

# Tax Compliance Challenges in Fulfilling Tax Obligations among SMEs in Zimbabwe: A Survey of SMEs in Bindura (2015).

Onias Zivanai, Chari Felix, Nyakurimwa Chalton

**Abstract**— Tax compliance issues for Small to Medium Enterprises (SMEs) is an area of keen interest to the revenue authority in Zimbabwe. This case study assessed tax compliance issues of SMEs in fulfilling their tax obligations. A descriptive survey of SMEs in Bindura town was done and the major objectives of the study were to determine the causes of tax compliance or non-compliance among SMEs and to assess the effectiveness of the presumptive tax system in formalisation of informal sector. Stratified random sampling method was used to group members of the target population of 95 SMEs into five strata of cottage industries, restaurant, transport, hairdressing saloons, and bottle store operators. A sample size of 30 SMEs was drawn from the strata using convenience sampling. Questionnaires and interviews were used to gather primary data. Findings revealed that the majority of the informal traders are not tax compliant due to perceived high tax rates, low risk of detection, lack of trust in the revenue authority and the fact that fellow informal traders are evading taxes. Findings also suggested that presumptive tax system is ineffective in encouraging formalisation of the informal sector. Major recommendations were that: large companies should be given tax benefits for trading with compliant SMEs, tax audits, use of tax agents, enforcement of tax laws and awareness campaigns on presumptive tax should help SMEs to be compliant.

**Index Terms**— tax compliance, presumptive tax, tax audits, Small to medium enterprises, presumptive tax, informal trader and formalization.

## 1.0 Introduction and background to the study

Economic challenges have resulted in the shrinking of the tax base in Zimbabwe (ZIMRA, 2014). Block (2013) asserts that in 2012, Zimbabwe had 3,5 million SMEs with an estimated turnover of US \$7,4 billion. A plethora of challenges, namely liquidity crunch, sanctions, fall of prices of commodities in global markets and poor performance of agriculture has caused this economic meltdown (Kadzere and Bonga (2013). Formal companies have scaled down operations and others have closed shop (ZIMRA, 2014). Confederation of Zimbabwe Industries (CZI) (2015) report estimates that industrial capacity utilization ranged between 34% and 57% during the period 2009-2015. As a result, the Zimbabwean economy has a large number of SMEs as they attempt to fill the void left by large companies which have succumbed to economic challenges. SME activities constitute as much as 70% of economic activity and that they contribute more than 60% of the country's GDP (Ministry of Finance, 2013).

Tax is the most reliable and significant source of revenue by the government of Zimbabwe, contributing more than 60% to the national budget (Ministry of Finance 2013 and 2014).

The rapid growth of informal sector signifies a large number of potential taxpayers (Musarirambi, 2013) and as a result in 2005, the revenue authority introduced the presumptive tax system aimed at broadening the tax base as well as encouraging formalisation of SMEs. According to Maseko and Manyani (2011) SMEs do not keep proper financial records, and this makes it difficult for the Zimbabwe Revenue Authority to collect revenue from them hence the introduction of presumptive tax, which enables SMEs to pay a predetermined tax depending on the type of enterprise. This case study therefore aimed at interrogating tax compliance issues for SMEs and to assess the effectiveness of presumptive system in fostering

formalisation of the informal sector.

### 1.2 Statement of the problem

The Zimbabwe Revenue Authority (ZIMRA) missed its annual tax collection targets by 6% each in 2013 and 2014 and 7% in 2015 resulting in budget deficits of US\$100 million US\$150 and US\$250 respectively.(ZIMRA 2013, 2014, 2015). The Zimbabwe National Statistical Agency (ZIMSTAT) survey on Labour-force report (2011) stated that 84% of economic activity occurred in the informal sector, 11% occurred in the formal sector and 5% could not be classified. This survey reveals that the informal sector in Zimbabwe is significantly larger than the formal sector. The Institute of Certified Tax Accountants (2011) report states that despite SMEs comprising 60% of economic activity as measured by contribution to gross domestic product, tax revenues from presumptive tax were a measly 3% of total tax revenues in 2011. It is against this challenge of low tax revenues from SMEs and that it is inevitable that the informal sector should contribute more tax to the fiscus that this study looked at compliance matters relating to SMEs in Zimbabwe.

### Tax heads, Contribution to revenue, Fiscal year 2011

**Table 1.1**

Tax head	% Contribution	Contribution to GDP
Value Added Tax (VAT)	39	40%
Customs Duties(Duty)	26	
Individuals (PAYE)	15	
Non-Tax revenue	6	
Companies	4	
Presumptive and other taxes	3	60%

**Source: Institute of Certified Tax Accountants Zimbabwe,2011**

### 1.3 Research objectives

- i. To identify the possible causes of non-tax compliance among SMEs.
- ii. To assess the effectiveness of presumptive tax system in encouraging formalisation and enhance revenue generation.
- iii. To recommend ways that can be adopted to encourage voluntary compliance among SMEs.

### 1.4 Research questions

- i. How effective is the presumptive tax system in encouraging formalisation and enhancement of revenue generation?
- ii. What causes tax compliance/non-compliance among SMEs in Zimbabwe?
- iii. How can voluntary compliance be promoted among SMEs?

## 1.7 Delimitations and limitations

This was a case study of SMEs in Bindura Town, Zimbabwe which covered the period between 2009 -2015 and was focused on tax compliance and presumptive tax issues for SMEs.

## Literature Review

### 2.1 Definition of SMEs

There is no universally accepted definition of SMEs (Kim and Gallent, 2000; Tevera, 1998;) and definitions of SMEs encompass a wide range of bases such as : fixed assets, employment levels, annual turnover, (Nkwe, 2013). Characteristics of SMEs in different countries at different economic stages makes coming up with an objective definition of SMEs impossible. (Abrie, and Doussy: 2006 ; Maseko and Manyani:2011).

In this study, an SME is regarded as registered or unregistered entity that employs less than 30 people, generating less than US\$2 million and holding assets for the owner managers.

### 2.2 Characteristics of SMEs.

SMEs in Zimbabwe are a mixed bag that range from small furniture and welding workshops; commuter transport; clothing as service providers such as restaurants, hairdressing and computer software firms (Musarirambi,2013). Some are traditional 'live-lihood' enterprises that are satisfied to remain small; others are growth-oriented and innovative. Business activities of SMEs have the following characteristics: ease of entry (Ojeka:2012); small scale operation with individual or family ownership (Yankson:1989 and Farrell and Fleming:2000); reliance on locally sourced raw materials (Hanefah, Ariff and Kasipillai:2002) ; operate in unregulated and competitive markets; have low or no usage of formal financial credit and may use unauthorized vacant place and private land for business.

### 2.3 Taxation for SMEs

Zimbabwean current tax system is administered by the Zimbabwe Revenue Authority (ZIMRA) and taxation can be direct or indirect. Common direct taxes are corporate tax, Pay as you earn (PAYE), Investment income tax, Capital gains tax, Estate duty tax and others. Examples of indirect taxes are Value added tax (VAT) and Customs and exercise duty. The operations of SMEs give rise to any or all of the above tax obligations but most SME operators have decide to remain in the informal sector as they want to escape their tax obligations. In 2005, ZIMRA introduced presumptive tax system and it was further enhanced in 2011 to broaden the revenue base in view of the increasing informal business activities (ZIMRA, 2011).

#### 2.3.1 Presumptive tax system

According to Alm, Martinez-Vazquez (2003), presumptive tax arises when "self-assessments" (e.g. of sales or income) cannot be

relied upon and, “administrative assessments” are imposed instead. The use of presumptive tax offers the possibility of reducing tax evasion at low cost and broadening the revenue base. Presumptive taxes encourage formalisation, stimulate business growth and employment and broadens the tax base and reduces the cost of collection (Morton,2011). Presumptive taxes are adopted to simplify the tax administration process, collect revenue from the informal sector and educate them on tax issues with the ultimate aim of incorporating them into the regular tax system (Bird and Wallace, 2003).

Presumptive tax is an assumed or tax liability ascertained through indirect factors and is considered as an optimal method to curb rampant non-compliance behaviour without employing excessive government resources (Gandhi, 2011).The concept covers a wide variety of alternative means of determining the tax base ranging from reconstructing income based on type of enterprise which can be challenged by the taxpayer, to the true minimum taxes with tax bases specified in the legislation, ZIMRA (2010). In Zimbabwe, presumptive tax should be remitted to ZIMRA on the 10<sup>th</sup> of April, 10<sup>th</sup> of July, 10<sup>th</sup> of October and the 10<sup>th</sup> of January the following year.

### ***2.3.2 Methods of determining the presumptive tax rate***

The Israeliian tachshiv and the French forfait are common methods used to determine the presumptive taxes in developing countries (Bird and Wallace, 2004 and Thuronyi, 2005). The tachshiv presumes net income based on a number of indicators developed by the government for specific industries. Embuka (2015) says that indicators may include number of employees, location, seating capacity ( for restaurants, barbers, cafes, shops, etc.), skill level of workers (for carpenters workshops or garages) and nature of equipment used (for trucks and tax drivers).

The French forfait is a presumptive tax method applicable only to Small-to-Medium-Enterprises with a specified annual turnover (Thuronyi, 2004).Thomas (2013) said that, under the forfait method, the taxpayer and the tax authority make an advanced agreement as to the taxpayer’s tax liability based on estimated income in lieu of actual income and upon agreement the amount of tax applies for two years or it can be extended. To participate in the forfait, the taxpayer must supply information to the tax authorities regarding its purchases, sales, number of employees, and value of its inventory.

In Zimbabwe, presumptive tax is based on a complex calculation using information on sales, employees, assets and location. This approach has been used in Zimbabwe since 2006 to tax commuter operators, hairdressing salons, informal traders, small-scale miners, cross-border traders, restaurants, bottle stores and cottage industry operators (Utaumire et al, 2013). For example, an assumed gross income of \$9,000 per quarter was ascribed to operators of bottle stores, restaurants and cottage industries and 60% of this figure was estimated to cover operational costs and the remainder was considered to be profit. Using the complex formula, the presumptive tax payable was set at \$300 per quarter for bottle stores and restaurants (ZIMRA, 2011).

### ***2.3.3 Effectiveness of presumptive tax system in fostering formalisation of SMEs.***

Well designed presumptive tax methods encourage SMEs to be recognised in the formal economy and then gradually graduate them into the normal tax system, without encouraging enterprises to regress from the normal tax regime into the presumptive tax regime (Bird and Wallace, 2004). Araujo-Bonjean and Chambas, (2004) say that presumptive tax should provide for taxation that is higher than that based on the normal tax rules so that enterprises move into the normal tax regime and discourage firms

that were in the formal sector to move to presumptive regime scenarios.

Ghana tried to pursue a sustained and systematic effort in taxing the informal sector through presumptive taxation methods according to Josh and Ayee, (2002) but this was later abolished and replaced with innovative tax regimes and this resulted in an increase in the informal sector tax revenue from 0.39% in 2002 to 5.3 in 2003. (Ayee, 2007).

Formal tax systems are highly dependent on record keeping and equitable taxation should be based on profits but presumptive tax system introduces a prospect of unjust and unfair taxing where an enterprise is charged tax when losses may have been incurred according to Maseko (2012). He also regarded SMEs as 'subsistence entrepreneurs and trying to tax this segment is the same as taxing subsistence farmers. This is due to the fact that their level of income is very low in such a way that if they were formally employed, they would mostly fall within the tax-free or low income threshold.

#### 2.4 Tax Compliance and SMEs

Kirchler (2007) defined tax compliance as a taxpayer's willingness to pay their taxes. Tax compliance can also be defined as a person's act of filing returns, declaring all taxable income accurately and disbursing all payable taxes within a stipulated period without having to wait for follow up actions from the authority (Aladebe : 2011).

The main objective of tax administration is to foster voluntary compliance and hence reduce tax gap, that is, the difference between taxes paid and owed for all tax heads by all taxpayers. Tax compliance behaviour means that a firm has registered as required under the law, files returns on time, reports complete and accurate information to determine tax liability, maintains proper bookkeeping and pays all amounts when due. Tax noncompliance is a range of activities that are unfavourable to the state's tax system which may include tax avoidance and tax evasion.

##### 2.4.1 Tax avoidance and tax evasion

Fuest and Riedel (2009) defined tax avoidance as legally taking advantage of tax-loopholes to reduce tax. Alm (2012) states that tax avoidance can take the form of income splitting, tax postponement, and tax arbitrage across income that faces different tax treatment.

On the other hand, tax evasion consists of illegal and unethical activities that involve concealment of tax liability, for instance by underreporting income or by overstating deductions, exemptions or credits or by simply by failing to file the appropriate tax returns (Kirchler, 2007). Tax evasion involves non-declaration of financial assets in offshore financial accounts, trade mispricing, VAT fraud, bribing tax officials and abuse of tax incentives by falsely claiming eligibility.(ITC:2010). Tax avoidance and tax evasion are regarded as forms of tax noncompliance as they describe a range of activities that intend to subvert the state's tax system according to Lumumba et al (2010)

##### 2.4.2 Reasons for tax evasion and tax avoidance

According to Musarirambi (2013), tax non-compliance is motivated by different reasons and for tax authorities to curtail these

activities they must be aware of the reasons leading to such tendencies. Some of these reasons are : low quality of service in return for taxes (Feld and Frey,2007);low transparency and accountability off public institutions(Kirchler et al., 2007); perception of unfairness (Maseko, 2014); high level of corruption (Fjeldstad and Moore ,2009), lack of rule of law and weak fiscal jurisdiction and insufficiencies in tax collection(ITC,2010); high compliance costs(Musarirambi, 2014); and finally weak capacity to detect and prosecute tax evaders (ITC, 2010).

## **2.5 Models of tax compliance**

Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Various opinions exist about the best ways to improve tax compliance.

### **2.5.1 The Deterrence model/Classical Approach.**

Under this model, Allingham and Sandmo(1972) proposed that taxpayers make rationale economic decisions and that their inclination to evade tax is anchored on perceived gains or losses linked to the choice on whether or not to evade the tax. The decision to evade tax is the optimisation of utility via the decision to evade tax. If the chances of prosecution are high and the penalties are deterrent, a utility maximizing taxpayer will not evade tax.

### **2.5.2 Slippery slope model.**

The Slippery slope framework cited by Kirchler (2007), Kirchler, Hoelzl and Wahl(2008) assumes that the tax climate in a country can be antagonistic or synergistic. In an antagonistic environment, taxpayers and tax authorities operate as 'cat and mice' or 'police and robbers'. This results in antagonistic feelings between the taxpayer and the tax authority. This scenario is typical of informal sector attitude towards tax in Zimbabwe. In a synergistic environment, there is understanding, willingness and cooperation to pay taxes between the parties involved.

### **2.5.3 Equities and Exchange theory**

Guevara (2008) proposes the Equities and Exchange theory which is based on the assumptions that taxpayers are less compliant and evade tax if they perceive inequity in taxation and are compliant if they perceive equity. Therefore they benefits from being tax compliant should be apparent to the taxpayers.

## **2.6 Empirical evidence**

Seidu, Abdul and Sebil (2015) examined and modelled the causes of tax default among small and medium scale enterprises (SMEs) in the Tamale Metropolis of Ghana. The findings revealed that reasons for tax default are high tax rates, inadequate tax education by tax authorities and multiple taxation. They recommended that SMEs should be adequately educated on the importance of tax to the state and be encouraged to pay tax to IRS and other mandatory agencies for the development of the nation. The government was encouraged to design tax policies that make tax payment attractive and unavoidable by both formal and informal sectors. Maseko (2014) assessed the perceptions of SMEs towards taxation; the impact of personal tax knowledge and compliance costs on tax compliance of SMEs in Harare, Bindura and Chitungwiza towns in Zimbabwe. The results indicated that the perceptions of SMEs about tax fairness, tax service quality and government spending priorities greatly affect their tax

compliance decisions and the conclusion was that tax service by Zimra falls short of taxpayers perceptions .

A study by Mukhlis, Utomo and Soesetyo (2014) in Indonesia was carried out to establish if tax compliance could be strengthened by tax education for export oriented SMEs The findings indicated that SME entrepreneurs are able to understand their tax obligations when there is an aspect of fairness and tax benefits that can be received in real terms. Nyamwanza et al(2014) analysed the attitudes and practices towards tax compliance in Gweru, Zimbabwe and findings were that tax compliance was not enforced and that corruption levels are high among tax collection officers. The major conclusion was that penalties are effective to enforce compliance and that ZIMRA should increase awareness of tax obligations and compliance to SMEs. Ngwenya, Sibanda and Chitate (2014) ranked the factors that encourage non-compliance with tax obligations by SMEs in Bulawayo, Zimbabwe. They concluded that there is a great relationship between non tax compliance of SMEs in Bulawayo and the existing tax system, followed by norms, economic factors, deterrence to tax evasion and lastly possibilities of tax evasion. Chebusit et al (2014) tried to establish the impact of compliance cost, fines ,penalties and attitudes of tax compliance among SMEs in Kitale, Kenya. The results indicated that there is a positive correlation between tax compliance cost ( $r=0.514$ ), fines and penalties ( $r=0.415$ ), attitudes ( $r=0.546$ ) and tax compliance. The study concluded that tax compliance cost and attitudes have a significant relationship with tax compliance. Amayi and Machogu (2013) concluded that there is a positive relationship between the level of tax knowledge and tax compliance. A major recommendation was that tax education should start at primary level with an emphasis on promotion voluntary compliance.

Nkwe (2013) suggested the introduction of reward to compliant taxpayers as away to enhance compliance in Botswana.

Ojeka and Ojochugwu (2012) found out that high tax rates and complex filing procedure cause tax non-compliance among SMEs in Nigeria and that multiple taxation and proper enlightenment affect tax compliance to a lesser extent. They recommended that SMEs should be levied a lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market.

Olamide and Segun (2012) applied multiple regression on factors influencing voluntary tax compliance in Ilorin Metropolis, Nigeria and found out that tax morale has a positive impact on tax compliance as evidenced by  $r=0,764$ . They recommended that the tax authority should improve tax payer's morale so as to improve voluntary compliance and consequently improve tax revenue generation.

### **3.0 Methodology**

Descriptive research design was adopted for this research and from a target population of registered 95 operators drawn from restaurants, bottle stores, hairdressing saloons, transport operators and cottage industries in Bindura town, stratified random sampling was used to sample 30 participants. Both quantitative and qualitative data was gathered using questionnaires and interviews.

### **4.0 Presentation, findings and Interpretation**

Response rate was 73% and the following findings were made :

**4.1** Literacy was 96% (Ordinary Levels upwards) which meant that almost all respondents understood tax laws and the consequences of non-compliance because they had attained basic education.

**4.2** SMEs keep the following financial records: cash receipts and payments (87%), Income and expenditure and Statement of Financial position (9%) and none (4%). Since the majority of the SMEs kept some form of records, this showed that the problem of poor record keeping was not a major factor contributing to tax evasion.

**4.3** Results revealed that 19 % of the SMEs had survived for more 3 years since inception, 28% had survived between 1-3 years for more than 3yrs while the remaining 53 % had been in existence for less than 1yr. This implies that very few small businesses enterprises survive for the period more than 3years and this can be as a result of harsh working conditions such as high taxes and other constraints.

**4.4** Only 23% of the SMEs had plans to formalise their enterprises while the remainder did not want to do so altogether. Reasons cited for none compliance were the high costs that accompanied compliance. This agrees with Burges and Stern (2003 that) concluded that informal traders do not want to be formalized and as a result they were shunning banking services and other things that require them to be visible to the taxmen.

#### **4.5 Effectiveness of presumptive tax in fostering formalisation**

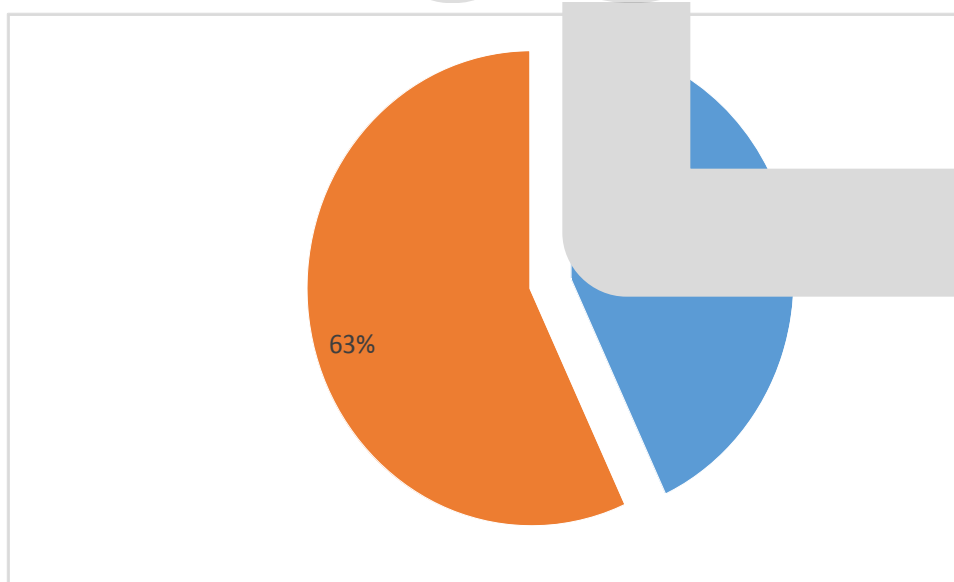


Figure 4.1 Effectiveness of presumptive tax system in fostering formalisation

(Source: Primary data 2015)

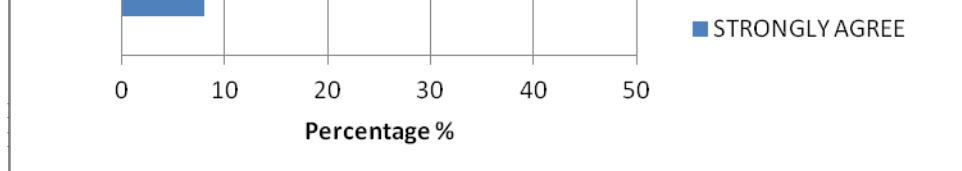
The majority of respondents (63%) do not believe that presumptive tax encourages formalization because according to Musarirambi(2013), the presumptive tax is too high. These potential taxpayers consider themselves to have low income levels in their businesses and

consider that they would be in the non-taxable threshold if they were formally employed.

#### **4.6 Remitting presumptive taxes**

(Illustrate a bar graph which shows the ff: 8% SA, 4% A; 10% Neutral ; 33% Disagree and 45% Strongly disagree)





Results indicate that 88% of SMEs are not remitting presumptive taxes and this agrees with researches by Ojeka and Ojochugwu (2012) and Olamide and Segun (2012) in Nigeria.

(Source: Primary data 2015)

#### 4.7 Causes of tax non-compliance

Table 4.1 Causes of tax non-compliance.

CAUSE	RESPONSE	FREQUENCY	PERCENTAGE
It is not fair for me to pay taxes because my enterprise is not profitable enough.	Strongly Agree	2	9%
	Agree	2	9%
	Not sure	4	18%
	Disagree	6	27%
	Strongly Disagree	8	37%
		<b>22</b>	<b>100%</b>
Taxes are mismanaged	Strongly Agree	12	55%
	Agree	6	27%
	Not sure	2	9%
	Disagree	1	4.5%
	Strongly Disagree	1	4.5%
		<b>22</b>	<b>100%</b>
There is too much corruption in the tax system	Strongly Agree	13	59%
	Agree	4	18%
	Not sure	1	5%
	Disagree	2	9%
	Strongly Disagree	2	9%
		<b>22</b>	<b>100%</b>
There is no visible benefit to us	Strongly Agree	11	50%
	Agree	6	27%
	Not sure	3	14%
	Disagree	2	9%

	Strongly Disagree	0	0%
		<b>22</b>	<b>100%</b>
Tax amounts are prohibitive	Strongly Agree	16	73%
	Agree	4	18%
	Not sure	2	9%
	Disagree	0	0%
	Strongly Disagree	0	0%
		<b>22</b>	<b>100%</b>
The paper work is complex	Strongly Agree	14	63%
	Agree	4	18%
	Not sure	3	14%
	Disagree	0	0%
	Strongly Disagree	1	5%
		<b>22</b>	<b>100%</b>

Source: Primary data 2015

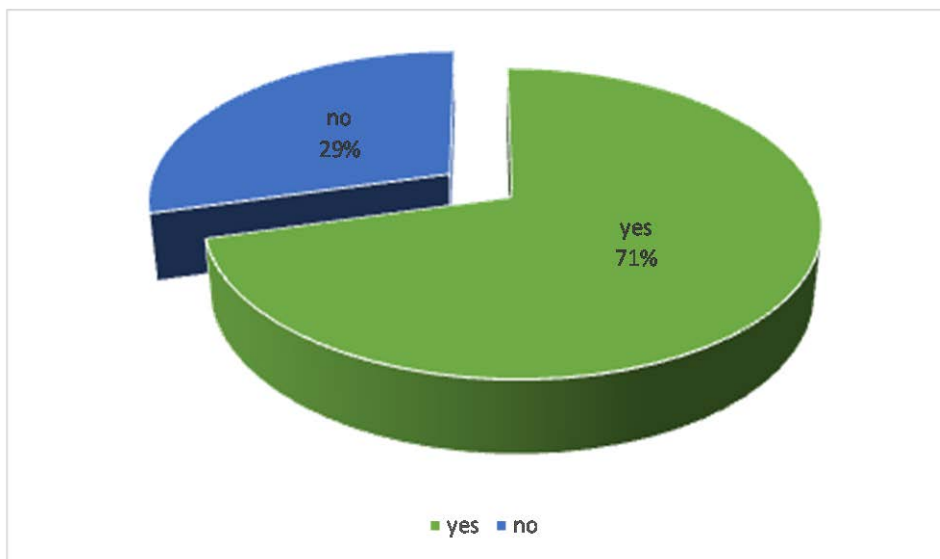
The findings dovetailed with Ojeka and Ojochogwu (2012), who concluded that high tax rates promote non-compliance and that most SMEs would rather remain in the informal sector. Dube (2014) and Maseko (2014) concur that tax evasion is partly caused by perception that government spending priorities affect their tax compliance.

**4.8** Results indicate that 77% of the respondents suspect tax compliance by fellow SMEs was low and this caused them to be reluctant to pay taxes also. Hai and See (2011) says that this provides them psychological reasons for being not compliant.

**4.9** The majority were aware of the penalties that arise from not paying taxes (81%) but risked prosecution because they perceive chances of being detected as very low (87%). According to Alm et al. (1999) and Alm and Martinez-Vazquez (2007), risk-averse individuals tend to pay more taxes attempting to avoid the risk of detection and punishment.

**4.10 Awareness campaigns by ZIMRA on taxation.**

Figure 4.9 Awareness campaigns by ZIMRA on taxation



The above figure shows that SMEs are aware of their tax obligations, and so lack of awareness cannot be cited as reason for non-payment. Mukhlis et al (2014) revealed that SMEs entrepreneurs are able to understand their tax obligations when there is an aspect of fairness and tax benefits that can be reviewed in real terms. The onus is on the revenue authority to enforce tax compliance.

**4.11 Tax fines and penalties are a feature of Zimbabwe's tax system but they have failed to stamp out tax non-compliance behaviour.**

*Throughout 2014 and 2015, ZIMRA extended tax amnesty to tax defaulters but few of them turned up.*

## 5.0 Conclusions and Recommendations

### 5.1 Conclusions

The study concluded that non-compliance of taxpayers is driven by high tax rates, low perceived risk of detection, the perception that fellow informal traders are not paying taxes and corruption within the administration. SMEs are generally aware of the need to comply with tax legislation but there is low risk of being detected in case of non-compliance. Rational potential taxpayers thus maximize their expected utility of the evasion gamble, balancing the benefits of successful evasion with the prospect of detection and punishment. The study also concluded that there is weak enforcement of the tax laws because the penalties of tax evasion exist in Zimbabwe's tax law.

Presumptive tax system is ineffective because it is not graduating the informal traders into the formal sector but rather luring those in the formal sector to regress to the informal sector.

### 5.2 Recommendations

Zimra should intensify revenue awareness and also be seen to be following up on tax evasion. The formalisation process should be simple. Large Companies who involve compliant SMEs in their supply chain should be given tax concessions. This will encourage SMEs to be compliant so that they get more business with larger companies.

ZIMRA can also engage agents, such as ZINARA and local authorities to collect presumptive taxes on their behalf. A commuter operator therefore will have to register his/her vehicle after paying the presumptive tax, just as it is done with motor vehicle insurance, and a valid presumptive tax disk will be issued for display.

### 4.5 STRATEGIES TO ENCOURAGE VOLUNTARY COMPLIANCE

Most respondents recommended that the revenue authority should reduce the presumptive tax rates as they are exorbitant. They also pointed out that the revenue authority should review the tax compliance procedures. These are reducing the taxpayer's willingness to formalise their businesses as the process is very tiresome and costly. These findings are in line with Lumumba et al (2010), who said that SMEs are earning little income which is insignificant to taxation.

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