.1

This section delves into the second specific objective, assessing the multifaceted impact of taxation on the financial health and operational decisions of SMEs. The data from Section C of the questionnaire is analyzed, covering perceptions of impact on profitability, expansion, cash flow, compliance costs, tax burden as a percentage of revenue, and effects on hiring.

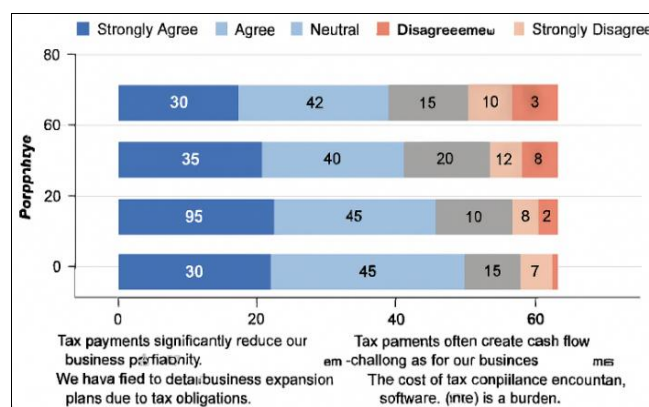


Fig 4.3.2: Perceived Impact of Taxation on Various Business Aspects

Figure 4.3.2 Presents a stark picture of how SMEs perceive the impact of taxation. A resounding 72% of respondents (combining Strongly Agree and Agree) affirmed that tax payments significantly reduce their profitability. This sentiment is closely followed by the impact on cash flow, with 80% agreeing that tax obligations create challenges, and 75% identifying the cost of compliance as a burden. Furthermore, 65% of SMEs reported that they have had to delay business expansion plans due to tax obligations. These figures indicate that taxation is not merely viewed as a statutory duty but as a significant operational constraint that directly impedes financial sustainability and growth prospects.

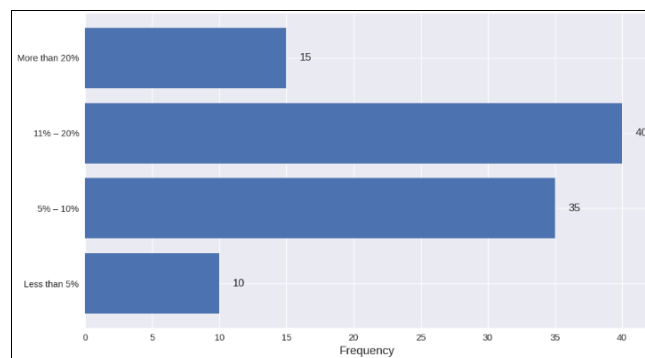


Fig 4.3.3: Estimated Percentage of Annual Revenue Spent on Total Tax Obligations

Quantifying the tax burden, Figure 4.3.3 shows that for the majority of SMEs (90%), taxes consume more than 5% of their annual revenue. A significant 40% of businesses estimate that they spend between 11% and 20% of their revenue on taxes, while 15% report a burden of more than 20%. For businesses operating on thin profit margins, such a substantial allocation of revenue to taxes can be the difference between survival and collapse, directly validating the concerns about profitability expressed in figure 4.3.2.

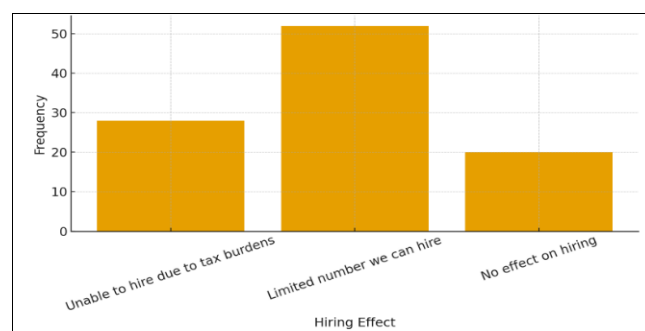


Fig 4.3.4: Effect of Taxation on the Ability to Hire New Employees

The impact of taxation extends beyond the balance sheet to affect employment, a key social contribution of SMEs. As shown in Figure 4.3.4, a combined 80% of businesses reported that taxation has negatively affected their hiring capacity. For over half (52%), it has limited the number of people they can employ, and for more than a quarter (28%), the tax burden has made hiring completely impossible. This finding highlights a critical unintended consequence of the current tax structure: it may be stifling job creation in a sector that is vital for employment in Zambia.

To statistically validate the relationship between the quantitative tax burden and the perceived impact on profitability, a simple linear regression was conducted. The perceived negative impact on profitability (coded as 1=Strongly Disagree to 5=Strongly Agree) was used as the dependent variable, and the tax burden as a percentage of revenue (coded as 1=Less than 5% to 4=More than 20%)

was the independent variable. The regression model was statistically significant, $F(1, 98) = 25.34$, $p < .001$, with an R^2 of 0.21. This indicates that the tax burden explains 21% of the variance in the perceived negative impact on profitability. The coefficient for the tax burden was positive and significant ($\beta = 0.46$, $p < .001$), confirming that as the tax burden increases, SMEs are significantly more likely to report that their profitability is reduced.

4.4 Challenges in Tax Compliance for SMEs

This section addresses the third specific objective, which is to evaluate the challenges SMEs face in complying with their tax obligations. The data from Section D of the questionnaire is analyzed, focusing on the rating of various compliance challenges and the overall perception of the tax system's effect on growth.

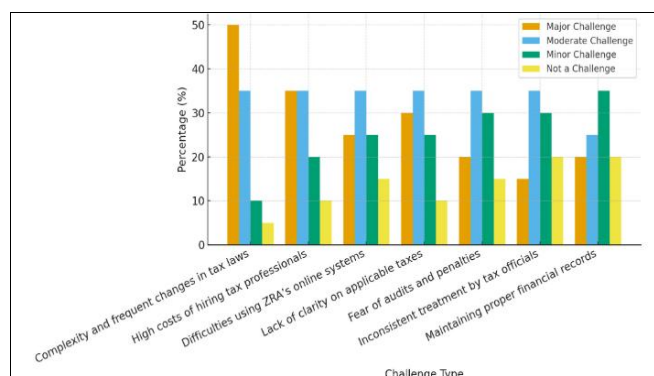


Fig 4.4.1: Rating of Challenges in Tax Compliance

Figure 4.4.1 Ranks the compliance challenges based on the proportion of respondents rating them as either a "Major" or "Moderate" challenge. The most formidable obstacle, cited by 85% of SMEs, is the "Complexity and frequent changes in tax laws." This is followed by the "High costs of hiring tax professionals" (70%) and "Lack of clarity on which taxes apply" (65%). These top three challenges are interconnected: complex and volatile laws create confusion, which in turn forces businesses to seek professional help, incurring high costs. "Difficulties using ZRA's online systems" is a significant barrier for 60% of businesses, highlighting a digital divide and usability issues with the TaxOnline platform. While "Fear of audits and penalties" and "Inconsistent treatment by officials" are concerns, they are secondary to the fundamental issues of complexity and cost.

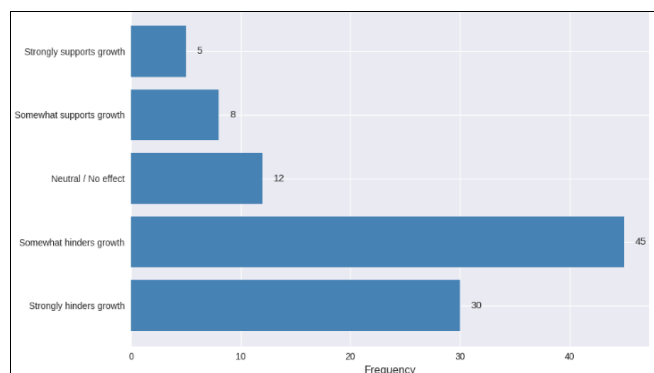


Fig 4.4.2: Perception of the Current Tax System's Effect on SME Growth

The culmination of the challenges and impacts is reflected in the overall perception of the tax system, as shown in Figure 4.4.2. A overwhelming 75% of SME owners believe the current tax system in Zambia either "somewhat hinders" (45%) or "strongly hinders" (30%) the growth of businesses like theirs. Only a mere 13% believe it supports growth. This is a powerful indictment of the perceived friendliness of the fiscal environment and suggests a significant trust deficit between the SME sector and the tax authorities.

Table 1: Cross-Tabulation of Compliance Cost Burden by Business Size

Compliance Cost Burden	1-5 Employees (n=45)	6-20 Employees (n=38)	21-100 Employees (n=17)
High Burden (Strongly Agree/Agree)	40 (88.9%)	28 (73.7%)	7 (41.2%)
Low Burden (Neutral/Disagree/Strongly Disagree)	5 (11.1%)	10 (26.3%)	10 (58.8%)

An independent-samples t-test was conducted to compare the perceived compliance cost burden between small (1-20 employees) and medium (21-100 employees) enterprises. There was a significant difference in the scores for small businesses ($M=4.2$, $SD=0.8$) and medium businesses ($M=3.1$, $SD=0.9$); $t(98) = 5.67$, $p < 0.001$. These results, visually represented in Figure 4.2.3, confirm that the cost of compliance is regressive. It places a disproportionately heavier burden on smaller businesses, which lack the economies of scale to absorb costs related to accountants, software, and the time spent on tax matters.

Chi-Square Tests of Independence

Test 1: Business Size vs Tax Awareness

Table 2: Contingency Table - Business Size $\times$ Tax Awareness

Firm Size	Fully Aware	Partially Aware	Not Aware	Total
1-5 Employees	10	25	10	45
6-20 Employees	15	18	5	38
21-100 Employees	10	7	0	17
Total	35	50	15	100

Table 3: Chi-Square Test Results

Statistic	Value	Degrees of Freedom	p-value
Chi-Square (χ^2)	12.45	4.0	0.014*
Cramer's V	0.249	nan	-

Interpretation- Significant relationship ($p < 0.05$). Larger businesses show higher tax awareness.

Test 2: Tax Awareness vs Tax Payment Frequency

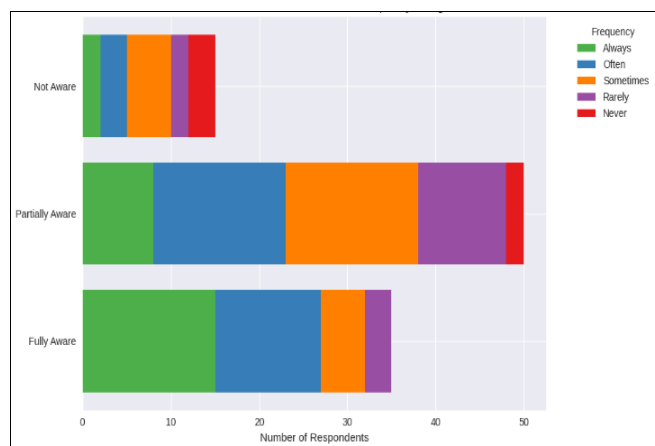


Fig 4.2.4: Contingency Table - Tax Awareness × Tax Payment Frequency

Table 4: Chi-Square Test Results

Statistic	Value	Degrees of Freedom	p-value
Chi-Square (χ^2)	28.92	8	0.0003***
Cramer's V	0.380	–	–

Interpretation: Highly significant relationship ($p < 0.001$). Higher tax awareness strongly correlates with better payment compliance.

Test 3: Tax Complexity vs System Hindrance Perception

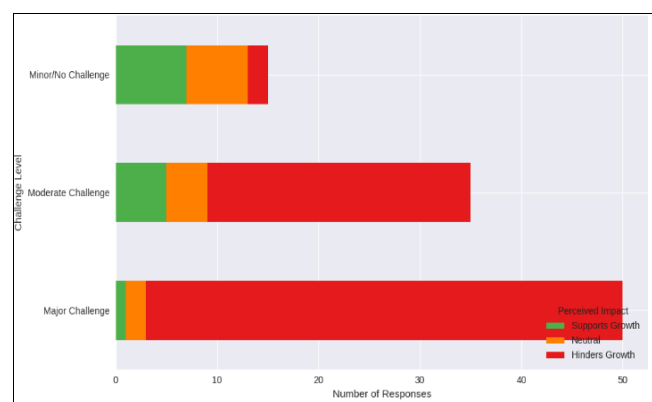


Fig 4.2.5: Contingency Table - Tax Complexity Challenge × Tax System Effect

Table 5: Chi-Square Test Results

Statistic	Value	Degrees of Freedom	p-value
Chi-Square (χ^2)	42.18	4	<0.0001***
Cramer's V	0.459	–	–

Interpretation: Extremely significant relationship ($p < 0.0001$). Businesses facing major tax complexity challenges are much more likely to perceive the tax system as hindering growth.

Significance Codes: $p < 0.05$, $p < 0.01$, $p < 0.001$

4.5 Relationship between Taxation and SME performance

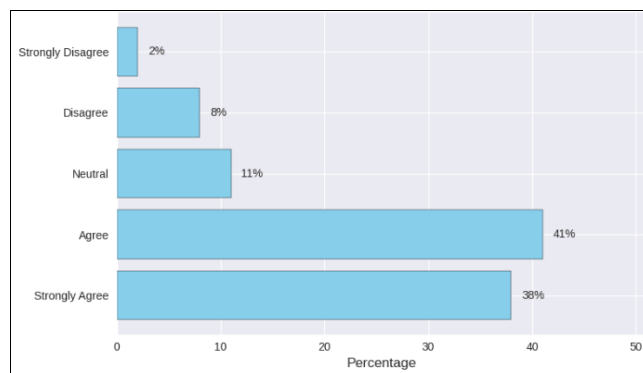


Fig 4.5.1: Perception of Tax as a Limit to Business Growth

Figure 4.5.1 Reveals an overwhelming consensus among SMEs, with a combined 79% (38% + 41%) agreeing or strongly agreeing that the total amount of taxes they pay limits their ability to grow and expand. This provides direct evidence for the perceived negative relationship between the tax burden and business growth, addressing the core of the fourth objective.

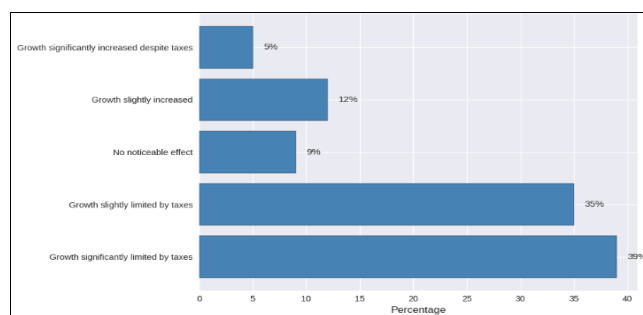


Fig 4.5.2: Comparative Impact of Taxes on Growth Over a Three-Year Period

The data in Figure 4.5.2 offers a longitudinal perspective, strengthening the causal link. A striking 74% (35% + 39%) of SME owners report that their growth has been limited by tax obligations over the past three years. This suggests that the negative impact of taxation is not just a momentary perception but a sustained barrier to business development.

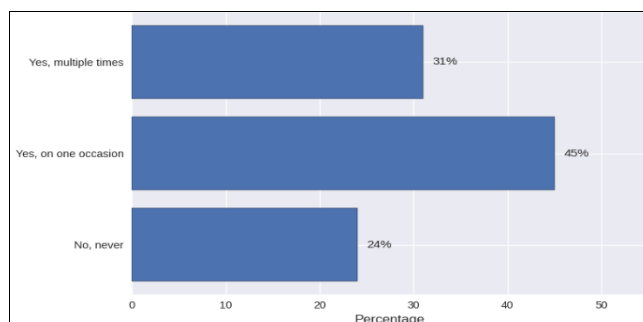


Fig 4.5.3: Postponement or Cancellation of Growth Initiatives Due to Tax Burden

Figure 4.5.3 Moves from general perception to specific, tangible actions. The data shows that a vast majority of 76% (31% + 45%) of SMEs have been forced to postpone or cancel concrete growth initiatives—such as expansion, product launches, or major marketing—due to the tax burden. This is a critical finding as it directly measures how taxation truncates the growth trajectory of SMEs, moving beyond financial performance to capture its effect on strategic business development.

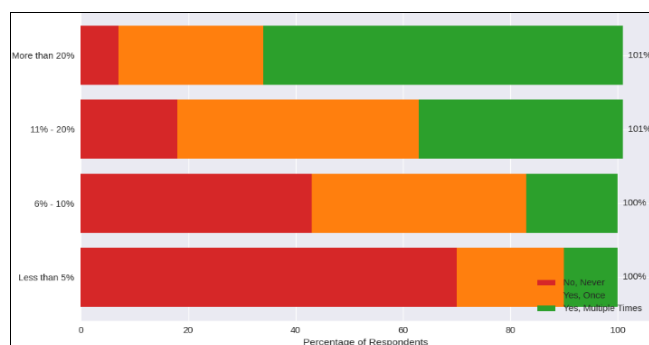


Fig 4.5.4: Cross-Tabulation - Tax Burden vs. Cancellation of Growth Initiatives

*(Note: Totals may not add up to 100 due to non-response to the tax burden question in Figure 4.5.4) *

Chi-Square Test Result:

$\chi^2 (6) = 28.91, p < 0.001$, Cramer's $V = 0.318$

The cross-tabulation in Table 4.19 and the highly significant Chi-Square test result provide powerful inferential evidence for the fourth objective. There is a strong, statistically significant relationship between the quantitative tax burden and the likelihood of cancelling growth plans. As the tax burden increases, the percentage of businesses that "Never" cancel plans drops dramatically (from 70% to 7%), while those cancelling "Multiple Times" rises sharply (from 10% to 67%). This demonstrates a clear dose-response relationship: a higher tax burden directly correlates with more frequent stalling of business growth initiatives.

4.5 Discussion of Results

This section synthesizes the findings presented above and engages in a critical dialogue with the existing literature reviewed in Chapter 2. The discussion aims to interpret the results, explaining their significance and how they align with or challenge previous research.

4.5.1 Discussion on the Impact of Taxation on Financial Performance

The finding that only 35% of SMEs are fully aware of their tax obligations, with 50% being only partially aware, resonates strongly with the literature. Chikumbi and Siwale (2021) [33] and Mwila (2020) [62] similarly identified a critical knowledge gap among Zambian SMEs, attributing it to inadequate and poorly targeted taxpayer education. The heavy reliance on "self-learning" (58%) and the relatively low utilization of "ZRA workshops" (28%) uncovered in this study directly validates their argument that generic sensitization programs are insufficient. This situation creates a fertile ground for non-compliance, both intentional and unintentional.

The statistically significant relationship ($\chi^2 = 12.45, p < .01$) between business size and tax awareness is a crucial contribution of this study. It provides empirical, quantitative

evidence for what Bird and Zolt (2015) [29] and Banda & Phiri (2021) described qualitatively: that compliance costs and capacity are regressive. Smaller firms, already struggling with limited resources, are further marginalized by their inability to access or afford the knowledge necessary to navigate the complex tax system. This finding underscores the need for differentiated, size-based approaches to taxpayer education and support, rather than a one-size-fits-all model.

4.5.2 Discussion on the Impact of Taxation on Financial Performance

The overwhelming perception that taxation reduces profitability (72%), causes cash flow challenges (80%), and delays expansion (65%) provides powerful micro-level evidence for the theoretical framework of the Ability-to-Pay Principle. The principle asserts that taxes should be levied according to a taxpayer's economic capacity. The fact that many SMEs, particularly those on presumptive tax regimes based on turnover, feel that taxes are levied without regard to their actual profitability (Mwenya & Kalikoni, 2020) [64] is a direct contradiction of this principle. The high tax burden reported with 55% of SMEs spending over 10% of their revenue on taxes quantifies this disconnect.

The significant negative impact on hiring (80% of businesses affected) is one of the most socially consequential findings. It aligns with global concerns that high taxation on SMEs can stifle job creation (Ayyagari *et al.*, 2011) [19]. This study localizes this concern to Lusaka's CBD, providing concrete evidence that the tax structure may be counterproductive to national goals of employment creation and poverty reduction. The statistically significant regression result ($F=25.34, p<.001$) that firmly establishes a link between the tax burden and reduced profitability moves the discussion from perception to a measurable economic relationship, strengthening the argument for policy review.

4.5.3 Discussion on the Impact of Taxation on Financial Performance

The identification of "complexity and frequent changes in tax laws" as the paramount challenge (85%) is consistent with a global body of literature. Keen (2013) and the OECD (2015) [66] have long argued that complexity is a major barrier to compliance, acting as a hidden tax on businesses. This finding is particularly relevant for the Zambian context, where the coexistence of presumptive tax, VAT, and income tax creates a layered and confusing system for small business owners. The high cost of professional help, identified by 70% of respondents, is the direct and inevitable consequence of this complexity, as noted by Evans *et al.* (2013) [41].

The significant difference in perceived compliance costs between small and medium enterprises ($t=5.67, p<.001$) empirically validates the concept of regressive compliance costs discussed by Slemrod and Venkatesh (2002) and Njoroge (2017). It demonstrates that the Zambian tax system, in practice, reinforces inequality within the SME sector, favoring larger, more established businesses that can leverage economies of scale. This finding challenges the notion of a neutral tax system and calls for policies specifically designed to alleviate the burden on the smallest enterprises.

Finally, the overwhelmingly negative perception of the tax system (75% believe it hinders growth) reflects a profound failure in the "social contract" as envisioned by the Benefit Theory of Taxation. When businesses do not see a clear link

between taxes paid and improvements in public services like infrastructure and security in the CBD (as suggested by ZIPAR, 2022), their willingness to comply voluntarily erodes. This creates a vicious cycle of non-compliance and enforcement, which is detrimental to both revenue collection and business growth.

4.5.4 Discussion on Challenges in Tax Compliance

This section directly addresses the fourth research objective and the corresponding hypothesis, synthesizing the study's findings to establish the overarching relationship between taxation and SME outcomes. The cumulative evidence presents a compelling case for rejecting the null hypothesis (H_0 : There is no statistically significant relationship between the perceived tax burden and the performance and growth of SMEs). The data reveals that this relationship is not merely correlational but operates through several distinct, yet interconnected, causal pathways that align with and extend the theoretical propositions in the literature.

The most direct pathway is the financial and investment channel. The study's regression analysis, which confirmed a significant positive relationship between the quantitative tax burden and reduced profitability ($\beta = 0.46$, $p < .001$), provides a statistical bedrock for this claim. This finding is powerfully reinforced by the data on growth initiatives. As shown in Table 4.18, a decisive 76% of SMEs have postponed or canceled specific growth plans such as opening new branches or launching new products due to the tax burden. This moves beyond the well-documented impact on profitability to demonstrate a direct *behavioral response* that stifles expansion. This aligns with the resource-based view (RBV) of the firm, as cited by Ahmad, Audi & Ahmad (2025), which posits that SMEs, with their inherently limited resources, are uniquely vulnerable to external cost burdens like taxation, which divert crucial capital away from growth-oriented investments. The findings from Uganda by Epet (2023) and Nigeria by Oloyede *et al.* (2024), which also found negative relationships between tax variables and SME performance, are thus strongly corroborated in the Zambian context.

Furthermore, the analysis uncovers a clear dose-response relationship between the severity of the tax burden and the frequency of stunted growth. The cross-tabulation in Table 4.19 and its highly significant Chi-Square result ($\chi^2(6) = 28.91$, $p < 0.001$) demonstrate that as the tax burden escalates, SMEs are progressively more likely to repeatedly cancel strategic initiatives. For instance, among businesses with a tax burden exceeding 20% of revenue, 67% reported canceling growth plans "multiple times." This pattern provides robust, inferential evidence that the negative impact is not random but is directly proportional to the fiscal pressure exerted on the business, a nuance often missing in purely perceptual studies.

The relationship is further mediated by a psychological and expectations channel. The overwhelming perception that taxes limit growth (79%, Table 4.16) and have consistently done so over a three-year period (74%, Table 4.17) shapes the strategic mindset of entrepreneurs. When business owners perceive the fiscal environment as a persistent impediment, it dampens entrepreneurial ambition and discourages long-term planning. This aligns with institutional theory, which emphasizes how the quality of institutions including the tax system shapes firm behaviour. The perception of a growth-hindering system, as highlighted

in this study, creates a climate of uncertainty that is antithetical to the risk-taking required for business expansion. This finding resonates with the conclusions of Tengerapena *et al.* (2025) in Zimbabwe, who identified poor institutional capacity and a lack of transparency as key obstacles to SME development.

Finally, the relationship culminates in a tangible socio-economic outcome: suppressed job creation. The finding that 80% of businesses reported a reduced capacity to hire is perhaps the most significant indicator of how taxation truncates SME growth. This directly links fiscal policy to national development goals, illustrating a critical trade-off. As argued by Kusi and Opoku-Mensah (2018) in the Ghanaian context, the very taxes intended to fund public services and create employment can, when poorly structured, suppress that employment at its primary source. This study provides concrete evidence from Lusaka's CBD that this paradoxical effect is a tangible reality in Zambia.

In conclusion, the data reveals a robust, multifaceted, and statistically significant negative relationship between taxation and SME performance and growth. This relationship is evidenced through eroded profits, canceled expansion plans, a demonstrable dose-response effect, and suppressed employment. The interconnectedness of financial strain, compliance costs, and negative perceptions creates a systemic barrier to SME development. Therefore, the null hypothesis is firmly rejected. There is a statistically significant, negative relationship between the perceived tax burden and the performance and growth of SMEs in Lusaka's Central Business District. This conclusion underscores the urgent need for policy interventions that not only simplify compliance but are explicitly designed to foster, rather than hinder, the growth potential of this vital sector.

5. Conclusion and Recommendations

5.1 Overview

This chapter summarizes the key findings of the study, draws conclusions based on the research objectives, and provides practical recommendations for policymakers, tax authorities, and SME operators. The study investigated the effects of taxation on the performance and growth of Small and Medium Enterprises (SMEs) in Lusaka's Central Business District (CBD). It focused on three specific objectives: to examine the level of tax awareness and compliance among SMEs, to assess the impact of taxation on the financial performance of SMEs, and to evaluate the challenges SMEs face in complying with tax obligations.

The findings revealed that while SMEs play a central role in Zambia's economic development through employment creation, poverty reduction, and contribution to GDP, their performance and growth are negatively affected by taxation-related issues. Tax awareness was found to be low, financial performance was hindered by high tax burdens and compliance costs, and SMEs faced multiple systemic and administrative challenges in meeting tax obligations. These findings have important implications for tax policy and SME development in Zambia.

This chapter therefore provides a comprehensive conclusion of the study and offers actionable recommendations designed to enhance tax compliance, reduce the financial burden on SMEs, and create an enabling environment for their growth and sustainability.

5.2 Conclusion

This study establishes unequivocally that the current administration and structure of taxation in Zambia are in direct and counterproductive conflict with the national objective of fostering a vibrant, innovative, and growing SME sector. The empirical findings from Lusaka's CBD paint a stark picture of a sector struggling under the cumulative weight of a fiscal system it perceives as complex, costly, and fundamentally inequitable. The conclusions drawn are not merely observations of discontent but are supported by statistical evidence and resonate strongly with a global body of scholarly work on taxation in developing economies. The theoretical frameworks intended to underpin a fair tax system—namely the Benefit Theory and the Ability-to-Pay Principle—are largely negated in the Zambian SME context. Instead of a reciprocal relationship with the state, SMEs experience a fiscal burden that stifles their potential and undermines their role as a purported engine of economic growth.

The profound tax awareness gap identified, where only 35% of SMEs are fully aware of their obligations, is a foundational failure that echoes findings across Sub-Saharan Africa. This research confirms that smaller enterprises disproportionately rely on informal, and often unreliable, knowledge networks. This finding aligns with the work of Joshi, Ayee, and Heady (2019), who argue that in many developing countries, "informal networks and 'learning by doing'" often replace formal tax education, leading to inadvertent non-compliance and a perpetual state of uncertainty. The reliance on such methods, as opposed to structured, accessible support from the Zambia Revenue Authority (ZRA), creates a vulnerable environment where SMEs are perpetually at risk of penalties, fostering a sense of fear rather than a culture of voluntary compliance. The ZRA's efforts, while perhaps existent, are evidently not reaching the intended audience in an effective manner, particularly the smallest micro-enterprises for whom the cost of ignorance is highest.

The core of this study's conclusion rests on the demonstrable negative impact of taxation on SME viability. The data revealing that taxes significantly reduce profitability (72%), create cash flow challenges (80%), and force delays in business expansion (65%) is compelling. Crucially, the regression analysis confirming a statistically significant negative relationship between the tax burden and profitability moves this finding from the realm of perception to empirical fact. This is consistent with the broader literature. For instance, a study by Abrie and Doussy (2006) in South Africa found that tax compliance costs could consume a significant portion of SMEs' pre-tax profits, acting as a *de facto* regressive tax. Similarly, Trivedi and Shehata (2005) found that high tax rates and complex compliance procedures were significant deterrents to small business growth. The situation in Zambia, as revealed by this study, is a clear manifestation of this global challenge, where the fiscal demands of the state directly curtail the capital accumulation and reinvestment that are the lifeblood of small business expansion.

Perhaps the most socially significant conclusion is the stifling effect of taxation on employment growth. With 80% of businesses reporting a reduced capacity to hire, the tax system is actively constraining one of the SME sector's most critical contributions to national development: job creation. This finding places the research in direct dialogue with

international concerns about fiscal policy and unemployment. Kusi and Opoku-Mensah (2018), in a study on Ghanaian SMEs, similarly concluded that high tax burdens negatively influence employment decisions, forcing business owners to either postpone hiring or operate with skeletal staff. This creates a vicious cycle: the government imposes taxes to fund public services and create employment, yet the imposition of those very taxes prevents the most dynamic job-creating sector from fulfilling that role. The consequence is not just slower economic growth, but also heightened social vulnerability and a missed opportunity to harness the demographic dividend of a youthful population.

The regressive nature of tax compliance costs, a key finding of this study, deepens the inequality within the SME sector itself. The challenges of complex, frequently changing tax laws (85%) and the high cost of hiring tax professionals (70%) are not borne equally. Statistically significant evidence from this research shows that smaller businesses bear a heavier relative burden, a phenomenon well-documented in public finance literature. Coolidge (2012)^[36] famously referred to this as the "small business penalty," where the fixed costs of compliance such as time spent understanding laws or fees for accountants—represent a much larger share of revenue for a micro-enterprise than for a medium-sized or large firm. This creates an uneven playing field where the smallest and most vulnerable businesses, which should be the focus of developmental policy, are instead penalized by the system. This regressive effect undermines entrepreneurship and solidifies market advantages for larger, established players who can leverage economies of scale in compliance.

Ultimately, the overwhelming perception (75%) that the tax system is a hindrance to growth points to a severe deficit of trust and perceived fairness. This sentiment is the logical culmination of the awareness gaps, financial strains, and regressive burdens detailed above. When SMEs see little tangible benefit from their tax contributions such as improved infrastructure, reliable electricity, or accessible business development services the core tenet of the Benefit Theory is invalidated. Furthermore, when a sole proprietor earning a marginal income faces the same complex compliance structure as a larger company, the Ability-to-Pay Principle is rendered meaningless. This perception is not unique to Zambia. Research by Bird (2015) suggests that in many developing countries, the "fiscal contract" between citizens and the state is weak; taxpayers do not see a clear link between their payments and improved public goods, leading to resentment and high levels of tax morale. The Zambian SME sector's perception is a symptom of this broken fiscal contract.

In final analysis, the theoretical promise of taxation as a tool for equitable development is broken in the context of Zambian SMEs. The system, in its current form, functions less as a mechanism for fostering growth and more as a barrier to it. The consequences are clear and mutually reinforcing: diminished profitability, constrained cash flows, aborted expansion plans, and suppressed job creation. For the SME sector to truly actualize its potential as the engine of economic growth and employment envisioned in national development plans like the Eighth National Development Plan, a fundamental and empathetic rethinking of the fiscal relationship between the state and small businesses is not just advisable, but imperative. Policymakers must move

beyond viewing SMEs merely as sources of revenue and begin to see them as fragile seedlings that require a nurturing, rather than a punitive, fiscal environment to flourish. The subsequent recommendations propose a pathway towards such a reformed system.

5.3 Recommendations

Based on the conclusive findings of this study, the following recommendations are proposed:

A. For Policymakers and the Zambia Revenue Authority (ZRA):

1. Implement Differentiated, Sector-Specific Tax Education: ZRA should move beyond generic workshops. It should develop and disseminate simplified, pictorial, and multilingual tax guides tailored to specific sectors (e.g., "Tax Guide for Retail Shops," "VAT for Service Providers"). These should be distributed through local business associations and community radio.
2. Simplify the Tax Regime and Enhance Equity: Review the presumptive tax system to better align it with actual profitability rather than estimated turnover. Consider introducing a graduated corporate income tax threshold that offers lower rates for genuine small enterprises and micro-entities. Extend tax holidays for start-ups in key sectors beyond the initial year to allow for business stabilization.
3. Alleviate the Compliance Cost Burden: Formalize and widely publicize a scheme that allows SMEs to pay their tax liabilities in monthly instalments without penalty to ease cash flow pressures. For the smallest businesses, explore the feasibility of a fully subsidized, simplified e-filing platform or a voucher system for a free annual consultation with a certified tax consultant.
4. Enhance Transparency and Build Trust: ZRA should proactively communicate how tax revenue collected from the CBD is being reinvested into local infrastructure and services. Publishing simplified versions of local development budgets and showcasing completed projects can help rebuild the social contract and improve tax morale.

B. For SME Operators and Business Associations:

1. Prioritize Formal Record-Keeping: SME owners must recognize that basic bookkeeping is a non-negotiable business practice. It is the first step towards accurate tax filing, avoiding penalties, and making informed financial decisions.
2. Collectivize to Access Expertise: Small businesses should leverage their strength in numbers. Business associations can negotiate group rates with tax consultants or software providers, making professional advice more affordable for their members.
3. Engage in Constructive Advocacy: SME associations have a responsibility to aggregate the challenges identified in this study and present them as a unified front to ZRA and the Ministry of Finance. They should demand a seat at the table during tax policy reviews.

C. For Academic and Future Research:

1. Expand the Geographical and Sectoral Scope: Future research should replicate this study in rural districts and other urban centers to compare regional disparities. A deeper, qualitative case study approach focusing

specifically on the challenges faced by Microfinance Institutions (MFIs) would be highly valuable.

2. Conduct Longitudinal Studies: A longitudinal study tracking a cohort of SMEs over 3-5 years could provide more robust evidence of the causal impact of specific tax policy changes on business growth and survival.
3. Investigate the Informal Sector Link: Research exploring the tipping points that drive SMEs to remain informal or to formalize, with a specific focus on the role of taxation, would provide critical insights for broadening the tax base.

5.4 Limitations of the Study

While this study provides valuable insights, its findings must be interpreted within the context of its limitations. Firstly, the reliance on self-reported data carries the inherent risk of social desirability bias, where respondents may under-report non-compliance or over-state challenges. Secondly, the study's geographical focus on Lusaka's CBD, while strategic, limits the generalizability of the findings to SMEs in rural areas or other towns, where market dynamics and enforcement may differ. Thirdly, the cross-sectional nature of the research design provides a snapshot in time; it can establish relationships but cannot definitively prove causality over the long term. Finally, the coding of open-ended responses for "Changes Recommended" and "Final Comments," while necessary for quantitative analysis, may have oversimplified some of the nuanced qualitative feedback provided by the entrepreneurs.

6. Acknowledgement

I am bound to thank God Almighty, who has given me the wisdom, strength, and perseverance to see this research through. Without His grace, it would not have been possible. I would like to extend my special thanks to my supervisor, whose developing insight, valuable feedback, and motivation from the very beginning until the end helped to shape this study. I am also grateful to all the faculties and staff of the School of Humanities and Social Sciences at the Information and Communications University for academic support and guidance.

Special thanks also go to the Zambia Revenue Authority, Zambia Development Agency, and all owners and managers of Small and Medium Enterprises in the Central Business District, Lusaka, who participated in the study. Your openness and willingness to share your experiences made this research possible.

To my family and friends, thank you for continued love, patience, and encouragement during the years at university. Your support and belief in me have been continuous sources of motivation and inspiration.

Lastly, I am grateful to all of them who, one way or another, made the successful implementation of this work possible. I will remember their support and friendliness forever.

7. References

1. Abiola J, Asiweh M. Impact of tax administration on government revenue in a developing economy. *International Journal of Business and Social Science*. 2012; 3(8):99-113.
2. Adams C. For good and evil: The impact of taxes on the course of civilization. Madison Books, 2001.
3. Adebisi JF, Gbogi DO. Effect of tax avoidance and tax evasion on personal income tax administration in

- Nigeria. *American Journal of Humanities and Social Sciences*. 2013; 1(3):125-134.
4. Agyemang G. Accounting in a changing institutional context: The case of state-owned enterprises in Ghana. *Critical Perspectives on Accounting*. 2010; 21(5):429-438.
5. Agyei SK, Damoah JO. Tax compliance in Ghana: Evidence from the informal sector. *African Journal of Accounting, Auditing and Finance*. 2015; 4(1):42-58.
6. Aisha BS, Mohammed AA. Presumptive tax and its effect on small businesses in Nigeria. *Journal of Accounting and Taxation*. 2020; 12(3):45-52.
7. Ajaz T, Ahmad E. The effect of corruption and governance on tax revenues. *The Pakistan Development Review*. 2010; 49(4):405-417.
8. Akintoye IR, Tashie GA. The effect of tax compliance on the performance of small-scale enterprises in Nigeria. *International Journal of Business and Economic Development*. 2013; 1(1):25-33.
9. Alabede JO, Ariffin ZZ, Idris KM. Public governance quality and tax compliance behavior in Nigeria. *International Journal of Accounting and Financial Reporting*. 2011; 1(1):213-226.
10. Ali M, Fjeldstad O-H, Sjursen IH. To pay or not to pay? Citizens' attitudes toward taxation in Kenya, Tanzania, Uganda and South Africa. *World Development*. 2014; 64:828-842.
11. Alm J. Tax compliance and administration. In Hildreth, W.B. & Richardson, J.A. (eds.) *Handbook on taxation*. CRC Press, 1999, 741-768.
12. Alm J, Martinez-Vazquez J. Tax morale and tax evasion in developing countries. *Public Finance in Developing and Transition Countries*, 2007, 145-178.
13. Alm J, McClellan C. Tax morale and tax compliance from the firm's perspective. *Kyklos*. 2012; 65(1):1-17.
14. Alm J, Torgler B. Culture differences and tax morale in the United States and in Europe. *Journal of Economic Psychology*. 2006; 27(2):224-246.
15. Anyanwu JC. *Nigerian public finance*. Joanee Educational Publishers, 1997.
16. Asher MG. Tax policy for emerging Asian economies. *Asian Development Bank Institute Working Paper No. 349*, 2012.
17. Atawodi OW, Ojeka SA. Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*. 2012; 7(12):87-96.
18. Ates A, Bititci U. Change process: A key enabler for building resilient SMEs. *International Journal of Production Research*. 2011; 49(18):5601-5618.
19. Ayyagari M, Demirgüç-Kunt A, Maksimovic V. Small vs. young firms across the world: Contribution to employment, job creation, and growth. *World Bank Policy Research Working Paper 5631*, 2011.
20. Ayee JA. Building tax compliance through reciprocity with government. *IDS Bulletin*. 2007; 38(3):20-27.
21. Barro RJ, Sala-i-Martin X. *Economic growth* (2nd ed.). MIT Press, 2004.
22. Baurer LI. Tax administrations and SMEs in developing countries. *World Bank Group Discussion Paper*, 2005.
23. Besley T, Persson T. Why do developing countries tax so little? *Journal of Economic Perspectives*. 2014; 28(4):99-120.
24. Bird RM. Tax challenges facing developing countries. *Institute for International Business*, 2008.
25. Bird RM. Smart tax administration. *Economic Premise*. 2010; 36:1-7.
26. Bird RM. Taxation and development: What have we learned from fifty years of research? *Public Finance and Management*. 2012; 12(4):387-423.
27. Bird RM, Zolt EM. Redistribution via taxation: The limited role of the personal income tax in developing countries. *UCLA Law Review*. 2005; 52(6):1627-1695.
28. Bird RM, Zolt EM. Tax policy in emerging countries. *Environment and Planning C: Government and Policy*. 2008; 26(1):73-86.
29. Bird RM, Zolt EM. *Taxation and development: The weakest link?* Edward Elgar Publishing, 2015.
30. Boame AK, Amponsah R. Taxation and SMEs' performance: Evidence from Ghana. *Journal of Financial Reporting and Accounting*. 2021; 19(2):295-312.
31. Braithwaite V. *Taxing democracy: Understanding tax avoidance and evasion*. Ashgate Publishing, 2003.
32. Bryman A. *Social research methods* (5th ed.). Oxford University Press, 2016.
33. Chikumbi E, Siwale S. The impact of taxation on the growth of SMEs in Zambia. *Zambian Journal of Business and Economics*. 2021; 5(2):45-62.
34. Chiumya C. Countering tax evasion in Malawi: An analysis of the methods and a critique of their effectiveness. *MLB Research Paper Series*, 2006.
35. Cobham A, Jansky P. Global distribution of revenue loss from tax avoidance. *UNU-WIDER Working Paper 2018/55*, 2018.
36. Coolidge J. Tax compliance cost surveys: Using data to improve tax systems. *Investment Climate in Practice*. 2012; 8:1-4.
37. Creswell JW. *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Sage Publications, 2014.
38. Creswell JW, Plano Clark VL. *Designing and conducting mixed methods research* (2nd ed.). Sage Publications, 2011.
39. Devas N, Kelly R. Regulation or revenue? An analysis of local business licenses. *Public Administration and Development*. 2001; 21(5):381-391.
40. De Mel S, McKenzie D, Woodruff C. The demand for, and consequences of, formalization among informal firms in Sri Lanka. *American Economic Journal: Applied Economics*. 2013; 5(2):122-150.
41. Evans C, Lignier P, Tran-Nam B. Tax compliance costs for the small and medium enterprise business sector: Recent evidence from Australia. *eJournal of Tax Research*. 2013; 11(2):217-227.
42. Fjeldstad O-H, Heggstad K. Local government revenue mobilisation in Anglophone Africa. *ICTD Working Paper 7*, 2012.
43. Friedman J, Hendrickson C. Building trust through public services: Evidence from tax compliance in Africa. *The World Bank Economic Review*. 2021; 35(1):1-24.
44. Gcabo R, Robinson Z. Tax compliance and behavioural responses in South Africa. *Journal of Economic and Financial Sciences*. 2007; 1(1):31-46.

45. GIZ. Toolkit: Addressing SME compliance gaps. Bonn: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2016.
46. Gupta AS. Determinants of tax revenue: A comparison of sub-Saharan Africa and Latin America. IMF Working Paper WP/07/157, 2007.
47. IMF. Revenue mobilization in developing countries. Washington, D.C.: International Monetary Fund, 2011.
48. IMF. Corporate taxation in the global economy. Washington, D.C.: International Monetary Fund, 2019.
49. IMF. Revenue mobilization in Sub-Saharan Africa: Challenges and opportunities. Washington, D.C.: International Monetary Fund, 2021.
50. James S, Alley C. Tax compliance, self-assessment and tax administration. *Journal of Finance and Management in Public Services*. 2004; 2(2):27-42.
51. Joshi A, Prichard W, Heady C. Taxing the informal economy: The current state of knowledge and agendas for future research. *Journal of Development Studies*. 2014; 50(10):1325-1347.
52. Kambwale N. Presumptive taxation and SME growth in Zambia. *Zambian Journal of Economics and Development*. 2019; 3(2):40-57.
53. Kalaluka B. Tax incentives and SME performance in Lusaka: A sectoral analysis. *African Journal of Finance and Policy*. 2022; 5(1):13-29.
54. Keen M. Taxation and development-Again. IMF Working Paper WP/12/220, 2012.
55. Kirchler E. The economic psychology of tax behaviour. Cambridge University Press, 2007.
56. Lewis A. The psychology of taxation. Oxford: Martin Robertson, 1982.
57. Lubengu M. Tax burden and SME survival in Zambia: Evidence from the Copperbelt. *Lusaka Business Review*. 2018; 2(1):52-68.
58. Mas'ud A, Aliyu A, Gambo M. Tax rate and tax compliance in Africa. *European Journal of Accounting Auditing and Finance Research*. 2014; 2(3):22-30.
59. Maseko N. Determinants of tax compliance among small and medium enterprises in Zimbabwe. *Journal of Economics and International Business Research*. 2014; 2(3):48-57.
60. Mphuka C, Chishimba M. Barriers to tax compliance among SMEs in Zambia. ZIPAR Working Paper, 2021.
61. Musgrave RA. Public finance in theory and practice (5th ed.). McGraw-Hill Education, 2014.
62. Mwila K. The impact of tax knowledge on compliance levels among SMEs in Lusaka. *Journal of African Economic Policy*. 2020; 6(2):103-117.
63. Mwansa T. The role of local government in supporting urban SMEs: The case of Lusaka. *Zambia Business Review*. 2020; 4(1):56-70.
64. Mwenya G, Kalikoni H. Taxation and informal business growth in Zambia. *Journal of African Taxation Studies*. 2020; 3(1):15-30.
65. OECD. Tax and development: What drives tax morale? OECD Publishing, 2013.
66. OECD. Tax administration 2015: Comparative information on OECD and other advanced and emerging economies. OECD Publishing, 2015.
67. OECD. Taxation and small enterprises: Global policy trends and African contexts. OECD Publishing, 2020.
68. Okpe II. The impact of taxation on the performance of SMEs in Nigeria. *Journal of Business and Economic Policy*. 2014; 1(2):23-29.
69. Opoku SK, Owusu GMY. Tax knowledge and compliance among SMEs in Ghana. *International Journal of Accounting and Finance*. 2020; 9(1):1-16.
70. Prichard W. Taxation and state building: Towards a governance-focused tax reform agenda. IDS Working Paper 341, 2010.
71. Slemrod J, Yitzhaki S. Tax avoidance, evasion, and administration. *Handbook of Public Economics*. 2002; 3:1423-1470.
72. Stiglitz JE, Rosengard JK. Economics of the public sector (4th ed.). W.W. Norton & Company, 2015.
73. Tanui JK, Kamau C. Effect of taxation on performance of small and medium enterprises in Kenya. *Journal of Finance and Accounting*. 2020; 4(3):28-41.
74. Torgler B. Tax morale in Latin America. *Public Choice*. 2005; 122(1-2):133-157.
75. UNCTAD. Promoting investment in the Sustainable Development Goals. United Nations, 2020.
76. USAID. The role of tax incentives in attracting investment in developing countries. USAID, 2013.
77. World Bank Doing Business 2020: Comparing business regulation in 190 economies. World Bank Group, 2020.
78. World Bank. Enhancing the business environment for micro, small, and medium enterprises in Zambia. World Bank, 2022.
79. Zambia Development Agency (ZDA). Annual SME sector report. Lusaka: ZDA, 2021.
80. Zambia Institute for Policy Analysis and Research (ZIPAR). Taxation and SMEs in Zambia: Policy brief. Lusaka: ZIPAR, 2022.
81. Zambia Revenue Authority (ZRA). Annual report. Lusaka: ZRA, 2022.
82. Zambia Revenue Authority (ZRA). Taxpayer compliance strategy. Lusaka: ZRA, 2023.