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**EVALUATING THE ROLE OF TAX ADMINISTRATION IN ENHANCING SME TAX
COMPLIANCE IN ZAMBIA: CHALLENGES AND POLICY SOLUTIONS.**

BY:

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**AN OBLIGATORY ESSAY SUBMITTED TO THE UNIVERSITY OF LUSAKA IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
BACHELOR OF LAWS (LLB) DEGREE.**

2025

DECLARATION

I declare that this dissertation entitled, **Evaluating the role of tax administration in enhancing SME tax compliance in Zambia: Challenges and policy solutions**, which is hereby submitted in partial fulfilment of the requirement for the award of a Bachelor's Degree at the University of Lusaka is my own original work and it has not been previously submitted for the award of a degree at this University or any other tertiary institution. I understand what plagiarism entails and I'm aware of the University's policy in this regard. Thus, where other people's work is cited, I have duly acknowledged. The errors or omissions in this work are solely mine.

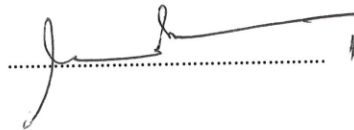
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RECOMMENDATION

I *E. Khanda* recommend that this dissertation prepared under my supervision by **Towera Kanyika**, entitled, **Evaluating the role of tax administration in enhancing SME tax compliance in Zambia: Challenges and policy solutions** be accepted for examination. I have checked it carefully and I'm satisfied that it fulfills the requirement pertaining to the format laid down in the regulations governing directed research.

 13.11.25

ACKNOWLEDGEMENT

First and foremost, I would like to thank Almighty God for His endless grace, strength, and guidance throughout this journey. It is through His wisdom and favor that I have been able to overcome challenges and reach this important milestone.

My deepest gratitude goes to my supervisor, Mr Kenneth Khanda, for his constant support, patience, and encouragement. His thoughtful insights, and genuine dedication made this process not only educational but inspiring. I am truly thankful for his belief in my potential and his willingness to guide me every step of the way.

To my incredible parents, Mr and Mrs. Kanyika thank you for being my greatest source of love and strength. Your unwavering support, sacrifices, and words of encouragement have kept me grounded and motivated. You have always reminded me to aim higher and believe in myself, even when times were difficult.

To my wonderful siblings, thank you for always cheering me on and believing in me. Your laughter, advice, and faith in my dreams have been a constant source of comfort and motivation.

To my best friend, Shummu-el Chanda, thank you for always reminding me to push harder and never give up. Your words of encouragement carried me through the toughest days and gave me the courage to keep going when I felt like stopping.

And lastly, to my dear friends Phyllis Shimukwaila and Zewelangi Syamuleya thank you for always telling me to push forward and reminding me that we have the strength to achieve everything we set our hearts on. Your faith and optimism have been a light in my journey, and I will always be grateful for your encouragements.

This achievement is not mine alone it belongs to everyone who stood by me with love, faith, and hope.

DEDICATION

This dissertation is dedicated to the Lord Almighty, whose guidance, grace, and mercy have been my constant source of strength throughout this journey. I also dedicate this work to my beloved parents, Mr. Robert Kanyika and Mrs. Faith Munthali Kanyika, and my dear siblings, Kondwani Kanyika and Wezi Kanyika. Your unwavering love, support, and sacrifices have made this accomplishment possible. I am forever grateful and deeply indebted to each of you for your encouragement and faith in me.

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ABSTRACT

This study emphasizes the need to enhance the control systems of tax administration in Zambia with A Lot of Focus is on Paying Tax Obligations by SMEs. The object of this study is to examine the contributing factors of SMEs in continuing to face tax compliance problems despite their important role of creating jobs and developing the economy. The study aims at analyzing the efficiency of Zambian Revenue Authority (ZRA) in tax collection, exploring the administrative, institutional and behavioral impediments to which SME compliance is subjected as well as drawing up policy and legal measures to improve the system.

This study used a qualitative research method to collect data from different sources such as Acts, reports, academic literatures and official documents to ZRA and Ministry of Finance. From the SME point of view, feedback for these representatives was also collected to give a practical description about which administrative and behavioral barriers they face. The major results from this study reveal various shortfalls in Zambia's tax administration systems, which make it difficult for SMEs to meet their obligations of paying taxes. Foremost among these are cumbersome tax procedures, excessive compliance costs, low taxpayer awareness, digital divide and uneven administration of tax regulations. Behavioral factors like low tax morale and negative perceptions of tax utilization also play a significant role.

In conclusion, the study suggests that improving SME tax compliance in Zambia necessitates a more supportive and transparent approach to tax administration. This involves streamlining tax procedures, enhancing taxpayer education, expanding digital accessibility, revising penalty frameworks, and fostering trust between SMEs and tax authorities. These reforms not only promote compliance but also foster sustainable economic growth and boost domestic revenue generation.

CHAPTER ONE

1.0 INTRODUCTION

Taxation plays a crucial role in national development and governance. It is the main source of revenue for governments to fund essential public services such as infrastructure development, healthcare, education, and national security. In Zambia, the legal framework for tax administration is primarily provided under the *Income Tax Act*, Chapter 323, particularly Section 64, which mandates every person chargeable with tax to submit returns of income¹, and Section 63, which allows the Commissioner-General to assess taxable income and enforce compliance². In countries like Zambia, it is crucial to boost internal revenue generation by improving tax collection processes in order to reduce reliance on foreign aid. Despite the importance of this, Zambia faces challenges in achieving high tax-to-GDP ratios, mainly due to a limited tax base and widespread tax evasion, particularly among Small and Medium Enterprises (SMEs).

SMEs play a significant role in the Zambian economy, accounting for over 70% of employment and around 30% of GDP, as reported by the Zambia Development Agency. However, their contribution to national revenue remains disproportionately low. Many SMEs operate informally, making it challenging for the Zambia Revenue Authority to include them in the tax system. Problems such as inefficient administration, lack of tax knowledge, high costs of compliance, complicated tax structures, and bad service delivery by the ZRA have pushed SMEs to non-compliance. The ZRA has made efforts to improve compliance through the Turnover Tax initiative, taxpayer education, and online tax platforms. However, the effect has been minimal. According to the International Monetary Fund, Zambia's effort to raise revenue is below its potential, and SMEs are the major source of the compliance gap. This research paper is a tax administration critique on how it can be a promoter of SME tax compliance by removing systemic and structural barriers, assessing the effectiveness of current administrative measures, and providing legal and policy recommendations to ameliorate the situation.

¹ Income tax act chapter 323

² Ibid

1.1 BACKGROUND TO THE STUDY

Tax compliance remains one of the most challenging issues for tax administrations globally, particularly in developing economies where institutional capacity is limited and informal business activity is widespread. In Zambia, the situation is no different. The country's economy is heavily reliant on the informal sector, which is largely composed of Small and Medium Enterprises. These companies are the core of the private sector, thus they are essential for job creation, poverty reduction, and economic growth. Unfortunately, most of the SMEs that account for a large part of the economy are running informally and do not adhere to tax regulations³.

According to the African Tax Administration Forum, a large proportion of SMEs in Africa, including Zambia, remain unregistered for tax purposes. The reasons for this are multifaceted and include fear of taxation, inadequate bookkeeping skills, high compliance costs, and limited understanding of tax obligations. Additionally, weak enforcement mechanisms by tax authorities allow many of these businesses to continue operating informally without consequence.⁴ This has led to a significant loss of potential tax revenue that could otherwise be used to fund public services and support national development objectives.

The Zambia Revenue Authority, which is the body mandated to assess, collect, and enforce tax laws under various legislative frameworks such as the Income Tax Act and the Value Added Tax Act, faces numerous challenges in its efforts to improve compliance. A key issue is the lack of technical capacity among SME operators to understand and navigate the complex tax system. Many small business owners are unaware of their obligations or the procedures required to become tax compliant⁵ Compounding this problem is the ZRA's own institutional limitations, including inadequate taxpayer education programs, weak audit capacity, insufficient manpower, and poor integration of

³ Zambia development agency, SME sector report 2019

⁴ African tax administration forum □ *Taxation of SMEs in Africa: Overview and Challenges*, 2020.

⁵ ZRA annual report 2021

digital tax systems factors that significantly reduce its effectiveness in enforcing tax compliance among SMEs⁶.

On top of that, individual convictions and actions can be considered as major factors that shape the way people comply with taxes. According to a research commissioned by the Organization for Economic Co-operation and Development, a large number of small enterprises declare that they commit tax evasion merely due to weak enforcement. However, these firms also state that they do not perceive any giving back to them if they pay their taxes. Such an attitude is destructive to the core of the moral norm of tax law observance and encourages the rise of the distrust issue between citizens and officials⁷. In Zambia, similar Local thinkers and academic institutions have shared their discoveries. Many small and medium-sized enterprise (SME) owners feel that taxes are frequently mishandled and fail to result in tangible public services or enhancements to infrastructure⁸.

In order to tackle some of the obstacles faced by small and medium enterprises (SMEs), the ZRA has implemented simplified tax systems specifically designed for them. One example is the Turnover Tax regime, which is aimed at small businesses with annual turnover below a certain threshold. This system applies a fixed tax rate to make it easier for SMEs to comply with tax regulations. Despite efforts to make tax compliance more accessible and appealing, the adoption of these regimes remains low. The primary reason for this is that small and medium enterprises (SMEs) still do not completely trust the tax authorities, do not have enough motivation to take their businesses to the formal sector, and lack knowledge of these tax provisions as there are no sufficient public awareness campaigns.

Given the hard economic situation in Zambia caused by the high level of debt, recurrent budget deficits, and the necessity to increase tax revenue from small and medium-sized enterprises (SMEs), it is extremely important to first of all put into effect the measures that

⁶ Ibid

⁷ OECD, *Taxation and the Informal Economy*, 2019.

⁸ ZIPAR (Zambia Institute for Policy Analysis and Research), *Public Perceptions on Taxation and Governance*, 2021.

will lead to the tax compliance of SMEs. One effective approach to reach that goal is through cutting down administrative procedures in a more efficient way, by upgrading the effectiveness of the institution and by winning the trust of the taxpayers as a result of giving them transparent and efficient services. The main objective of this research is to establish the impact of tax administration on the compliance of small and medium enterprises (SMEs) with the payment of taxes in Zambia, to find out the challenges that are faced at present, and to devise feasible policy proposals that will not only increase the collection of revenue but also lead to the development of SMEs.

1.2 STATEMENT OF THE PROBLEM

Despite various tax administration reforms, Zambia still faces a significant challenge in ensuring tax compliance among SMEs. The informal sector remains largely outside the tax net, yet it represents a substantial portion of the economy. Although tax laws exist to govern the obligations of SMEs, many businesses fail to register or file returns, and even fewer pay taxes consistently. A key issue is that the existing tax administration framework is not adequately aligned with the realities and capacities of SMEs. The Income Tax Act and Value Added Tax Act, though comprehensive, are complex and not easily understandable for small business operators who may lack formal education or legal support. This legal complexity discourages compliance and fosters avoidance.

Moreover, the Zambian revenue authority is not able to effectively enforce tax laws due to several administrative inefficiencies that hinder their operations. Among these inefficiencies are slow taxpayer registration, lack of compliance guidelines, poor customer service, and lack of data on the unregistered sector. Although there have been measures to improve compliance through the presumptive tax system, its implementation has been less than successful because of insufficient outreach and monitoring. The challenges encountered by the authority limit its capacity to guarantee that taxes are paid in a just and efficient way. Furthermore, the lack of trust between SMEs and tax authorities is another very important issue. A large number of SMEs consider that taxes are imposed on them unfairly and that tax revenues are not utilized transparently or efficiently. Such mistrust acts as a deterrent to voluntary compliance and thus, induces escape from the tax system.

Moreover, few studies and datasets exist to confirm the effectiveness of administrative actions and the strategies that the Zambian revenue authority is using. Changes in tax policy would be difficult if no steps taken based on the evidence. The result is a downward spiral of non-compliance, lost revenues, and diminishing enforcement capacity.

Therefore, this study addresses the urgent need to evaluate the legal and administrative tools used in tax enforcement and their effectiveness in targeting SMEs. It also provides a foundation for evidence-based policy reform to strengthen the role of tax administration in achieving fiscal goals.

1.3 GENERAL OBJECTIVE

To assess the role of tax administration in improving the tax compliance level of Small and Medium Enterprises in Zambia and to identify the key challenges and policy recommendations to improve compliance and revenue mobilization efforts.

1.4 RESEARCH OBJECTIVES

1. To assess the current tax administration strategies employed by the Zambia Revenue Authority in promoting tax compliance by SMEs
2. To understand the underlying administrative, institutional and behavioral causes of tax compliance challenges in SMEs in Zambia.
3. To identify practical policy and administrative reforms to improve tax compliance of SMEs and strengthen tax administration in Zambia.

1.5 RESEARCH QUESTIONS

1. How effective was the ZRA as it administered taxes using strategies to influence small and medium sized enterprises to comply with taxes?
2. What major challenges in administration, institutions, and behavior affect how SMEs comply with taxes in Zambia?
3. What can policymakers and administrators adopt to make SMEs comply with taxes more and administer taxes better in Zambia?

1.6 SIGNIFICANCE OF THE STUDY

This research matters to lawmakers because it shows real issues in how Zambia handles taxes for small businesses. Because of this, changes might lead to easier rules that actually fit how smaller firms operate. Ideas are offered some help improve

services, others boost outreach or fairness when collecting taxes - all aimed at fixing current weak spots. Better compliance from small companies may seriously increase government income without relying on outside funds. In educational institutions and academic publications, the work is recognized as an original contribution to the understanding of tax systems in developing countries. It combines legal insights with the practical implementation of policies and by adding the reality of the ground it becomes attractive to the academic community, law students, and researchers. Locally, when small businesses are more compliant with tax regulations, Zambia can benefit not only economically but also socially because most vital services will be supported by well administered and fair taxes.

1.7 SCOPE OF STUDY

This study focuses on evaluating the role of tax administration in enhancing tax compliance among Small and Medium Enterprises in Zambia. The research will primarily examine the strategies, systems, and policies employed by the Zambia Revenue Authority to facilitate SME tax compliance. It will also explore the administrative, institutional, and behavioral challenges that affect compliance levels. Geographically, the study will concentrate on selected SMEs operating in urban and pre-urban areas of Zambia. The study will include perspectives from SME owners/operators and officials from the ZRA to gain a balanced understanding of both taxpayer and administrative viewpoints. Thematically, the study will cover aspects such as taxpayer education, enforcement mechanisms, the effectiveness of simplified tax regimes and digital tax systems. The research is over years between 2018 and 2024 and therefore has the ability to detect the recent changes in tax management in Zambia. The research decided not to focus on big companies or international firms, but to concentrate on small ones only as the big companies are regulated by different rules. Also, issues related to the economy or politics that are outside the ZRA's daily activities will not be considered.

1.8 DEFINITION OF KEY TERMS

Tax Administration, refers to the organizational structures, systems, and processes implemented by government agencies, particularly the Zambia Revenue Authority to

assess, collect, and enforce tax laws. It includes functions such as taxpayer education, audits, compliance monitoring, and enforcement.

Tax Compliance is the degree to which a taxpayer meets their tax obligations as required by law. This includes accurate registration, timely filing of returns, correct reporting of income, and prompt payment of taxes. It can be voluntary (self-motivated) or enforced through administrative actions.

Small and Medium Enterprises Are Business entities that operating on a smaller scale compared to large corporations, usually defined by factors such as annual turnover, number of employees, and capital investment. In Zambia, SMEs are typically classified based on annual turnover and employee count as per the Zambia Development Agency criteria.

Presumptive Tax is a simplified tax system applied to businesses, especially SMEs, that may not keep formal books of accounts. It allows tax authorities to estimate tax liability based on indicators such as turnover, type of business, or other simplified criteria. In Zambia, this includes the Turnover Tax regime.

Informal Sector are economic activities that are not regulated by the state and are often unregistered for tax purposes. Businesses in the informal sector usually do not comply with formal accounting standards or tax obligations.

1.9 LITERATURE REVIEW

There have been several scholarly works and policy-based reports that have explored the issue of tax compliance among Small and Medium Enterprises, especially in the context of developing countries such as Zambia. Different studies have covered different aspects of compliance; the behavioral part of compliance has been the focus of the works, whereas the management side of compliance and policy changes have been the foci of the other studies. This review of the literature intends to critically engage with the existing works, which are relevant, by acknowledging their gaps and matching them to the research goal which is to determine the role of the tax administration in the facilitation of SME tax compliance in Zambia.

Bird and Zolt, in their influential study, argue that developing countries typically face challenges in taxing SMEs due to a high level of informality and administrative weaknesses⁹. They state that many SMEs remain outside the tax net because they view formalization as costly, complex, and of little benefit. These views are consistent with the Zambian context, where many SMEs prefer to operate informally due to the burdensome nature of the tax system and perceived low returns from paying tax.

In a related paper, **Keen (2012)** emphasizes the importance of designing simplified and flexible tax regimes for SMEs. He argues that turnover-based tax regimes, if properly designed, can serve as an effective compliance tool¹⁰. Zambia has adopted a presumptive tax regime the Turnover Tax targeting small businesses with annual turnover below a certain threshold. However, the uptake of this system remains limited, largely due to mistrust in the tax authority and lack of awareness¹¹. This research will therefore explore the efficiency and accessibility of such simplified systems in encouraging compliance.

Chisala (2022), in a study of Chirundu Market, found that despite the availability of the e-filing system introduced by the Zambia Revenue Authority (ZRA), many SMEs still do not file their taxes. The study attributes this to poor tax education, limited access to the internet, and lack of digital literacy¹². This finding does highlight the gap between policy formulation and implementation, particularly when digital solutions are introduced without proper support systems.

Madimbini (2025) similar impact of e-tax systems among SMEs in Lusaka's Light Industrial Area. Though there is growing willingness among the SMEs to comply, the system is often plagued with technical issues and design is unfriendly¹³. These problems frustrate small business owners, who are already negative about the tax system, and might discourage even further compliance. The study concludes that just focusing on the

⁹ Bird, R. & Zolt, E. (2008). *Tax Policy in Developing Countries*. World Bank.

¹⁰ Keen, M. (2012). *Tax Simplification: Issues and Options*. IMF Working Paper.

¹¹ Zambia Revenue Authority (ZRA). (2022). *Presumptive Tax Compliance Report*.

¹² Chisala P. (2022). *A Study of Tax Filing among Market Traders in Chirundu*. UNZA Thesis

¹³ Madimbini, T. (2025). The effect of E-tax systems on SME compliance in Lusaka

digitized system without looking on access and usability problems will not enhance compliance significantly.

From a behavioral economics perspective, **Fjeldstad and Heggstad (2012)** argue that trust in government is a fundamental determinant of tax compliance¹⁴. Research has shown that taxpayers' willingness to comply voluntarily with tax obligations decreases when they think that the public dollars are misused, or not misused at all. This has also been noted in Zambia, where taxpayers feel burdened by tax obligations rather than seeing them as a civic duty¹⁵. This specific anecdote illustrates why, in the case of weak accountability and transparency, efforts to tax the economy simplistically will also fail. The OECD (2019) study on the informal sector also provides a valuable perspective. It states that SMEs lack the financial and managerial resources to prepare adequate books, and thus tax compliance becomes a willingness, and also a capacity, problem¹⁶. This study argues that SME compliance will improve significantly with training and other capacity-building efforts. Zambian tax compliance training workshops, however, while undertaken, remain insufficient in both scope and in their continuity to bring about meaningful change.

A domestic study by **Munthali (2020)**. In Ndola, SMEs pinpointed the absence of support services, ineffective taxpayer outreach, and convoluted compliance steps as the principle tax compliance challenges¹⁷. It was also noted that the ZRA's concentration on enforcement and penalties may be misplaced as opposed to educational support and outreach. Understandably, the initial stages of formalization trigger a need for compliance to be supportably managed.

Slemrod and Gillitzer (2014) describes the "tripod model" of compliance, hinged on enforcement, facilitation, and trust. They state that a tax administration must combine all three components, that is, deterrence, guidance, and trust as a threefold pillar of support to non-compliance enforcement¹⁸. This study, while hoping to use the compliance tripod

¹⁴ Fjeldstad, o and Heggstad k. (2012). Taxpayer attitudes and compliance in sub-saharan Africa. CMI report

¹⁵ ZIPAR (2021). Public perceptions on taxation and public service delivery in zambia

¹⁶ OECD. (2019). Taxation and the informal economy in developing countries

¹⁷ Munthali, M. (2020). Challenges in SME tax compliance: a case of ndola SMEs. GN publications

¹⁸ Slemrod, j. Gillitzer, c. (2014). Tax systems. MIT press

model, aims to assess the ZRA's compliance to the described equilibrium as well as determine whether the ZRA is overemphasizing one pillar at the detriment of the other. Other developing nations have gone through reforms from which Zambia can draw lessons. Take the TRA's addition of a mobile system for paying taxes as an example. Improvement for compliance was achieved without vastly priced infrastructure¹⁹. Moreover, the Lab of Tomorrow (2021) report highlights that 35 of Zambia's 72 districts lack access to a physical tax office, and therefore, tax compliance mechanisms for remote SMEs are circumvented²⁰.

There is consensus in the literature that compliance with taxes could be improved with administrative adjustments and the system's simplification. However, the gap in research regarding the internal structure and capacity of Zambia's local tax administration system is apparent. Thus, this research seeks to examine the internal practices of ZRA, the outreach initiatives, as well as the technological advancements that could be improved to encourage voluntary compliance and expand the tax base for SMEs.

1.10 RESEARCH METHODOLOGY

1.10.1 Research Approach

This research will adopt a qualitative research approach. The study relies on gathering data from secondary sources such as journal articles, books, government reports, tax legislation, policy papers, and statistical data from institutions like the Zambia Revenue Authority (ZRA), the Ministry of Finance, and international bodies such as the OECD and World Bank. A qualitative method fits the bill since the research seeks to grasp perceptions, assess policies, and investigate the administrative side of things rather than measure behaviors. Such an approach gives the researcher the opportunity to deeply examine the impact of tax administration on SME tax compliance and to pinpoint the missing areas in the policy.

¹⁹ TRA (2020). Annual SME engagement report. Tanzania revenue authority.

²⁰ Lab of tomorrow, increasing tax revenue from SMEs in Zambia <https://www.lab-of-tomorrow.com>

1.10.2 Research Design

This investigation incorporates description and analysis elements in its research design. To understand the present situation of SME tax compliance in Zambia, the study will engage in a content analysis of relevant literature, publicly available records, and studies already done. It will evaluate the institutional side of the ZRA, study the effectiveness of the existing tax arrangements, mainly the Turnover Tax system, and figure out government measures to compliance enhancement. The design will also allow a thorough examination of the connection between the small and medium enterprises and tax officials, the most likely effect of the interaction of administrative capacity, compliance support education, and enforcement on tax behavior.

1.10.3 Ethical Considerations

This study will observe academic integrity and ethical standards throughout its development. Since the research is primarily based on secondary data, there will be no direct interaction with human subjects. Besides any information sources that will be used will be properly acknowledged by the Oxford (OSCOLA) referencing style in order to avoid plagiarism and to respect the rights of the creators of the works. The issues related to policy and institutions which have been identified will be carefully thought through without any prejudice so that the proposals made would be just, helpful, and grounded in facts.

1.10.4 RESEARCH OUTLINE

CHAPTER ONE introduces the research. It features the background and the problem statement, which mainly centered around the influence of the tax administration on the improvement of SME tax compliance in Zambia.

CHAPTER TWO looks at the current tax administration system in Zambia, especially the strategies and systems used by the Zambia revenue authority to promote SME tax compliance. It also examines how effective these measures have been increasing compliance and revenue collection.

CHAPTER THREE discusses the main administrative, institutional, and behavioral challenges that make it difficult for SMEs to comply with tax requirements. It explains how these challenges affect both the work of tax administrators and the willingness of SMEs to meet their tax obligations.

CHAPTER FOUR presents and explains the findings from the research. It compares the real situations faced by SMEs and the Zambia revenue authority with what the tax administration system is supposed to achieve, and points out the gaps between policy and practice.

CHAPTER FIVE gives a summary of the main points from the previous chapters. It also provides recommendations on how SME tax compliance can be improved by addressing the administrative weaknesses, simplifying processes, and making better policy decisions.

1.11 CONCLUSION

In summary, this research seeks to evaluate how Zambia's tax administration affects the compliance behavior of SMEs, focusing on both the administrative systems in place and the challenges faced. The research will employ a qualitative, descriptive approach to review legal regulations, policies, and literature with a view to discovering feasible, implementation-ready solutions for better compliance. In the end, it seeks to make a positive impact on the policy conversation concerning tax reforms and enhancing the ZRA's capacity to generate revenue efficiently through the rise in SME tax system participation.

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CHAPTER TWO

2.0 TAX ADMINISTRATION AND SME COMPLIANCE IN ZAMBIA

2.1 Introduction

Tax administration is a foundation of any country's economic and fiscal policy, ensuring that all taxpayers contribute fairly to public finances. In Zambia, this is a responsibility that is vested in the Zambia Revenue Authority, which then oversees registration, assessment, collection, and enforcement of taxes across all sectors of the economy²¹. These Small and Medium Enterprises also form the support of the Zambia's economy, which do contribute significantly to the employment creation, innovation, and overall economic development²². They do function as a bridge between informal economic activities and the formal sector, which foster entrepreneurship and stimulate local economies.

However, despite them being important, Small and medium enterprises tax compliance still remains a tireless challenge. Quite a number of these small and medium enterprises continue to face issues such as low awareness of tax obligations, restricted bookkeeping skills, and being engaged in the informal or semi-formal business sectors²³. Compliance issues become a mess when complex tax laws, digital barriers, and the fact that taxes do not directly translate into public services, are added on top of it. In light of the challenges, it is necessary for a well-functioning tax administration to include elements other than just enforcement. It needs to combine regulatory oversight with supportive systems that will make compliance practical, accessible, and fair. This will contain providing education, simplifying tax procedures, offering digital tools, and ensuring transparent and predictable service. By focusing on SMEs, Zambian Revenue Authority should not only increase tax

²¹ zambia Revenue Authority. (n.d.). About ZRA. Retrieved from <https://www.zra.org.zm/>

²² Zambia Development Agency. (n.d.). SME Sector Report. <https://www.zda.org.zm/>

²³ Ministry of Finance. (2024). Budget Speech. Retrieved from <https://www.mof.gov.zm/>

revenue but it should also integrate these businesses into the formal economy, promoting sustainable economic growth.

Afterward, this section of the book will analyze some of the tax laws and regulations in Zambia, various departments, and agencies involved in the tax collection activities, facilities, and amenities at ZRA provided to the small and medium enterprises, the administrative systems and the means employed to facilitate compliance, and also the level of the measured effectiveness. The chapter additionally emphasizes that these small businesses continue to struggle with fulfilling their tax obligations, thus presenting a complete picture of the present situation of SME tax compliance in Zambia.

2.2 Legal and Institutional Framework

The legal and institutional framework for tax administration in Zambia is anchored in several key pieces of legislation:

- **Zambia Revenue Authority Act, Cap 321:** it does Establish ZRA as the central body for tax administration, granting it the power to register taxpayers also to assess taxes, conduct audits, and enforce compliance²⁴.
- **Income Tax Act, Cap 323:** This act Governs income tax obligations for individuals as well as businesses, including the SMEs²⁵.
- **Value Added Tax Act, Cap 331:** The act Regulates Value added tax obligations, which requires SMEs to register once they surpass the prescribed turnover threshold²⁶.
- **Tax Appeals Tribunal Act:** The act Provides these SMEs with a legal avenue to challenge decisions they deem unfair²⁷.

ZRA does operate under the Ministry of Finance and National Planning and is led by a Commissioner General. The authority comprises major divisions, including Domestic

²⁴ Zambia Revenue Authority Act, Cap 321.

²⁵ Income Tax Act, Cap 323.

²⁶ Value Added Tax Act, Cap 331.

²⁷ Tax Appeals Tribunal Act.

Taxes, which will then handle SME matters, Customs Services, and Corporate Services, responsible for administrative support²⁸. The Recent improvements in Zambia's tax administration include the segmentation of taxpayers, as well as the establishment of provincial service centers, and digital innovations such as Tax Online²⁹.

2.3 ZRA's Role in Supporting SME Compliance

In fact, the Zambia Revenue Authority is involved in a wide range of activities geared towards making sure that these SMEs fulfill their tax obligations. ZRA is addressing tax stages with detailed measures. Apart from being instruments for compliance, these measures are also means of providing assistance to these SMEs and motivating them to voluntarily join the formal economy.

Registration is the first step in bringing SMEs into the formal tax system. ZRA does ensure that all eligible businesses obtain a Taxpayer Identification Number and, when applicable, Value added tax registration. This process is enabled through outreach programs, collaboration with the Patents and Companies Registration Agency, and the use of data analytics to identify unregistered businesses³⁰. Typically, registration campaigns encompass market visits, promotional activities aimed at creating awareness among the public, and workshops mainly directed at business clusters in urban and peri-urban areas. As part of the self-assessment and returns SMEs mostly take up the responsibility of figuring out their tax liabilities and filing returns. ZRA facilitates this activity through provision of instructional materials, online calculators and easy forms for small business. The authority examines the returns submitted to her and issues additional assessments where it identifies discrepancies or underreporting³¹.

²⁸ ZRA. (2023). Annual Report.

²⁹ Dreisbach, T. (2019). Creating an electronic tax administration system in Zambia. Global Delivery Initiative.

³⁰ PACRA and ZRA outreach collaboration initiatives.

³¹Income Tax Act, Cap 323, self-assessment provisions.

This approach emphasizes both accountability and education, helping SMEs learn correct reporting practices while maintaining compliance oversight.

In fact, the Zambia Revenue Authority is involved in a wide range of activities geared towards making sure that these SMEs fulfill their tax obligations. ZRA is addressing tax stages with detailed measures. Apart from being instruments for compliance, these measures are also means of providing assistance to these SMEs and motivating them to voluntarily join the formal economy³². Education efforts are particularly vital for SMEs in informal sectors or rural areas, where access to information is limited.

The Zambian Revenue Authority implements risk-based auditing whereby they mainly focus on businesses with higher chances of non-compliance. In a desk audit, the auditor reviews documents submitted by the auditee, whereas a field audit involves a direct visit to the working place of the auditee³³. It keeps the allocation of resources efficient and at the same time, it discourages noncompliance. In general, small and medium-sized enterprises (SMEs) that have a good track record of compliance are subjected to fewer audits, thus promoting their continuous compliance with tax laws.

If SMEs do not comply with their obligations voluntarily, the ZRA can, therefore, exercise its legal powers to impose on them penalties, interest charges and, in the most serious situations, take them to court. The aim of enforcement is to retain good relations in the market and prompt voluntary compliance from all players in the sector³⁴.

Small and medium enterprises have the right to challenge assessments and, if the case requires, they can also file an appeal with the Tax Appeals Tribunal. Such a system is a way to guarantee that the rights of SMEs are safeguarded and that conflicts are dealt with in an unbiased and open manner³⁵.

³² ZRA public education materials.

³³ ZRA Compliance and Audit Guidelines (2023).

³⁴ ZRA enforcement procedures

³⁵ Tax Appeals Tribunal Act, dispute resolution.

Through dealing with each phase of the tax cycle registration, assessment, education, auditing, enforcement, and dispute resolution. ZRA makes certain that SMEs are not merely supervised but also helped. Such a comprehensive method is vital in maintaining the equilibrium between compliance and business facilitation.

2.4 Administrative Systems & Tools for SME Compliance

ZRA has developed several systems and tools to make tax compliance easier for SMEs. These tools aim to reduce complexity, save time, and support businesses in meeting their tax obligations:

Under taxpayer education, ZRA actively educates SMEs about their obligations. This means setting up trips to markets, holding meetups for traders, handing out easy to read booklets, along with broadcasting info on the radio. The aim is to Help small businesses get clear on which taxes they owe, when to pay them, plus how cutting down mistakes and accidental slip ups ³⁶.

ZRA knows small shops might find tax rules tough, so they've set up easy options like turnover tax or a fixed-rate deal. One depends on how much you sell; another just looks at your shop's scale - no need for fancy books. That way, little firms can keep things legal without paying someone to handle numbers³⁷.

ZRA has also gone digital through platforms such as Tax Online and Tax On App. With this tool, SMEs can e-File returns and make payment without going to a tax office in order to prevent travel and save time. This feature is especially useful for small and medium-sized enterprises (SMEs) located in rural areas or those that have limited mobility. ZRA decided to stop performing compliance checks for all businesses and now only focuses those which are most likely to evade tax. This approach leads to savings of resources, ensures that the principle of fairness is observed, and encourages those who are already compliant to voluntarily cooperate further.

³⁶ ZRA outreach strategy reports

³⁷ ibid

ZRA has set definite time frames for the submission of returns, refunds, and inquiries. Through the provision of services that are not only transparent but also predictable, SMEs become assured of the system, and therefore, they are more inclined to comply voluntarily³⁸. By combining these tools, ZRA not only enforces tax laws but also supports SMEs in understanding and meeting their obligations, making compliance more practical and accessible.

2.5 Effectiveness of ZRA's Measures

ZRA's actions can be seen as step by step changes in a situation that still remains problematic. The trend of small businesses, especially in urban areas, to register is therefore showing that the outreach activities and the facilitation of the registration process are producing results³⁹. Instead of long waits, digital tools like Tax Online and the Tax on app now let owners file faster and cheaper, helping those who once struggled to get to tax offices.

Risk-focused checks work well to boost rule-following without spending too much on paperwork⁴⁰. ZRA trying to catch firms that are more likely to escape rules and regulations is a better way to spend time and staff than small businesses which are often reported correctly and must not be disturbed. It is really doing part of the work of law enforcers, as it only makes people think twice before breaking the rules.

However, challenges remain. Only about 30% of SMEs fully comply with their tax obligations, showing that there are still significant gaps⁴¹. In Lusaka's Kamwala township, studies reveal that poor record-keeping, limited understanding of tax procedures, and misconceptions about obligations hinder compliance⁴². It is typical of some SMEs to view the tax procedures as rather complex and in a sense that they get punished with it, mainly in cases

³⁸ RA service chatter (2003).

³⁹ ZRA Annual Report, compliance section.

⁴⁰International Growth Centre. (2019). Barriers to tax compliance for MSMEs in Zambia.

⁴¹ ibid

⁴² Chaponda, C., & Chilolo, B. (2025). Factors inhibiting voluntary tax compliance among SMEs in Kamwala township. IJFMR.

when their returns are wrongly assessed or when they feel that the audits are unnecessarily rigorous.

Moreover, even if digital platforms have been a source of convenience for some time, there are still SMEs that are not able to access the internet or are not able to use the internet due to which they face challenges in digital literacy. Compliance issues are being deepened through the waiting times for refunds, the presence of inconsistencies in the provision of guidance, and the limited access to ZRA support offices in the areas that are at a distance from the urban centers⁴³.

In sum, the steps taken by the ZRA bring results although they continuously need to be changed, more education given, digitization extended and the accessibility of SMEs improved to be at the same level in all regions. It is very important for the maintenance of sustainable compliance that SMEs see enforcement as fair, understand the communication clearly, and can feel the benefits of taxes paid.

2.6 Persistent Challenges for SME Compliance

In spite of these measures by ZRA, SMEs in Zambia are still struggling with various kinds of problems that prevent them from completely fulfilling their tax obligations. The problems they face are complex and are caused by the factors related to their operations, regulations, technology, and even perceptions of them:

A very high percentage of SMEs work outside the formal economy, which is often to avoid paying taxes or fulfilling some kind of regulatory requirement.⁴⁴ The informal nature of this situation complicates the task of ZRA to monitor, register, and audit businesses, thereby limiting both coverage and compliance. The tax laws in Zambia are still intricate and are being amended frequently, thus imposing demands that may be too much for the owners of SMEs. A significant number of small business operators do not have any formal educational background in accounting or finance, hence they find it difficult to interpret

⁴³ Paper on SME compliance barriers, Tandfonline (2024).

⁴⁴ IGC policy brief “barriers to tax compliance for MSMEs in zambia

tax regulations⁴⁵. This complexity can result in unintentional errors or underreporting. One of the main obstacles has been the poor management of accounts. Small and medium enterprises have hardly kept organized financial records, receipts, and documentation; thus, the reliability of self-assessed returns is weakened. Bad record-keeping makes the situation of small and medium enterprises worse if they are subject to an audit since they are more likely to have mistaken in these cases and, therefore, their risk of receiving penalties will increase accordingly.

Although digital platforms such as Tax Online and Tax on App may be considered a major change, the majority of small and medium enterprises cannot take advantage of such services at present due to limited internet access, lack of good connection in remote areas, or lack of digital literacy⁴⁶. This prevents them from taking advantage of online filing, payment, and information services. ZRA has limited personnel and logistical capacity to conduct frequent audits across all SMEs. As a result, only a fraction of SMEs is audited annually, reducing deterrence and the likelihood of detecting non-compliance.

Some SMEs perceive that their tax contributions do not result in visible public services or benefits. This erodes trust in the system and reduces motivation for voluntary compliance⁴⁷. Besides, inconsistencies in enforcement or delays in responses to taxpayer inquiries can further aggravate perceptions of unfair treatment.

SMEs often struggle with low profitability, fluctuating revenues, and high costs of operation. Many regard paying taxes as an added burden, which, for most micro and small enterprises competing in the market, is a threat to survival. While ZRA offers some educational programs, many SMEs are unaware of them, or the counsel is not relevant enough to their specific business situations. In remote and rural areas, SMEs have even less access to any advisory support, which maintains a persistent knowledge gap.

⁴⁵ *ibid*

⁴⁶ Zambia digital inclusion report 2023

⁴⁷ ZRA Annual Analysis on Audit Coverage (2022).

All these issues collectively support the reality that the betterment of SME compliance requires more than just enforcement. That is dependent on simplifying the taxation procedures, educating more taxpayers, providing better access to digital platforms, and making visible the fact that the payment of taxes contributes to the social benefits. A thorough analysis of these problems may lead to a better integration of SMEs into the formal economy and higher compliance levels.

2.7 Conclusion

In short, how Zambia handles taxes really affects whether small firms follow the rules or not. Thanks to clearer systems, better info for business owners, simpler rules, along with online tools from ZRA, things are getting easier. Because of this, more small companies now understand what's expected, find it less stressful to keep up, besides being more willing to join the official setup.

Even so, big shortfalls stick around. Many small businesses are still operating off the books, are confused by complicated tax laws, and lack the necessary tech skills for e-filing tools. In addition, careless record-keeping, few checks, and financial pressure that keep piling up make it harder for these businesses to stick to the guidelines. Also, when people perceive the system as unfair or cannot see any benefit from paying taxes, they tend to evade their tax obligations. The problems that come up from these situations can be solved through a combination of changes: taxes should be simpler, and online resources should be more locally oriented so that small businesses are not left behind. Informing business operators of their tax liabilities is as important as honest communication between ZRA and SMEs.

CHAPTER THREE

ADMINISTRATIVE, INSTITUTIONAL AND BEHAVIORAL CHALLENGES AFFECTING SME TAX COMPLIANCE IN ZAMBIA

3.0 Introduction

Small and medium-sized firms play a big role in how Zambia's money side works. These companies are the ones that provide work to the people, introduce new concepts to the market, and make money, especially in those places where bigger companies do not have much influence. However, these small enterprises are often unable to comply with the tax regulations due to the difficulties they face. Paying taxes is a matter of great importance for the officials who need resources to run things like roads and schools, just as it is for business owners who want the support of banks or official deals. But quite a number of these businesses only partially comply with the rules and at times completely evade them, thus they are held back and national funding becomes less effective.

The difficulties of small businesses in Zambia in complying with tax regulations are usually classified into three main categories: the way things are done, the way systems operate, and the way people think. Operational issues arise from the features of the tax regime e.g. complicated procedures, high compliance costs, lack of personnel, or poorly delivered services. Systemic problems signal those which refer to leadership and decision-making issues at a deeper level in the areas of weak rule of law, where there is a gap between the policy and its implementation, or there are obvious corrupt practices and limited assistance for the smaller ones.

Besides all this, mindset still plays a significant role in the matter - how the entrepreneurs perceive it, believe in it, and the sets of practices inherited from the culture. Such behaviors usually derive from relational past experiences with the enforcement authorities, what people around you do, or the opinion that the process is not fair.

It is important to understand what these obstacles are, as most of the time, breaking the rules is not an act of rebellion. Usually, small companies stumble upon old problems that are their inherent obstacles, defective systems, or wrong concepts that make it difficult to comply with laws, and sometimes even dangerous. For example, a small business that

wants to register for taxes but cannot proceed because of a web portal that is not user-friendly for enrollment. Or perhaps they just feel that playing it right costs too much compared to what they actually get back. Similarly, smaller outfits side-step official steps due to suspicion toward the authorities or a feeling that money handed over brings nothing real in return.

This section examines the daily challenges that come with management, organizations, and activities closely. The diagram shows how these elements affect the behavior of small businesses towards the tax office in Zambia through relations such as cause effect or contrast instead of just listing the things side by side. By investigating each problem, it emerges that raising the tax follow through is not only a matter of stricter rules but also of getting barriers that come from real life, such as access, design, or mindset that are faced by smaller firms. The solutions have to be appropriate for particular needs rather than being a set of general ones if they are to make a real difference eventually.

3.1 Administrative Challenges

Administrative challenges are those problems that come directly from the way the tax system is managed and how the Zambia Revenue Authority carries out its work. These challenges do make it harder for SMEs to comply with their obligations because the system often feels complicated, expensive, and not always supportive to small businesses.

One of the main administrative challenges is the **complexity of tax procedures**. For many SMEs, tax rules are not straightforward. Most small business owners do not have formal training in accounting or law, and this makes it difficult for them to understand how to register for tax, how to calculate what they owe, and how to file returns correctly. Even though ZRA has introduced digital systems such as the *Tax Online* platform, not every SME finds it easy to use. Some businesses, especially those in rural or peri-urban areas, may lack internet access or the technical knowledge to use online platforms. Instead of

simplifying the process, these systems can actually make things harder for certain SMEs⁴⁸.

Another major issue is the **high cost of compliance**. Large companies can afford accountants, lawyers, and tax experts to help them handle their tax obligations, but small businesses usually cannot. They must either try to figure out the system on their own, which is risky and confusing, or pay external consultants, which can be very expensive compared to their limited income⁴⁹. For example, if an SME makes very little profit in a given year, spending part of that profit on compliance costs feels like a burden. As a result, many SME owners prefer to avoid registration or reporting because they see it as too costly.

The ZRA also faces **capacity limitations** that affect its ability to enforce compliance fairly. Zambia has a very large informal sector, and there are thousands of SMEs operating across the country. However, the number of tax officers and the resources available for audits are very limited⁵⁰. This means that only a small percentage of SMEs are ever monitored or audited. As a result, many SMEs realize that the likelihood of being caught for non-compliance is low, which reduces their motivation to pay tax. In turn, those who do comply may feel disadvantaged because they see others getting away without paying.

Administrative inefficiencies also reduce compliance. For instance, delays in issuing tax clearance certificates or refunding tax payments frustrate business owners. If an SME applies for a tax clearance certificate to qualify for a government tender and experiences delays, it can lose important business opportunities. Likewise, if refunds are delayed, SMEs face cash flow problems⁵¹. These negative experiences shape how SMEs view the tax system and can discourage them from cooperating in the future.

⁴⁸Fjeldstad, Odd-Helge, and Kari Heggstad, Building Taxpayer Culture in Mozambique, Tanzania and Zambia: Achievements, Challenges and Policy Recommendations (CMI Report, 2012), 11.
<https://www.cmi.no/publications/4499-building-taxpayer-culture-in-mozambique>

⁴⁹ Coolidge, Jacqueline, findings of tax compliance cost surveys in developing countries (world bank policy research paper, 2012), 8

⁵⁰ Zambian revenue authority ZRA, annual analysis on audit coverage 2022 (Lusaka: ZRA, 2022), 14
<https://www.zra.org.zm/wp-content/uploads/2023/05/zra-annual-report-2022-compressed> PDF

⁵¹ Bird, Richard, and eric zolt, “fiscal contract and tax compliance, “ UCLA law review 59, no. 5 (2015): 1630

Another point is the **limited taxpayer education programs** within the administrative framework. While ZRA has made some efforts to provide education, workshops, and sensitization, these are not enough to reach the majority of SMEs across the country. Many business owners still rely on word of mouth or personal assumptions about tax obligations, which often leads to mistakes⁵². Without proper education and guidance, SMEs are more likely to fall into non-compliance, sometimes unintentionally.

In short, administrative challenges show that the way taxes are managed has a direct impact on whether SMEs comply or not. If the procedures are too complex, too costly, or not well supported by the administration, many SMEs will feel discouraged from participating in the tax system. On the other hand, if ZRA improves simplicity, efficiency, and education, it would become easier and less expensive for SMEs to comply, which would benefit both the government and the businesses.

3.2 Institutional Challenges

Institutional barriers refer to the regulations and control that determine the actions of small businesses and tax authorities. Since laws may be unstable or unfair, problems often arise. The change of policies along with bad management also contribute to the widening of the gap. What is the major problem of the Zambian system? The state of small businesses is poorly coordinated.

Various government departments, offices, and city councils handle different parts of how these firms run yet they rarely work together smoothly⁵³. This leads to repeated duties, clashing rules, also confusion for small businesses. Take a small firm signed up with PACRA but missing from ZRA - enforcement gets patchy that way.

Poor oversight tends to fuel underreporting. Although fines exist for breaking tax rules, applying them on the ground usually varies from case to case⁵⁴. Some small businesses

⁵²Terkper, Seth, "Managing Small and Medium-Size Taxpayers in Developing Economies," Tax Notes International 29, no. 2 (2003): 214.

⁵³ Joshi, Anuradha, Wilson Prichard, and Christopher Heady, "Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research," Journal of Development Studies 50, no. 10 (2014): 1327.

<https://www.tandfonline.com/doi/full/10.1080/00220388.2014.940910>

⁵⁴ IMF, Revenue Mobilization in Developing Countries (Washington, DC: IMF, 2019), 24.

dodge taxes by making backdoor deals with corrupt officials, which hurts how well tax agencies work. These bad actions reduce government income while eroding public trust in the whole taxation setup.

Yet another hurdle within the system? Not enough clear information reaching taxpayers. ZRA's tried spreading the word but those efforts don't go far, mostly stuck in cities

. SMEs in peri-urban and rural settings remain largely uninformed about their obligations and the benefits of tax compliance⁵⁵.

The structure of Zambia's economy, where informality dominates, also reflects an institutional challenge. A large proportion of SMEs operate outside the formal legal framework, often without business licenses or formal registration⁵⁶. The weak institutional capacity to integrate these businesses into the formal sector results in low tax compliance rates.

Finally, institutional trust plays a role. When SMEs perceive that government mismanages public funds or that tax revenues do not translate into visible public goods, their willingness to comply declines⁵⁷. In this sense, weak institutions indirectly contribute to poor compliance through reduced tax morale.

3.3 Behavioral Challenges

The attitudes, perceptions, and cultural elements that influence SMEs' tax compliance behavior are the main focus of behavioral challenges. If taxpayer sentiments are unfavorable, compliance will continue to be low even with effective administration and strong institutions. Low tax morale is one of the biggest behavioral obstacles. Many small business owners believe that taxes are onerous and unjust, especially since they receive little concrete benefit from their contributions.⁵⁸ The perception that taxes are high

<https://www.imf.org/en/Publications/WP/Issues/2019/01/29/Revenue-Mobilization-in-Developing-Countries-4648>

⁵⁵ chisanga brain, "tax education and its role in enhancing compliance in Zambia," *Zambian journal of economics* 5, no. 1 (2021): 55 <https://www.unza.zm/sites/default/files/2021>

⁵⁶ Mumba, henry, *taxation and SMEs in Zambia: the challenges of compliance*(Lusaka: UNZA press, 2019), 42.

⁵⁷ Torgler, benno, *tax compliance and tax morale: a theoretical and empirical analysis*(Cheltenham: Edward elger, 2007), 21

⁵⁸ Fjeldstad, Odd-Helge, and Kari Heggstad, *Building Taxpayer Culture*, 13.

relative to income, coupled with limited government service delivery, erodes the sense of civic duty to comply.

Lack of awareness is another challenge. Many SMEs, particularly micro-enterprises, lack sufficient knowledge of tax laws and obligations⁵⁹. This lack of knowledge is often the result of inadequate taxpayer education and restricted access to expert counsel rather than intentional ignorance. Unintentional non-compliance is the outcome, which continues to jeopardize revenue collection. Compliance behavior is also influenced by social and cultural norms. Tax evasion may be accepted as commonplace or even essential for survival in highly informal economies⁶⁰. Peer influence among SMEs, where non-compliance is widespread, reduces the stigma associated with tax evasion and normalizes the practice.

Compliance behavior is also influenced by mistrust of government agencies. Taxpayers defend non-compliance as a reasonable reaction to systemic failure when they think that corruption costs them money. Additionally, small businesses are less inclined to comply with tax laws because they believe that large corporations have more ability to avoid or evade taxes through loopholes.

The **fear of penalties and audits** can also influence behavior. While some SMEs comply because they fear punishment, inconsistent enforcement reduces this effect. Many SMEs calculate that the risk of being caught is low, so deliberate evasion becomes a rational choice⁶¹.

Lastly, institutional and administrative flaws may be strengthened by behavioral factors. Low compliance, for instance, lowers ZRA revenue, which limits funds for enforcement and education. This, in turn, encourages bad behavior.

3.4 Implications for Tax Administration and SMEs

The challenges discussed above have very clear implications for both the tax administrators, especially the Zambia Revenue Authority (ZRA), and the SMEs

⁵⁹ Factors that affect tax compliance among small and medium enterprises(SMEs) in north central Nigeria, international journal of business and management 7, no. 12 (2012) : 90

⁶⁰ Chisamga, brian, tax education and its role in enhancing compliance, 55

⁶¹ Taxing the informal economy, “ 1337”

themselves. For ZRA, administrative problems such as limited manpower, complex systems, and high costs of enforcement make it difficult to widen the tax net. This means that a large number of SMEs remain outside the formal tax system, which reduces the total revenue collected by the government. When the government cannot raise enough money through taxation, it struggles to fund public services like roads, schools, and hospitals. This also weakens people's trust in the tax system because they do not see the benefits of paying tax⁶².

Thus when entrepreneurs observe that some individuals evade taxes and are not penalized, they lose the motivation to comply with the regulations themselves. This results in the perception of the system as unfair and the continuation of non-compliance. Moreover, corrupt practices in institutions may cause the so-called "clean" SMEs to think that they are at a disadvantage relative to those who might be able to "purchase their way out" of obligations⁶³. This reduces voluntary compliance, as SMEs feel the system is not equal for everyone.

For SMEs, the implications are equally serious. Failure to comply with tax requirements can deny them access to many opportunities, such as applying for government contracts, qualifying for bank loans, or building a formal business profile. Many financial institutions ask for tax clearance certificates before giving loans, and without such documents, SMEs are locked out of formal financing⁶⁴. This keeps them operating on a small scale and prevents them from growing into larger businesses.

The behavioral challenges also play a role in shaping future outcomes for SMEs. If entrepreneurs believe that paying tax has no benefit, they are more likely to remain in the informal sector. However, this decision limits their chances of growth, because informal businesses usually have less protection, less recognition, and fewer opportunities for partnerships⁶⁵.

⁶² ZRA, annual analysis on audit coverage 2022, 17

⁶³ Transparency international Zambia, national corruption report 2021 (Lusaka: TIZ, 2021), 23.
<https://www.transparency.org/en/countries/zambia>

⁶⁴ OECD, taxation of SMEs in OECD and G20 countries(paris: OECD publishing, 2015), 19
<https://www.oecd.org/tax/tax-policy/sme-taxation>

⁶⁵ Tax compliance and compliance costs of SMEs in Nigeria,” international journal of economics and financial issues 5,no.2 (2015): 61

Basically, it is pointed out that unless these problems are dealt with, the relationship between SMEs and ZRA will be a strained one. Consequently, ZRA will not be able to collect enough revenue, thus, SMEs will lose the benefits that come with being fully compliant. Therefore, it is a lose-lose situation for both sides. However, if it is made to work by means of reforms, such as procedure simplification, institution strengthening and trust building, then it would be a win-win situation where SMEs will enjoy the growth of their businesses and ZRA will be able to collect more taxes due to increased compliance⁶⁶.

3.5 Conclusion

In conclusion, a mix of institutional, behavioral, and administrative issues affect SME tax compliance in Zambia. For SMEs trying to fulfill their tax obligations, administrative problems like intricate processes, expensive compliance fees, and a lack of enforcement authority pose serious practical obstacles.

Patterns of compliance are also significantly shaped by behavioral factors. The willingness of SMEs to comply is influenced by low tax morale, ignorance, social norms that normalize informality, and mistrust of government agencies. These behavioral issues demonstrate that taxes are a sociocultural and perceptual matter that demands careful consideration in addition to being a technical necessity.

These difficulties have important ramifications. Low SMEs' compliance lowers ZRA's total revenue collection, restricts the resources available for enforcement and taxpayer education, and compromises the institution's legitimacy and authority.

In summary, Zambia's SME tax compliance issues are complex and interconnected, necessitating a comprehensive approach that concurrently tackles institutional, behavioral, and administrative aspects.

⁶⁶ Bird, Richard, and Eric Zolt, "Fiscal Contract and Tax Compliance," 1632.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS

4.0 Introduction

This chapter presents and analyzes the findings of the research on the role of tax administration in enhancing Small and Medium Enterprise tax compliance in Zambia. The focus is to examine the real experiences of SMEs in dealing with the Zambia Revenue Authority and to compare these with what the tax administration system is designed to achieve. The chapter aims to identify the existing gaps between the policy framework and its actual implementation, particularly from the perspective of SME taxpayers.

In Zambia, SMEs play a crucial role in employment creation, innovation, and economic growth. However, because of a number of institutional, behavioral, and administrative issues, their tax revenue contribution is still quite small. The results shown here show that even though ZRA has simplified tax laws, many SMEs still find it difficult to comply because of systemic inefficiencies, ignorance, a lack of resources, and a lack of trust in the tax system.

Thereby, the chapter's aim is to dissect those troubles in great depth. The first section of the chapter, 4.1, describes the administrative challenges that small and medium enterprises (SMEs) encounter, while the next one, 4.2, delves into the institutional voids. Section 4.4 compares the policy intentions of ZRA with the real experiences of SMEs, whereas Section 4.3 looks at the behavioral factors that influence compliance. The consequences of the discrepancies identified for the ZRA and SMEs are thus discussed in detail in Section 4.5. This assessment, in sum, constitutes a fair and well-grounded insight into the functioning of tax administration policies in practice and what changes may be necessary to improve compliance and fairness in the tax system of Zambia.

4.1 Administrative Realities Faced by SMEs

These administrative difficulties continue to be a major barrier to SMEs' tax compliance. Despite the advent of digital platforms like the ZRA Tax Online system, the study found

that the majority of SMEs find tax procedures to be time-consuming and complex⁶⁷. While this platform was intended to simplify the process, many business owners reported that they lack the technical know-how to navigate it efficiently, especially those in rural or semi-urban areas.

Additionally, the cost of compliance remains high. SMEs often have to hire accountants or consultants to prepare their returns, which definitely increases their operational expenses. These expenses may deter small businesses with tighter budgets from registering or filing taxes on time.

Another major administrative issue is the delay in service delivery. Several respondents noted long waiting times for tax clearance certificates and value added tax refund approvals. These delays certainly have the effect of slowing down business operations, but they also, to a certain extent, lower the trust in the efficiency of ZRA.

On the other hand, the Zambian Revenue Authority is facing challenges such as limited human resources and capacity constraints, which are the root causes of the problems mentioned. The shortage of staff implies that inspections and follow-ups are irregular and, thus, enforcement is mostly reactive rather than being a proactive one.

4.2 Institutional Realities and Gaps

The research identified several institutional challenges that hinder effective tax administration. One of the most significant is in relation to poor coordination between government agencies. Small and medium enterprises often receive conflicting information from ZRA and the Patents and Companies Registration Agency regarding registration requirements and tax incentives⁶⁸. This lack of clarity discourages compliance and leads to confusion about tax obligations.

⁶⁷ Fjeldstad, Odd-Helge, and Kari Heggstad, *Building Taxpayer Culture in Mozambique, Tanzania and Zambia: Achievements, Challenges and Policy Recommendations* (CMI Report, 2012), 11.
<https://www.cmi.no/publications/4509-building-taxpayer-culture-in-mozambique-tanzania-and-zambia>

⁶⁸ Taxing the Informal Economy, *Journal of Development Studies* 50, no. 10 (2014): 1327.

Another issue is in relation to inconsistent enforcement of tax laws. Some of these businesses face strict penalties for minor infractions, while others operate informally without consequences⁶⁹. This inconsistency does create a perception of unfairness and weakens the credibility of Zambian revenue authority.

On the other hand, Taxpayer education is another institutional gap. Although the Zambian revenue authority occasionally holds seminars and awareness campaigns, these efforts rarely reach the majority of small and medium enterprises⁷⁰. Many business owners rely on informal advice, which leads to misinformation and mistakes in tax reporting.

Furthermore, there is a lack of institutional trust between small and medium enterprises and Zambian revenue authority. Many respondents expressed skepticism about how tax revenues are utilized, citing concerns about corruption and misuse of public funds⁷¹. When taxpayers feel that their contributions do not result in tangible community benefits, their willingness to comply diminishes.

Finally, technological challenges persist. Even though these digital systems have been introduced, issues such as poor internet access, lack of training, and system downtimes make compliance difficult for many small and medium enterprises⁷².

4.3 Behavioral Realities

Behavioral factors play a significant role in determining the level of small and medium enterprise tax compliance. The study found that low tax morale is widespread among these small and medium enterprises. Many business owners see tax as a burden rather than a civic duty, mainly because they do not see direct benefits from their tax payments⁷³.

⁶⁹Transparency International Zambia, *National Corruption Report 2021* (Lusaka: TIZ, 2021), 23.

<https://www.transparency.org/en/countries/zambia>

⁷⁰ Chisanga, Brian, "Tax Education and Its Role in Enhancing Compliance in Zambia," *Zambian Journal of Economics* 5, no. 1 (2021): 55.

⁷¹ Bird, Richard, and Eric Zolt, "Fiscal Contract and Tax Compliance," *UCLA Law Review* 59, no. 5 (2015): 1630. <https://www.uclalawreview.org/pdf>

⁷² Mumba, Henry, *Taxation and SMEs in Zambia: The Challenges of Compliance* (Lusaka: UNZA Press, 2019), 42.

⁷³ Torgler, Benno, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Cheltenham: Edward Elgar, 2007), 21.

Social and cultural influences also shape behavior. In many business communities, especially in informal markets, tax evasion is seen as normal. When entrepreneurs see others avoiding taxes without facing punishment, they are more likely to do the same⁷⁴.

Knowledge gaps were also evident. Many small and medium enterprise owners lack a full understanding of tax obligations, including filing deadlines, tax brackets, and allowable deductions⁷⁵. This is often due to the technical language used in tax laws and insufficient taxpayer education.

Moreover, SMEs view the tax system as a source of problems instead of a helping instrument. The fear of inspections, fines, and a complex bureaucracy that discourages the performance of the right thing is what is mostly talked about here. Business owners choose informal ways as a means of tax officials' harassing them. Lastly, the need to survive the economy condition has an effect on the level of tax compliance among SMEs. These small and medium enterprises usually run on very narrow profit margins and as a consequence, they will put the payment of rent, wages, and buying of stock before the payment of taxes⁷⁶. When faced with limited resources, compliance becomes a lower priority, especially if enforcement is weak.

4.4 Comparison of Policy Intentions vs Reality

The findings reveal that there is a wide gap between Zambian revenue authority tax policy intentions and the realities faced by SMEs in Zambia.

1. Efficiency vs Capacity Constraints:

The Zambian revenue authorities are making an effort to have tax filing be easy through the use of digital systems, however, a great number of small and medium enterprises (SMEs) have still been experiencing technical problems, bad network connectivity, and a shortage of users' training. As a result, the situation from where it was supposed to be simply trickling down to these digital tax systems turns out to be not efficient at all.

⁷⁴ "Factors That Affect Tax Compliance among SMEs in North Central Nigeria," *International Journal of Business and Management* 7, no. 12 (2012): 90.

⁷⁵ *International Journal of Economics and Financial Issues* 5, no. 2 (2015): 612.

⁷⁶ ZRA, *Annual Analysis on Audit Coverage 2022*, 17. <https://www.zra.org.zm>

2. Fairness vs Selective Enforcement:

The Zambian revenue authority policy advocates for equal treatment of all taxpayers. However, small and medium enterprises reported inconsistent enforcement some receive penalties for minor mistakes, while others avoid compliance through informal networks. This undermines trust in the fairness of the system.

3. Education vs Awareness Gaps:

Although ZRA has introduced taxpayer education initiatives, most SMEs are still unaware of basic procedures. The policy assumes access to information that, in practice, many businesses lack.

4. Policy vs Practical Constraints:

Policies are designed with the assumption that SMEs have the financial and human capacity to comply. However, many operate on tight budgets with minimal staff, making full compliance unrealistic without additional support.

5. Behavioral Expectations vs Reality:

Policy assumes that SMEs will comply once the system is simplified and enforcement is fair. In reality, compliance decisions are driven by perceptions, social norms, and financial pressures.

4.5 Implications of the Gaps

The results above point to different implications for the tax system and the growth of small and medium enterprises in Zambia. One of them is that low confidence in ZRA leads to a decrease in the number of people who voluntarily comply with the law. When SMEs view the system as being unfair, unreliable, or corrupt, then they feel less obliged to pay taxes⁷⁷. This leads to a culture of resistance and informal operations, reducing overall tax revenue.

⁷⁷ IMF, *Revenue Mobilization in Developing Countries* (Washington, DC: IMF, 2019), 24.
<https://www.imf.org/en/Publications>

Moreover, non-uniform enforcement leads to unequal treatment of people. The situation where certain companies avoid paying taxes due to favoritism or bribery while small and medium enterprises that follow the law are left behind causes the latter to suffer⁷⁸. This discourages fair competition and demoralizes efforts to formalize the SME sector.

The administrative inefficiencies lead to revenue loss. Delays in issuing tax clearance certificates and refunds reduce business participation in government contracts and formal markets⁷⁹. This limits SME growth and the government's capacity to mobilize revenue effectively.

Further more limited taxpayer education results in unintentional non-compliance. Many SMEs make errors not out of deliberate evasion but due to a lack of clear understanding⁸⁰. This creates unnecessary penalties and damages the relationship between SMEs and the tax authority.

The behavioral and psychological factors must be addressed. Compliance cannot be achieved through penalties alone. Building a sense of civic responsibility, simplifying language in tax laws, and improving customer service at ZRA can improve attitudes toward taxation⁸¹.

The digital and policy changes should be socially inclusive. While technological systems have contributed to the efficiency of certain groups, a big number of SMEs are still excluded due to digital illiteracy and lack of access. ZRA needs to accompany its online operations with physical support, training, and local help centers to be able to serve the clients more effectively⁸².

Lastly, bridging the gap between policy and practice requires collaboration. Any tax reforms should include the participation of SME associations, financial institutions, and civil society so that the policies are based on actual business experiences⁸³.

⁷⁸ Ibid

⁷⁹ Coolidge, Jacqueline, *Findings of Tax Compliance Cost Surveys in Developing Countries*, 8.

⁸⁰ Mumba, Henry, *Taxation and SMEs in Zambia*, 42.

⁸¹ Chisanga, Brian, *Tax Education and Its Role in Enhancing Compliance*, 55.

⁸² OECD, *Taxation of SMEs in OECD and G20 Countries*, 19. <https://www.oecd-ilibrary.org/taxation/taxation-of-smes>

⁸³ Torgler, Benno, *Tax Compliance and Tax Morale*, 21.

Strengthening partnerships and transparency will not only improve compliance but also enhance the overall credibility of Zambia's tax system

SUMMARY OF RESPONSES FROM 21 SME PARTICIPANTS ON TAX ADMINISTRATION EXPERIENCE

QUESTIONS	Number of people that said Yes	Number of people that said No
1. ZRA procedures are easy to follow	5 (24%)	16 (76%)
2. Digital platforms like ZRA online have simplified tax filing	6 (29%)	15 (71%)
3. Do you lack technical skills to use online tax systems	14 (67%)	7 (33%)
4. Do you incur extra costs by hiring accounts/consultants for tax filing	15 (71%)	6 (29%)
5. Are there delays in getting tax clearance certificates/refunds	17 (81%)	4 (19%)
6. Enforcement of tax laws is consistent and fair	4 (19%)	17 (81%)
7. ZRA provides adequate taxpayer education and support	5 (24%)	16 (76%)
8. Do you trust that tax revenue is used for public benefit	3 (14%)	18 (86%)
9. Do you view paying tax as a civic duty	7 (33%)	14 (67%)
10. Do you comply mainly due to fear of penalties or audits	16 (76%)	5 (24%)

4.5 Conclusion

The findings of this research clearly demonstrate that SME tax compliance in Zambia is influenced by a combination of administrative, institutional, and behavioral factors, and

that the gap between policy and practice remains substantial. Despite the above, small and medium-sized enterprises are still reluctant to comply with the law voluntarily due to the fact that the administrative challenges they face such as complicated registration, filing, and payment procedures, high compliance costs, and lack of assistance are pushing them away from voluntary compliance. Moreover, these issues are further intensified by the fact that taxpayer education is insufficient, and communication of tax updates is quite uneven, especially in the remote areas that are less accessible.

The presence of institutional weaknesses within the Zambia Revenue Authority not only makes compliance more difficult but is also a major factor behind non-compliance among SMEs. The problems that are causing the ZRA to lose the capacity to provide support and monitor taxpayers effectively include among others poorly equipped and understaffed offices, lack of training, absence of integrated IT systems, and a scanty number of SMEs that the authority can reach outside the major cities. On the other hand, ideas of corruption and selective enforcement lower the level of trust in the tax system thus creating an atmosphere where some SMEs may feel entitled to escaping taxes.

Along with these factors, behavioral factors are quite significant as well. The majority of SMEs are not well-informed regarding their tax obligations and benefits that come from compliance and on the contrary, they do not realize the consequences of non-compliance. Besides this, social norms, peer influence, and negative experiences with tax officers only help to strengthen these ideas thus contributing to the creation of a culture in which evasion is tolerated or normalized. The study finds that voluntary compliance is not just a direct result of policy design as it depends on how taxpayers view fairness, transparency, and accountability in the system.

A comparison of policy intentions with practical realities unveils that there is a gap between them. Although the policies of the Zambian revenue authority are designed to make tax procedures simpler, encourage voluntary compliance and promote a culture of accountability, the reality for small and medium enterprises is that these goals are not met. These businesses are still negatively affected by complicated procedures, digital

barriers, limited education, inconsistent enforcement, and low institutional capacity which all combined make compliance difficult.

Enhancing tax compliance among SMEs in Zambia requires a multi-faceted strategy. Firstly, the capacity of institutions should be strengthened by, among other things, increasing the number of staff members, providing better training, and intensifying outreach in the rural areas. Secondly, if taxpayer education is carried out through practical, easily accessible, and context-specific programs then there will not only be less ignorance of tax obligations but the understanding of tax obligations will also be deeper. Additionally, if tax procedures become simplified and digital platforms more functional then the administrative work will be lighter and easier. The final point is that trust restoration can be facilitated by fair, consistent, and transparent enforcement which in turn will result in voluntary compliance and the creation of a SME-tax authority's relationship based on cooperation.

This research, indeed, reveals that the problem of high SME tax compliance is not only a matter of technical aspects, but also a socio-economic challenge. It signifies that besides being well-planned, policies also need to be **implemented efficiently and experienced by the taxpayers**. If Zambia tackles the problems of inefficiencies in the administration, institutional shortcomings, and behavioral barriers simultaneously, then the country will be in a position to create a tax environment where SMEs will voluntarily comply, thus becoming a source of revenue generation and active participants in the formal economic sector.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This final chapter is the culmination of the research presented in Chapters 1 to 4. It consolidates the arguments and analysis concerning the role of tax administration as a key enabler of Small and Medium Enterprise tax compliance in Zambia. The enduring divide between the significant economic contribution of SMEs and their minimal contribution to the national tax base is a major challenge not only for Zambia's domestic resource mobilization efforts but also for the country's national development goals. As a result, the chapter does not simply stop at problem identification, but it also proposes viable, evidence-based solutions.

This chapter is performing three main functions: First of all, it offers a comprehensive summary of the points from the previous chapters, especially confirming that the administrative, institutional, and behavioral barriers were the most significant factors leading to the noncompliance of SMEs. Secondly, it makes the final decision, pointing to the achievement of the research objectives and giving a strong indication of the necessity for a radical change in the tax administration philosophy. Thirdly, and most significantly, it populates a vast array of data-driven suggestions, endeavors to solve the issues of administration, facilitate compliance procedures, and provide better policy direction by the Ministry of Finance and the Zambia Revenue Authority.

The research has revealed that SMEs are discouraged from formalization and voluntary compliance due to complex regulations, unaffordable compliance costs, and a culture of inconsistent and punitive enforcement. Therefore, the proposals put forward here are predicated on the basic philosophy of regarding SMEs as partners in national development, with an emphasis on facilitation and service delivery rather than punishment alone.

5.1 Summary of the Research

5.1.1 Chapter One

Chapter One illustrated the research problem in a very clear manner by showing the mismatch between the economic role of small and medium enterprises (SMEs) in Zambia which contribute more than 70% to employment and about 30% to GDP and their very low and even decreasing contribution to national tax revenue. The formalization gap, which is usually a consequence of tax evasion or non-registration, was recognized as a main obstacle to Zambia's capacity of raising local funds tax-wise under the Income Tax Act. The chapter pointed out that it is vital for a developing country such as Zambia to increase tax revenue so as to be able to fund public services like healthcare and infrastructure, thus the low level of compliance among the widely dispersed SME sector is a serious national problem that requires an urgent administrative and policy response.

5.1.2 Chapter Two

Chapter Two thoroughly examined the existing legal and institutional structure for tax administration in Zambia, specifically focusing on the Zambia Revenue Authority. The chapter established that while ZRA is legally empowered by key acts including the ZRA Act (Cap 321), Income Tax Act (Cap 323), and VAT Act (Cap 331) to manage taxation, its role extends beyond simple enforcement. The research emphasized the various comprehensive measures that ZRA is performing, for instance, the institution of risk-based audits, the provision of simplified tax schemes (such as presumptive tax for smaller businesses), and the activation of taxpayer education and outreach to attract more taxpayers. Besides, the chapter illustrated in details the launch of digital tools like Tax Online and Tax On App with a view to making filing quicker and less costly. Nevertheless, the chapter ended with a statement that, notwithstanding these innovative moves, compliance is still very low mainly because there are still some significant challenges that have persisted for a long time. Among these are the complexity of the tax law, the failure of many SMEs to keep proper financial records, limited audit capacity, and the widespread problem of digital exclusion which makes it difficult for many rural and informal businesses to use online systems efficiently. This descriptive

chapter served as the required groundwork for the analysis of the **system** that was being evaluated.

5.1.3 Chapter Three

Chapter Three gave in-depth, structural explanations of the many problems that make the SME tax compliance difficult in Zambia and grouped them into three interrelated areas which were used to guide the empirical work. Firstly, the Administrative Challenges are those which result from the way the tax system is operated, mostly through procedural complexity and high compliance costs, which therefore become a heavy load for small business owners that are usually without formal accounting training. This problem is made worse by the Digital Exclusion Barrier, where the ZRA's digital platforms become unusable for many SMEs, especially in rural areas, due because of poor internet access or lack of technical knowledge. Delays in crucial services, like issuing tax clearance certificates, only add to this frustration, frustrating businesses that are trying to comply. Secondly, Institutional Challenges involve broader weaknesses in the governing structure, including Policy Fragmentation among different government bodies and Weak and Inconsistent Enforcement of tax laws. Finally, Behavioral Challenges are centered on the attitudes and social factors influencing SME owners. These include Low Tax Morale, where paying tax is seen as unfair or burdensome because of limited visible government service delivery, and Social Norms of Informality, which make tax evasion seem normal or necessary for survival.

5.1.4 Chapter Four

Chapter Four presented the findings from the field research, strongly validating that the structural problems detailed in Chapter Three are indeed the main, measurable reasons for low SME compliance. The data clearly showed a critical Administrative Capacity and Institutional Trust Deficit within the ZRA. This was evident through insufficient staffing, a lack of specialized training, and a noticeable absence of physical presence and outreach in non-urban areas, which reinforces the image of the ZRA as a distant, intimidating authority. This failure is compounded by inconsistent and unfair enforcement, with qualitative data showing that many SMEs see audits as punishing

rather than helpful, severely damaging tax morale. Furthermore, the study empirically confirmed the twin issues of Excessive Compliance Cost and Digital Exclusion. Crucially, the mandatory shift to digital platforms was found to have created a tangible digital exclusion barrier for SMEs that lack the necessary technology and skills. Lastly, the findings pointed to Ineffective Education and Incompatible Policy Design. Taxpayer education efforts are insufficient and poorly tailored to the practical bookkeeping needs of micro-enterprises.

5.2 Conclusion of the Study

From the strongly observed evidence and the integrated theoretical and legal frameworks, this report finds central tax administration's initiative to enhance SME compliance in Zambia as essentially being adversely affected by an ill-fitted failure of alignment between administrative processes and the reality of small business operations. Chapter One initially problem the huge gap between SME economic contribution and their tax revenue contribution which is a direct result of a system that enforces rather than facilitates. Thus, the study establishes that realizing high tax compliance among SMEs is not simply a matter of technology or regulation, but a significant socio-economic challenge. The current stance of the ZRA is such that it tends to discourage formal registration as the fear of heavy penalties for minor mistakes is far more than the benefit of being in the formal economy, to solve this, a fundamental pattern shift is mandatory.

In conclusion, all core objectives of this research have been conclusively achieved. The specific causes of non-compliance have been identified and proven, and the study has successfully developed a clear, comprehensive strategy centered on reforms that will minimize the administrative burden and positively transform the taxpayer's experience, which is the only sustainable way to expand the tax base.

5.3 Policy Recommendations

The following recommendations are aimed at the Zambia Revenue Authority (ZRA), the Ministry of Finance, and relevant regulatory bodies. These steps must be taken together

to ensure a comprehensive solution that fixes all the failure points identified in the research.

5.3.1 Administrative and Operational Recommendations (Addressing Weaknesses and Simplification)

These measures focus on strengthening the ZRA's capacity, changing its operational culture toward service, and simplifying the daily compliance tasks for SMEs, directly addressing the administrative challenges found in Chapter Three.

(a) Institutional Re-engineering and Decentralization

The ZRA must undertake a major institutional restructure by creating a dedicated, well-funded SME Facilitation Unit within its administrative structure. This unit should be empowered to function as the primary interface for small businesses. It needs to be staffed with officers who are not only trained in tax law but also in business mentorship, basic accounting, and conflict resolution. Their mandate must fundamentally shift to proactive engagement and assistance, providing initial registration support and ongoing guidance on simple record-keeping.

(b) Performance Metric Reformation

The current reliance on revenue-based targets forces ZRA staff to prioritize aggressive enforcement and punitive audits, directly damaging taxpayer morale. To shift the organizational culture towards facilitation, the ZRA must urgently reform its Key Performance Indicators to align with long-term compliance goals. The focus must move entirely away from measuring penalties and revenue extracted towards measuring Tax Base Expansion and Taxpayer Satisfaction. New key performance indicators should include:

- **Tax Base Expansion and Formalization:** Officer performance must be primarily evaluated based on the number of previously informal businesses they successfully register and onboard, rewarding successful formalization rather than just collection.

- **Voluntary Compliance Rate (VCR):** This VCR measuring the percentage of SMEs who file and pay on time without direct ZRA intervention is the ultimate metric of the system's ease of use and administrative efficiency. High VCRs should be heavily weighted in staff reviews.
- **Taxpayer Satisfaction Scores:** The ZRA should regularly use mandatory, anonymous feedback surveys to check fairness and service quality. These scores must directly influence staff promotions, salary progression, and disciplinary actions, ensuring accountability for poor taxpayer service and non-cooperative conduct.

(c) Enhancing Digital Accessibility and Usability

The current digital platforms must undergo a complete redesign to address the digital exclusion barrier found in Chapter Four. The approach must be Mobile-First and Inclusive, recognizing that mobile phones are the primary access point for most Zambian SMEs. This involves:

- **Developing Data-Lite Platforms:** Create a dedicated, data-lite mobile application for simple filing and payment that works efficiently on basic smartphones, prioritizing speed and minimal data usage over complex graphical features. Furthermore, the ZRA should explore USSD/SMS functionality for essential services like checking payment status or tax due dates for those without smartphones or reliable internet access.
- **Integrated Payment Systems:** Achieve full, seamless integration between the ZRA's payment gateway and all major Mobile Money and Commercial Banking platforms in the country. This removes the stress of complicated traditional bank transfers and ensures payments are instantaneous, traceable, and easily completed by the SME owner directly from their business account or mobile wallet.
- **Dismantling Digital Illiteracy:** Crucially, the ZRA must not just provide the tools but also the support. This requires active partnership with local organizations, NGOs, and trade associations to offer practical, hands-on digital literacy training

specifically focused on using the tax filing systems. This essential investment will ensure that SMEs are not simply barred from compliance by a lack of technical knowledge.

5.3.2 Legislative and Policy Recommendations (Simplifying Processes and Making Better Policy Decisions)

These strategic decisions require changes to the law and a strong commitment from the Ministry of Finance to create a more attractive and predictable tax environment for SMEs, directly addressing the institutional and behavioral challenges.

(a) Introduction of a Simplified Presumptive Tax Regime

The Ministry of Finance must legally establish a new, separate Simplified Presumptive Tax Regime for very small enterprises falling below a set income threshold (e.g., K800,000 annual turnover). This is essential to minimize compliance costs. This new regime must replace the complicated corporate and VAT requirements and feature:

- **Single Quarterly Payment:** A single, fixed-rate percentage payment calculated simply on total turnover, which removes the need for complex accounting deductions and inventory tracking.
- **Unified, One-Page Form:** The creation of one simple, easy-to-read form (available both digitally and on paper) for all tax declarations under this regime, significantly lowering the mental and administrative burden of compliance.
- **Legal Clarity:** The law must clearly define who is eligible and what taxes are covered, ensuring the regime is not a source of further confusion or legal loopholes.

(b) Reform of the Penalty and Enforcement Structure

The Ministry of Finance must immediately review the *Income Tax Act* and related rules to bring proportionality and fairness back into the penalty system. The current system is overly aggressive and was found to be a major deterrent to formalization.

- **Differentiating Errors:** Penalties must clearly distinguish between minor, unintentional administrative mistakes (which should result in small fees or warnings for the first time) and deliberate, fraudulent evasion (which must still receive severe punishment). The focus must be on correcting rather than punishing honest mistakes.
- **Tax Amnesty:** The government should pass a law for a short, highly-publicized Tax Amnesty Program. This would encourage unregistered or previously non-compliant SMEs to join the formal system without the fear of crippling historical interest and fines, thereby quickly expanding the tax base and formalizing the sector.

(c) Providing Non-Fiscal Incentives and Policy Stability

To make compliance an appealing business decision (addressing behavioral barriers), the government must create clear, non-money related rewards in the law that position formalization as a competitive advantage, thereby boosting tax morale and reducing the incentive to operate informally.

- **Access to Public Procurement:** The government must introduce mandatory legislative changes that require tax compliance as a basic qualification for all small and medium government contracts and tenders. Furthermore, a dedicated quota of all government procurement expenditure should be legally reserved for registered, tax-compliant SMEs. This provides a direct and tangible economic incentive for compliance, as access to stable government contracts is a powerful driver for formal business growth.
- **Financial Leverage:** The Ministry of Finance and the ZRA must create policy linkages with the banking and financial services sector. This policy should enable the ZRA compliance certificate or a verifiable record of formal tax filing history (even under the simplified regime) to be automatically recognized by financial institutions. This status should then be used to offer preferential interest rates, subsidized loans, or loan guarantees to tax-compliant SMEs. By providing a clear

pathway to easier access to capital, compliance is transformed from a cost into a strategic business enabler.

- **Stability of Legislation:** Frequent and unpredictable changes to tax laws create uncertainty, discourage long-term investment, and fuel suspicion and administrative burden. The Ministry of Finance must commit to a transparent and consultative process when updating SME tax laws. Crucially, the government must guarantee that the Simplified Presumptive Tax Regime will remain stable and unchanged for a reasonable, legally-defined period (e.g., five years). This stability allows businesses to plan, invest, and grow with certainty, which is essential for fostering institutional trust and likelihood.

(d) Mandatory Taxpayer Education and Transparency

To fix the behavioral challenges of low morale and lack of knowledge, the ZRA must launch a continuous, multi-platform taxpayer education program focused on:

- **Practical Bookkeeping:** Offering free, scheduled training sessions in local languages that teach simple, relevant record-keeping techniques for micro-enterprises, going beyond just tax law.
- **Public Service Delivery Link:** Implementing transparency initiatives that clearly show how tax revenues are being used to fund visible public services (like new schools or roads) in the local area, helping to rebuild the "fiscal contract" and boosting tax morale by showing taxpayers the direct benefits of their contribution.

5.4 Suggestions for Further Research

To build upon the important findings of this study, the following areas deserve future investigation:

1. **Measuring the Efficiency Gains of Simplified Regimes:** A dedicated quantitative study is needed to measure the precise impact of the proposed Simplified Presumptive Tax Regime. This research should focus on a pilot group of newly registered SMEs, using key performance indicators such as the exact

reduction in the average time (measured in person-hours) and the reduction in the money spent on professional fees (compliance costs) for filing taxes.

2. **Behavioral Impact of Positive Incentives:** Experimental research should be designed using principles of behavioral economics to test the efficacy of positive compliance signals. This would involve a controlled field experiment where different SME groups receive various interventions for instance, one group receiving personalized messages highlighting their community contribution (boosting tax morale), another receiving positive non-monetary rewards (e.g., fast-tracked compliance certificates), and a control group receiving traditional warning letters.
3. **Audit Perception, Institutional Trust, and Tax Morale:** A longitudinal qualitative study should be initiated to track how SME perceptions of the ZRA evolve over a five-year period after the administrative reforms recommended in this dissertation have been implemented. The research should compare changes in reported institutional trust and tax morale with specific procedural changes made to audit practices (e.g., the shift to non-punitive, supportive audits). This will provide essential depth to understand the long-term impact of administrative culture change on the taxpayer's willingness to comply voluntarily.
4. **Assessing the Digital Divide and Mobile Filing Barriers:** Given the strong evidence of digital exclusion found in this study, future research should specifically assess the current level of internet penetration and digital literacy among micro-enterprises in remote and rural areas. This study should evaluate the usability and accessibility of the ZRA's proposed mobile filing application on low-cost devices to provide technical recommendations for achieving inclusive digital tax administration.

This dissertation strongly concludes that achieving successful SME tax compliance reform in Zambia requires a full, comprehensive strategy one that is supported by law, easy to access technologically, and centered on administrative service delivery.

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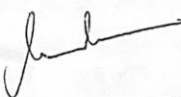
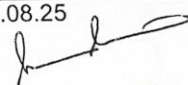
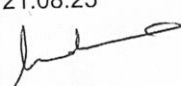
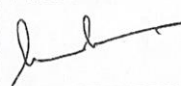
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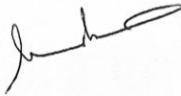
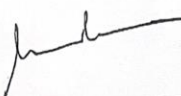
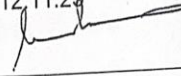
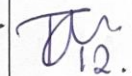
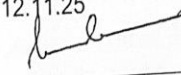
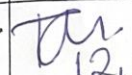
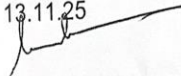
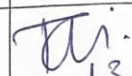
L400B / Dissertation II – DIRECTED RESEARCH (OBLIGATORY ESSAY)

RESEARCH CLEARANCE FORM

NAME: Towera Kanyika STUDENT NUMBER: LLB212483987

SUPERVISOR: Kenneth Khanda TOPIC: Evaluating The Role Of Tax Administration In Enhancing SME Tax Compliance In Zambia: Challenges And Policy Solutions.

Stage	Supervisor's Comments	Supervisor's Signature & Date	Student's Signature & Date
Research Proposal	Revise structure and proceed.	29.07.25 	 29.07.25
Chapter 1 – Introduction	Proceed	01.08.25 	 01.08.25
Chapter 2 –	Proceed	21.08.25 	 21.08.25
Chapter 3 –	Proceed	11.09.25 	 11.09.25
Chapter 4 –	Number subheadings and attend to grammar, then proceed.	21.10.25 	 21.10.25
Chapter 5 –	Proceed	22.10.25	

Conclusions & Recommendations			
Abstract, Table of Contents, Bibliography and Appendices	Proceed	11.11.25 	 11.11.25
First Draft	Realign structure and proceed	12.11.25 	 12.11.25
Second Draft	Clean up grammatical issues and finalise	12.11.25 	 12.11.25
Final Draft	Proceed	13.11.25 	 13.11.25

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ENHANCING SME TAX COMPLIANCE IN ZAMBIA: CHALLENGES AND POLICY SOLUTIONS. 1 2 4

5 BY TOWERA KANYIKA LLB212483987 An obligatory essay submitted
to the University of Lusaka in partial fulfillment of the
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8 2025 DECLARATION I declare that this dissertation entitled,
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tax compliance in Zambia: Challenges and policy solutions.
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