Strategies for enhancing voluntary tax compliance among small and medium retail enterprises (SMREs): Evidence from Harare CBD, Zimbabwe

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Abstract

Voluntary tax compliance remains a significant challenge for small and medium retail enterprises (SMREs) in developing economies. The study examined the strategies that enhanced voluntary tax compliance among SMREs in Harare CBD, Zimbabwe. Using a mixed methods approach, which combined survey data from 100 SMREs and in- depth interviews with 10 entrepreneurs, this study identifies tax incentives, simplification of tax processes, and support from associates as key drivers of voluntary tax compliance. The findings suggested that reducing tax rates, providing financial benefits, and streamlining tax procedures can significantly improve tax compliance. Additionally, the study highlighted the importance of support systems, such as training and consultation, and empowering SMREs to comply with tax regulations. The study contributed to the existing literature by providing empirical evidence on the effectiveness of these strategies in enhancing voluntary tax compliance among SMREs. The findings have implications for policymakers and tax authorities seeking to improve tax compliance among SMREs.

Keywords: Tax incentives, Tax simplification, Support from associates and voluntary tax compliance

Introduction

According Business Times, Zimbabwe (2024), SMREs in Harare CBD which account for a substantial portion of the country's economic activity, often face unique challenges in complying with tax regulations. Hence, the need for strategies, such as tax incentives, tax system simplification and support from associates to enhance voluntary tax compliance among SMREs in Harare CBD.

Tax incentives

According to IMF (2020), tax incentives are measures that reduce tax burden on taxpayers, aiming to encourage specific behaviours or activities. A study by Malik, et al. (2020) found that incentives significantly improve voluntary tax compliance by SMREs in Pakistan. In addition, Nell and Brews (2017) discovered that tax incentives increase tax compliance among South African SMEs. Moreover, Oluwani and Olowookwe(2020) found that tax incentives reduced tax evasion among Nigerian SMEs.

Tax simplification

OECD, (2019) explained that tax simplification involves reducing the complexity of tax laws, regulations, and procedures to make taxation easier to understand and comply with. Braunerhjelm et al. (2019) found that simplified tax processes increase entrepreneurial activity and tax compliance in Sweden. In support Ko and Lee (2019) also discovered that tax simplification reduces compliance costs and enhances tax compliance among Korean SMEs.

Support from associates

Kirchler et al (2020, "Support from associates refers to the assistance provided by professional advisors, peers, or networks that helps taxpayers understand and comply with tax regulations". Fauziati et al. (2016) found that taxpayer education and support services improve tax compliance among Indonesia SMEs. Kirchler et al. (2020) discovered that social support from peers and professionals enhanced tax compliance among Australian taxpayers. Fjeldstad et al (2019) also emphasised the role support from tax authorities in improving tax compliance among Tanzanian SMEs. Support from associates reduces tax compliance costs and increases taxpayer confidence (Nell and Brews, 2017).

Voluntary tax compliance refers to the willingness of taxpayers to fulfill their tax obligations without coercion or enforcement by tax authorities (OECD, 2020).

Statement of the problem

Despite the importance of tax compliance, there is limited understanding of the strategies that enhance voluntary tax compliance among SMREs in Zimbabwe. This study aimed to address this knowledge gap by examining the strategies to enhance voluntary tax compliance.

Research objectives

To examine the significance of strategies like tax incentives, simplification and support, to voluntary tax compliance.

Research question

Are tax incentives, simplification and support significant predictors of voluntary tax compliance among SMREs in Harare CBD?

Methodology

The population of the study consisted of 1050 accessible SMREs and 100 ZIMRA officers in Harare CBD. An explanatory sequential mixed methods design was used which utilised survey questionnaires and interviews to collect data related to strategies for enhancing voluntary tax compliance. A two staged sampling technique was used. Firstly, 105 SMREs to complete survey questionnaires were stratified randomly sampled. Followed by interviews with 10 ZIMRA tax officers and a subset of SMREs who were purposely sampled.

Results and conclusions

Strategies to improve voluntary tax compliance using SPSS software

Table 1: Model summary for strategies to improve voluntary tax compliance

Model Summary - Voluntary Tax Compliance

Model	R	R^2	Adjusted R^2	RMSE
M_0	0.00	0.00	0.00	1.96
M_1	0.91	0.84	0.83	0.81

Note. M_1 includes Tax Rates, Penalties & Interest, Exemptions, Support from associates

Table 2: Anova of strategies to improve voluntary tax compliance

Model		Sum of Squares	df	Mean Square	F	p
		ANOVA				
M_1	Regression	316.30	4	79.07	120.29	< .001
	Residual	62.45	95	0.66		
	Total	378.75	99			

***Note*. M_1 includes Tax Rates, Penalties & Interest, Exemptions, Support from associates**
***Note*. The intercept model is omitted, as no meaningful information can be shown.**

The multiple linear regression results suggest that the overall model was statistically significant ($F = 120.90$, $p < 0.001$). Additionally, the high R-Square of 0.84 suggest that about 84% of the variation in voluntary tax compliance could be explained by the dependent variables.

Table 3: Regression coefficients strategies to improve voluntary tax compliance

Model		**Unstandardized**	**Standard Error**	**Standardized**	**t**	**p**
M_0	(Intercept)	3.950	0.196		20.195	< .001
M_1	(Intercept)	1.983	0.513		3.865	< .001
	Tax Rates	-0.331	0.067	-0.307	-4.932	< .001
	Penalties & Interest	0.244	0.048	0.239	5.119	< .001
	Exemptions	0.453	0.073	0.418	6.207	< .001
	Support from associates	0.174	0.057	0.164	3.074	0.003

The unstandardized coefficient for tax rates is -0.331, with a standardized coefficient of -0.307, and this relationship is highly significant ($t = -4.932$, $p < 0.001$). This negative relationship indicates that higher tax rates lead to a decrease in voluntary tax compliance. For every unit increase in tax rates, voluntary compliance decreases by 0.331 units. This suggests that reducing tax rates might improve compliance, as higher rates may discourage business owners from complying voluntarily due to the financial burden they impose.

The unstandardized coefficient for penalties and interest is 0.244, with a standardized coefficient of 0.239, and this relationship is highly significant ($t = 5.119$, $p < 0.001$). This positive relationship indicates that stricter penalties and interest for non-compliance can significantly improve voluntary tax compliance. For every unit increase in penalties, compliance increases by 0.244 units, implying that the threat of penalties serves as a strong deterrent to tax evasion and encourages compliance.

The unstandardized coefficient for exemptions is 0.453, with a standardized coefficient of 0.418, and this relationship is highly significant ($t = 6.207$, $p < 0.001$). This suggests that tax exemptions have a positive and substantial influence on voluntary tax compliance. For every unit increase in the availability or awareness of tax exemptions, compliance increases by 0.453 units. Exemptions can act as incentives for business owners to comply with tax regulations, as they may feel the tax system is fairer and more accommodating to their financial realities.

The unstandardised coefficient for support from associates is 0.174, with a standardized coefficient of 0.164, and this relationship is significant ($t = 3.074$, $p = 0.003$). This positive relationship indicates that business owners who receive support from their associates (such as professional advisors, peers, or networks) were more likely to comply voluntarily with tax regulations. For every unit increase in support, voluntary tax compliance increases by 0.174 units, suggesting that providing business owners with accessible guidance and peer support can encourage compliance.

An in- depth interview with the 10 small and medium retail entrepreneurs and 10 ZIMRA officials indicated that tax incentives were a key motivator for them to comply voluntarily, particularly financial benefits such as reduced tax rates. SMREs emphasized that financial benefits, such as reduced tax rates, significantly influence their willingness to comply. Accordingly, Optimal Tax Theory tax incentives not only reduce the effective tax burden but also enhance the perceived fairness of the tax system, which can motivate taxpayers to comply voluntarily. Furthermore, Bouma (2018) found that when taxpayers perceive that they receive tangible benefits from compliance, such as lower tax rates or credits, their willingness to comply increases significantly.

Another critical finding from the interviews was that the simplification of tax processes reduced the compliance burden and increases the willingness of SMREs to comply. As noted, "Simplified tax processes save us time and reduce errors." This highlighted the importance of making tax compliance more accessible and less daunting for small business owners. This aligns with the findings of Ko & Lee, (2019) who argued that complex tax systems disproportionately affect smaller businesses, making simplification a crucial strategy for enhancing compliance.

Interviewed shop representatives remarked that training and consultation helped them to understand tax regulation and avoid penalties. Support from associates reduces tax compliance costs and increases taxpayer confidence (Nell and Brews, 2017).

Findings

The quantitative findings suggested that tax incentives such penalties and interest, and exemptions had high significant influence to voluntary tax compliance among SMREs in Harare CBD. Higher tax rates had a negative relationship that led to a decrease in voluntary tax compliance, suggesting that reduced tax rates improved compliance. Stricter penalties and interest for non- compliance had a high positive significance which strongly deterred tax evasion and encouraged voluntary tax compliance. Tax exemption also had a high positive significance to voluntary tax compliance. A positive relationship between support from associates and voluntary tax compliance indicated that businesses that received support were likely to comply voluntarily. The qualitative findings supported the quantitative findings. Another critical finding from the interviews was that the simplification of tax processes reduced the compliance burden and increases the willingness of SMREs to comply.

Conclusions

Tax incentives such as reductions in tax rates, lower penalties and interests, exemptions, tax simplification and support from associates were viewed as crucial strategies for enhancing voluntary tax compliance among SMREs in Harare CBD.

Recommendations

To improve voluntary tax compliance, the study recommends reducing tax rates, implementing stricter penalties and interests, expanding tax exemptions, streamlining tax regulations and processes, as well as providing support through taxpayer education and professional advice. Tax authorities can foster a culture of voluntarily complying, reduce tax evasion and increase tax revenue collection, by implementing the mentioned strategies.

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