

An Evaluation of the Challenges of Turnover Tax Reform in Zambia: A Case of Micro and Small Enterprises in Trading Industry in Lusaka, Zambia

Namakando Wamalole^{1*}, Dr. Bwalya Chilolo¹

¹ University of Zambia, Graduate School of Business

* Corresponding Author

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Abstract

This study evaluated the Turnover tax reform in Zambia and the challenges it imposes on Micro and small enterprises (MSEs) in trading industry specifically those operating in retail and wholesale sector in Lusaka, Zambia. In 2025, Zambia implemented notable tax reform changes to the Turnover tax system by raising Turnover tax threshold from K800,000 to K5 million with the aim of simplifying tax compliance for Micro and small enterprises (MSEs). The increase in Turnover tax threshold is notably a policy shift directly affecting thousands of Micro and small businesses across multiple industries in Zambia. Guided by three objectives, the study evaluated the challenges of Turnover tax reform, specifically the financial effects, Secondly, the study investigated the level of awareness and utilization of tax incentives among Micro and small enterprises, and thirdly, the study evaluated the extent to which Zambia's Turnover tax system align with principles of a good tax system. Theoretically, the study is anchored on two theories, "The Ability-to-Pay Theory by Adam Smith and Laffer Curve Theory by Laffer", these theories provided theoretical foundation for evaluating tax fairness, equity, economic efficiency and simplicity. A mixed-methods research design was adopted, integrating quantitative and qualitative approaches to strengthen the credibility and robustness of the findings. Quantitative data was collected from 175 Micro and small enterprises operating in major commercial trading hubs in Lusaka's Central Business District, Kamwala, Carousel, Woodlands and Industrial centers. Furthermore, quantitative data was collected from Zambia Revenue Authority through a structured questionnaire administered to seven tax officials. Qualitative data was collected through semi-structured interviews with 15 Micro and small enterprises owners. Data analysis employed regression analysis, correlation analysis, descriptive statistics, and thematic analysis to integrate quantitative and qualitative findings. The study established three major challenges of Turnover tax reform among Micro and small enterprises. A more concerning finding revealed (65%) of respondents reported paying turnover tax in loss making periods, while (22%) of businesses relied on short-term borrowing to pay tax liabilities. Secondly, across MSEs profit decline of 5% was observed, this decline in profitability represents a material economic consequence for Micro and Small Enterprises (MSEs), especially those operating on narrow profit margins and limited financial reserves. The third challenge experienced is increased tax liabilities and penalties, tax burden emerged a prevalent challenge faced by MSEs, findings indicated (83%) of respondents "perceived the tax burden" as heavy. Regression analysis confirmed statistically significant association between turnover tax threshold adjustment, increase in tax rate and profitability decline, the models confirmed turnover tax threshold, turnover tax rate, and tax compliance collectively have a statistically significant relationship with decline in profitability. The first model is significant ($F = 7.016, p < 0.001$). The regression coefficients indicated that increase in Turnover tax threshold emerged as the strongest standardized predictor on profitability decline ($\beta = 0.161$), followed by tax compliance ($\beta = 0.139$) and turnover tax rate ($\beta = 0.131$). The second model showed positive relationship between turnover tax compliance and decline in profit margin ($p = 0.007 < 0.05$). Findings on objective two, revealed critical low awareness and utilization of tax incentives among MSEs, with majority of 80% respondents being unaware of any tax incentives or reliefs, about 20% of respondents indicated awareness of tax incentives. Findings on objective three, established that Zambia Turnover tax system partially aligns with principles of a good tax system. The principles of simplicity and convenience emerged moderately strong, with a mean score of 3.35 while on administrative efficiency, 75% of respondents reported that Zambia Revenue Authority officials provide guidance on tax related matters and agreed that filling deadlines and payment procedure are certain. The system performed weak on the principle of equity, with 63% of respondents disagreeing that the tax burden is fairly distributed according to their ability to pay. The study concludes that changes in Turnover tax reform have negatively affected financial performance of Micro and small enterprises. It further concludes that while tax incentives are available, their utilizations as tax relief measure are constrained by limited awareness among micro businesses. Lastly, the study concludes that Zambia's Turnover tax system partially aligns with the principles of a good tax system in comparison to principles of equity, fairness, certainty and economy. The first recommendation is for the Ministry of Finance to increase annual or yearly Turnover tax exemption from K30,000 to K100,000 to support Micro and Small enterprises growth and reduce tax burden. The second recommendation is for the Ministry of Finance to consider introducing Tax holidays to qualifying Micro and Small enterprises in startup phases to foster growth. The third recommendation is for the design of Turnover tax system that allows Micro and Small enterprises to carry losses forward incurred in the course of business, this will eliminate the practice of micro enterprises paying tax in loss making position. The fourth recommendation is for Zambia Revenue Authority to incorporate an electronic tax incentives module into tax registration process to ensure businesses receive guidance on tax incentives and exemptions available on Turnover tax system.

1. Introduction

Tax reforms are central to economic development in many counties, especially developing countries like Zambia where the government seeks to widen the tax revenue base. The Zambia Revenue Authority notes that taxation is a cornerstone of national development providing the government with revenue to finance infrastructure, social services and public goods, revenue from taxes contributes more than 60% of total government revenue (ZRA, 2023).

In 2025, Zambia implemented notable changes to the Turnover tax system by raising the threshold from K800,000 to K5 million, with the aim of simplifying tax compliance and encourage business formalization. The increase in Turnover tax threshold is notably a policy shift directly affecting thousands of Micro and small businesses across multiple industries in Zambia.

The SMEs sector is acknowledged as a critical component of the Zambian economy representing 97% of all businesses which contributes approximately 70% to gross domestic product (GDP), notably SMEs absorb 88% of labour force. (Ministry of Small and Medium Enterprise Development, 2022). Globally, SMEs are acknowledged as drivers of economic development and catalysts of economic growth and job creation. World Bank notes that in addition to SMEs being drivers of local growth and job creation. According to the World Bank, SMEs play an increasingly important role in addressing urgent development challenges such unemployment and sustainability. According to Bayrakta (2019) SMEs firms with 200 or less employees construct the biggest business sector in each global economy therefore governments around the world should increase the effort to promote and support SME expansion as their national development strategy.

Given the contribution of these small businesses to the Zambian economy, it is therefore important for the government to design tax policies that support to SMEs growth through reduced tax rates and increased incentives in order to foster small businesses growth. This necessitated need for this study which evaluated the current Turnover tax reform and the challenges it imposes on Micro and small enterprises in trading industry in Lusaka Zambia.

1.1 Statement of the problem

A good tax system should raise revenue, promote and support the growth of investment in a country. It is important to note that when a tax system supports the growth of investment, it triggers an expanded tax base that will lead to more tax revenue collection and economic development. Kabinga (2016) argues that a good tax system should strive to balance revenue generation and tax equitable and fair to taxpayers.

The upward adjustment to the Turnover tax threshold was aimed at simplifying tax compliance and encourage formalization of small and medium businesses in Zambia, however the reform has imposed financial challenges on Micro and small enterprises. This reform changes affects thousands of SMEs which make up 97% of all businesses in Zambia. Notably, micro and small businesses are economic agents and catalysts of economic development in Zambia. Therefore, the policy reform changes need to be explored further to ensure that Zambia's Turnover tax system balances revenue generation and fostering a supportive environment for small businesses' growth. It should, therefore, be in the best interest of all governments to strive to have tax systems that are neutral, equitable, fair and which limit adverse effects on the decisions of economic agents, companies and citizens in order to foster economic development.

1.2 Research objectives

- To investigate challenges faced by Micro and small enterprises on Turnover tax system.
- To establish awareness of Turnover tax incentives and their utilization by Micro and small enterprises.
- To determine the extent to which Zambian Turnover tax system align with the principles of a good tax system.

1.3 Hypothesis

H₀: There is no statistically significant relationship between increase in Turnover tax threshold, tax rate, and profit decline of micro and small enterprises in the trading industry in Lusaka.

H₁: There is a statistically significant relationship between increase in Turnover tax threshold, tax rate, and profit decline of micro and small enterprises in the trading industry in Lusaka.

1.4 Theoretical Framework

The study was guided by two theories namely, The Ability-to-pay Theory and the Lafer Curve theory.

The Ability-to-Pay Theory

The Ability-to-Pay Theory, was developed by Adam Smith and Pigou (1903) posits that every state ought to contribute towards the support of Government as nearly as possible, in proportion to their respective abilities and in proportion to the protection they enjoy in the state. The ability-to-pay principle requires that tax burden will be distributed among individuals or entities according to their capacity to bear it. This principle is central to equitable taxation systems and therefore aligns with this study in assessing whether the current Zambian turnover tax reform aligns with the capacity of MSEs to bear the tax burden.

Laffer Curve Theory

The Laffer Curve Theory, first developed by economist Arthur Laffer (1979) illustrates the relationship between tax rates and tax revenue. The theory suggests that there is an optimal tax rate that maximizes revenue without discouraging economic activity. Beyond a certain point, higher taxes may lead to reduced business activity. The Laffer curve below demonstrates that tax revenue can be collected up to a certain percentage of tax rate, when the tax rate is too high, tax revenue will decline. In the context of this study, the Laffer curve theory seeks to evaluate the relationship between Turnover tax rate and revenue generated.

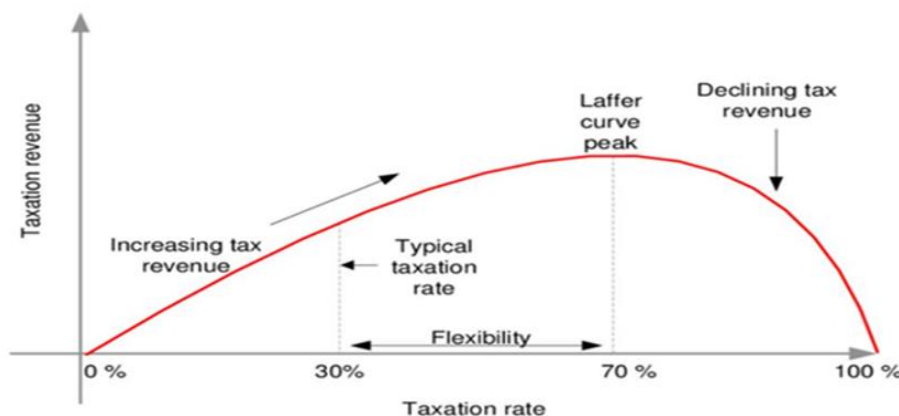


Figure 1: Laffer Curve Theory

1.5 Conceptual framework

The conceptual framework examines the relationship between the independent variables (Turnover Tax rate and Turnover tax threshold) and the dependent variable (profitability of micro and small enterprises) while positioning tax compliance as a mediating variable through which the independent variables influence financial performance (profitability) of Micro and small enterprises.

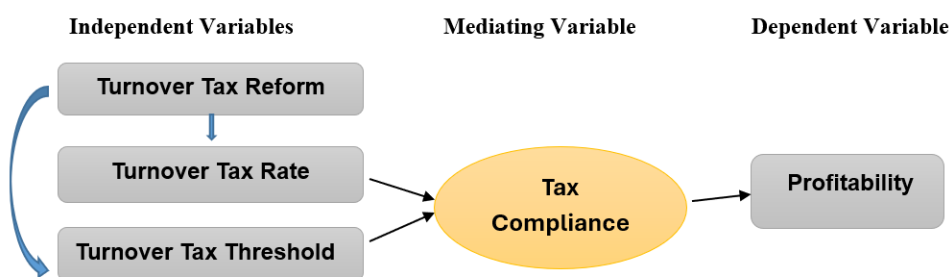


Figure 2: Conceptual framework
Source: Researcher's own construction, 2026

1.6 Operational definition of concepts

Turnover tax is defined as tax that is charged at 5% on gross sales or turnover such as earnings, revenue, yield and proceeds of a person or business with annual sales of K5, 000,000 or less. (ZRA). Turnover tax reform refers to a change in policy governing how Turnover tax is applied such as changing the tax rate or tax threshold. (ZRA). Tax compliance refers to compliance of taxpayers to comply with applicable tax regulations, and which are imposed on tax revenues in connection with the reporting of reported taxable income where the tax authorities are domiciled (Raden et, al 2020).

Micro enterprise is defined as a business with annual turnover or sales of K1 to K800,000, while small enterprise is defined as a business with annual turnover or sales of K800, 000 to K5 million (Ministry of small, medium enterprises development). Trading industry refers to the sector of the economy that is involved in the buying and selling of goods and services, both domestically and internationally. Profitability can be defined as the ability of a firm to generate profits (Rajitha 2011).

2 Literature Review

Globally and regionally, scholars from different countries have provided diverse views on tax reforms and their implications on countries' economic growth. Studies in developed and emerging economies have found that tax policy can either stimulate or hinder business profitability and formalization.

2.1 Literature review inclusion criteria

The articles included in the study were screened before inclusion to ensure only relevant literature with credible sources and significant contribution to the body of knowledge were utilized. The articles were screened using specific inclusion criteria that was derived from the title of the study, the research question and the research objectives. The following criteria were used;

- Year: Only studies that contained information on tax reforms and systems from the years 2018 to 2025 were included to ensure up to date literature was gathered.
- Construct: Studies which focused mainly on tax reforms and also linked tax reforms to economic growth were included as those are the main focal points for this study and also to ensure that the literature is focused on answering the research question and meeting the study objectives.
- Literature type: to ensure credibility of information gathered in this study, only studies that were documented form of journal articles were included. This was done to ensure that information gathered as literature consisted of sources that are credible in the body of scholarly education.

2.2 Global Evidence

A study by Dubois (2024) examined the impact of tax reforms on economic growth and found that poorly designed tax reforms may lead to tax avoidance, evasion and economic distortions, undermining their intended benefits. He argued that Tax reforms require careful planning and execution to avoid disruptions and ensure compliance, posing administrative and political challenges (Dubois, 2024). In their research in Indonesia, Lopez and Kundu (2020) found that Turnover tax systems increased voluntary compliance among MSMEs but often did not reflect true profitability, especially in urban areas with high operational costs. Still in Indonesia, a study done by (Widjaja, 2024) found that there is need for a flexible and responsive approach to MSME needs in developing countries. He further stresses that governments in developing countries can design effective tax policies to support the development of MSMEs, ultimately contributing to more inclusive economic growth.

According to Brooking (2022), tax policy can change the drivers of increased savings and investment which in turn can have an impact on the accumulation of capital and in a high tax environment. Additionally, taxing capital gains and corporate earnings can potentially have a disincentive effect on investment behavior which in turn can lead to a slower pace of growth. Similarly, a study in India done by Kumar (2019) observed that threshold adjustments under the Goods and Services Tax (GST) regime had mixed effects, benefiting micro-enterprises while leaving small enterprises at a disadvantage due to complex reporting requirements.

Evidence from China suggests that tax incentives and other industrial support are more effective at boosting the productivity of firms when allocated to competitive sectors, when they are more dispersed across a sector, and when they are targeted at younger and more productive firms (Manwaring, 2025). Zhao further argues that tax policy borne by enterprises has a significant effect on the distribution of economic gains and the social gap between the rich and the poor, tax cuts can incentivize enterprises to increase capital expenditure this initiative in turn leads to an increase in employment opportunities (Zhao, 2025).

2.3 Africa Evidence

In Africa, SMEs form the backbone of most economies but struggle under complicated and often rigid tax regimes. A study by International Finance Corporation (IFC, 2018) reported that in Sub-Saharan Africa, over 60% of MSMEs remain

informal, largely due to high compliance costs and low perceived benefits of taxation.

A study in Nigeria by Olaoye et al. (2020) emphasized that turnover tax rates do not consider variations in profitability across sectors, leading to disproportionate tax burdens on some businesses, similarly Bello et al., (2023) found that tax system fairness significantly and positively influences tax morale. In Kenya, Waweru and Ngugi (2021) established that presumptive tax systems have eased the tax burden on MSMEs, but inconsistencies in threshold policies have discouraged some from scaling their operations.

In South Africa, Mphagahlele (2025) in his study on Evaluation of tax preferences for SMEs in Gauteng, South Africa found that Turnover tax regime has high administrative burden due to the fact that the tax base for calculating tax payable is taxable turnover rather than taxable income (Mphagahlele, 2025). A similar study in South Africa, Mhlanga and Steenkamp (2020) highlighted that most small enterprises felt underrepresented in tax policy decisions, which limited the perceived fairness and compliance with turnover tax obligations.

Additionally, Schutte, Labuschagne, & Georgescu, (2019) Turnover tax reform in South Africa found that SMME owners were not willing to pay taxes in a loss-making position, which would be the case if they were to pay taxes based on their annual turnover. The finds revealed that SMME owners indicated that they would have greater preference to relief measures which included reduced tax rates for SMMEs, reduced penalties and interest charges (Schutte, Labuschagne, & Georgescu, 2019).

2.4 Zambia Evidence

According to Simbyakula and Hapompwe (2024) in their study, SMEs experience greater challenges as compared to large companies when it comes to generating internal resources. They argued that there is need minimized taxes for these smaller entities in order to allow for their sustainable growth and sustainability in keeping with the principle of the firm as a going concern. Another study in Zambia by Mazwi & Kasongo (2020) investigated factors that affect tax compliance among Small and Medium Enterprises (SMEs) in Lusaka Zambia. The findings of the study showed that high tax rate mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. The Authors further argued that developing economies like Zambia needs to further the development of its private sector by creating an environment favorable to the growth of SMEs, strengthening the factors that lead to business success and addressing the problems threatening the existence and advancement of small and medium enterprises. Violet Mtonga (2023) in her study of factors affecting tax administration in informal sector found that respondents said they do not pay tax because the tax rate was too high. The lower the tax rates the more people would come on board to pay taxes which would promote economic growth in the country. It would mean more people in the informal sector would pay tax and ZRA would collect more tax from more people. The author stresses that the lower the tax rates, the more people would pay their taxes from the informal Sector (Mtonga, 2023).

3 Research Methodology and Design

Research methodology is a way to systematically solve the research problem (Kothari, 2004). The study adopted a mixed-methods approach, integrating qualitative and quantitative techniques to enhance the reliability and validity of the findings. This study utilized a mixed method approach which combines quantitative and qualitative methods (Creswell, 2014). The choice of methodology was guided by the nature of the research problem, which required both an in-depth understanding of turnover tax challenges faced by micro businesses and the ability to quantify the impact of these challenges on the financial performance of micro and small businesses.

3.1 Study Area, Population and Sample size

A population is a group of people who possesses similar characteristics or traits (Strydom & Delport, 2011). A sample is a portion or part of individuals that are selected from an entire group of people that have at least one feature in common (Kasonde-Ng'andu, 2013). The study was conducted in Lusaka district, targeting micro and small medium enterprises in wholesale and retail businesses operating in major commercial trading hubs in Lusaka. Trading industry was selected based on its high number of micro and small businesses. According to Zambia Revenue Authority database, there are 15,442 Micro, small and medium enterprises operating in wholesale and retail trade in Lusaka district. The study's sample was derived from this population. The quantitative sample size was determined using the Yamane formula (Yamane, 1967) and Qualitative sample was determined through saturation method.

3.2 Sampling technique

To ensure diverse inclusion of businesses in major commercial trading hubs, simple random sampling was used. Registered Micro and Small enterprises in major trading hubs were randomly selected from major commercial trading hubs in Lusaka which included Central business district, Carousel, Kamwala, Makeni, Industrial area and Woodlands. Purposive sampling was used for respondents from Zambia Revenue Authority.

3.3 Data collection instruments

Primary data was collected through surveys and interviews. The collection tools were checked by the review of experts (academic and tax practitioner specialists) and tested on a pilot of 30 MSEs respondents to ensure that it is clear and reliable (Cronbach's alpha 0.75). The researcher physically administered the questionnaires to 202 businesses; responses were received from 175 (86% return rate) and interviews with 15 business owners. The respondents' profile in the study consisted of 116 business owners, 42 managers, 17 staff personnel and 7 Zambia Revenue Authority officials. Interviews proved instrumental to gain in-depth understanding of the challenges experienced by Micro and small enterprises, on Turnover system. This approach enabled the researcher have deeper interaction with the respondents, allowing them to expand on their submissions on how the turnover tax reform influences their business performance and operations. With permission from the respondents, the interviews were audio recorded with full knowledge of respondents.

Measurement of variables: A five-point Likert scale with score from 1 to 5 for strongly disagree to strongly agree respectively was used to measure the study variables.

3.4 Data analysis instrument and procedure

Quantitative data was analyzed through descriptive statistics, regression analysis and Anova using IBM statistical Package for Social Sciences (SPSS). Thematic analysis was employed for qualitative data analysis.

4 Results and Discussion

This section discusses the findings of the study. The discussion integrates the quantitative and qualitative results to provide a holistic interpretation of the challenges associated with Zambia's turnover tax system. The discussion is organized around the study's three research objectives.

4.1 The Challenges faced by Micro and Small Enterprises on Turnover Tax System

4.1.1 Paying Tax in Loss-Making Periods

The findings revealed 65% of respondents reported paying turnover tax in months when they recorded losses. Further the results revealed that 22% of businesses resorted to short-term borrowing to pay tax liabilities. This is one of the strongest indicators in the data because it goes directly to the design of turnover tax system which is tax is charged on gross sales rather than net profit, the design of turnover tax system does not allow for deduction of operating expenses in determination of taxable amount. This finding represents one of the most significant challenges facing micro and small enterprises under the current turnover tax regime. The significant association between paying tax during loss making months and perceived tax burden suggests that the reform has not succeeded in making taxation more palatable to small businesses. Quantitatively, this is supported by the regression result for "paid tax despite losses" ($B = 0.69$, $p = 0.002$, $\text{Exp}(B) = 1.99$), confirming that this condition significantly contributes to businesses challenges.

Qualitative Evidence

Qualitative results reinforce earlier statistical results. Respondents "Sometimes i report losses, but i still pay turnover tax, it feels unfair because the business has no profit to show." respondent 3 explained: "This tax does not consider months when sales are poor; we are forced to pay even when we make loss." respondent 6 highlighted the financial strain: "Paying tax during loss making months has forced us to borrow or use personal funds to cover tax liability." This experience intensifies the perception of inequity as businesses must find alternative means such as short-term borrowing or personal savings to meet tax obligations. Respondent 5 added: "We need the system to consider actual profits, not just sales, otherwise we pay even when we have a loss." This sentiment was echoed by respondent 7 who stated that "Even when sales are low, I still have to pay the tax, which makes it hard to survive." Participant 12 added: "The tax takes a large portion of our revenue, leaving very little for covering operational costs of the business." respondent 15 added: "We need the system to consider actual profits, not just sales, otherwise we pay even when we have a loss."

The findings are consistent with Mphagahlele (2025) study in South Africa which found that turnover tax regime imposes

a high administrative burden precisely because the tax base is taxable turnover rather than taxable income. The findings that some businesses resorted to short-term borrowing to meet tax obligations echoes Prichard et al (2019) observations in Sierra Leone, where small traders frequently used informal credit to cover tax payments, thereby increasing their financial vulnerability and potentially trapping them in cycles of debt. Mtonga (2023) in Zambia found that respondents said they do not pay tax because the tax rate was too high, concluding that lower tax rates would bring more people into the tax net. This study's findings confirms that the current revenue based Turnover tax structure push small businesses toward informality or closure.

4.1.2 Regression analysis

The regression analysis was used to test Hypothesis H_0 and H_1

Table 1: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.166	2	.583	8.747	.000 ^b
	Residual	11.464	172	.067		
	Total	12.630	174			
2	Regression	1.384	3	.461	7.016	.000 ^c
	Residual	11.246	171	.066		
	Total	12.630	174			
a. Dependent Variable: Profitability (decline)						
b. Predictors: (Constant), Turnover Tax Threshold, Turnover Tax Rate						
c. Predictors: (Constant), Turnover Tax Threshold, Turnover Tax Rate, Tax Compliance						

The ANOVA results above indicate that both regression models are statistically significant in explaining variations in profitability. Model 1, which includes turnover tax threshold and turnover tax rate, is significant ($F = 8.747$, $p < 0.001$), showing that these predictors have significant effect on profitability decline. In Model 2, tax compliance a mediating variable is added, the model remains statistically significant ($F = 7.016$, $p < 0.001$), indicating that the three predictors together significantly influence profitability. The regression sum of squares increases slightly (from 1.166 to 1.384), while the residual sum of squares decreases (from 11.464 to 11.246), showing a modest improvement in model fit. Overall, both models are useful, but the inclusion of tax compliance as a mediating variable enhances the model's explanatory power.

Table 2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.838	.085		21.518	.000
	Turnover Tax Rate	.064	.035	.185	1.855	.005
	Turnover Tax Threshold	.081	.055	.145	1.455	.008
2	(Constant)	1.653	.132		12.501	.000
	Turnover Tax Rate	.045	.036	.131	1.266	.007
	Turnover Tax Threshold	.089	.055	.161	1.613	.009
	Tax Compliance	.087	.048	.139	1.822	.000
a. Dependent Variable: Profitability						
b. Predictors: (Constant), Increase in Turnover Tax Threshold, Turnover Tax Rate, Tax Compliance						

The coefficients in table 2 show the individual contribution of each predictor to profitability across the two models. In Model 1, both turnover tax rate ($B = 0.064$, $\beta = 0.185$) and turnover tax reforms ($B = 0.081$, $\beta = 0.145$) have effects on profitability and are statistically significant ($p < 0.05$). In Model 2, after introducing tax compliance as the mediating variable, all three predictors, turnover tax rate ($B = 0.045$, $\beta = 0.131$), increase turnover tax threshold ($B = 0.089$, $\beta = 0.161$), and tax compliance ($B = 0.087$, $\beta = 0.139$), remain positive and statistically significant ($p < 0.05$). Notably, turnover tax threshold shows the strongest standardized effect ($\beta = 0.161$), followed by tax compliance and tax rate.

Table 3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.304 ^a	.092	.082	.25817	.092	8.747	2	172	.000
2	.331 ^b	.110	.094	.25645	.017	3.318	1	171	.020
a. Dependent variable: Profitability									
b. Predictors: (Constant), Increase in Turnover Tax Threshold, Turnover Tax Rate, Tax Compliance									

The regression results in table 3 show that model 1, which includes turnover tax reform and turnover tax rate, explains 9.2% of the variation in the dependent variable of the profitability of micro and small enterprises in the trading industry and is statistically significant ($p < 0.001$), indicating that these factors jointly influence the outcome. When tax compliance is added as a mediating variable in Model 2, the explanatory power of the model increases to 11.0%, with a statistically significant improvement (R Square Change = 0.017, $p = 0.020$). This suggests that tax compliance provides an additional meaningful contribution beyond the initial predictors. Although the overall variance explained remains relatively low, the results confirm that all three variables, turnover tax threshold, tax rate, and tax compliance, play a significant role in influencing the profitability of micro and small enterprises in the trading sector in Lusaka.

Table 4: Summary of Hypothesis Testing

Hypothesis	Evidence	Decision
H0: There is no statistically significant relationship between increase in Turnover tax threshold, tax rate, and profit decline of micro and small enterprises in the trading industry in Lusaka.	Profit margin decline ($p = 0.007 < 0.05$)	Rejected
H1: There is a statistically significant relationship between increase in Turnover tax threshold, tax rate, and profit decline of micro and small enterprises in the trading industry in Lusaka.	($p = 0.007 < 0.05$)	Accepted

H0: There is no statistically significant relationship between increase in Turnover tax threshold, tax rate, and profit decline of micro and small enterprises in the trading industry in Lusaka. The null hypothesis shows were rejected because model 2, depicts a positive relationship between increase in turnover tax threshold, turnover tax rate and decline in profit, it is statistically significant ($p = 0.007 < 0.05$).

Since the null hypothesis H0 was rejected, the alternative hypothesis H1 is accepted because it shows a statistically significant relationship between increase in Turnover tax, tax rate and decline in profit $p < 0.05$

4.1.3 Profitability Decline and Liquidity Constraints.

The findings revealed majority of businesses experienced decline in profit margins following the increase in the turnover tax threshold. Specifically, 49% reported decrease in profit margins, while 24.6% indicated a significant decrease, giving a combined 74.3 percent of respondents experiencing declining profitability. Across MSEs, a 5% decline in profit was observed. This profitability represents a material economic consequence for Micro and Small Enterprises (MSEs), particularly those operating on narrow profit margins and with limited financial reserves. Although the decline may appear modest in percentage terms, its implications for business sustainability depend on the enterprise's liquidity position, and capacity to absorb the tax burden.

The regression analysis confirmed that turnover tax threshold, turnover tax rate, and tax compliance collectively have a statistically significant negative effect on profitability ($F = 7.016$, $p < 0.001$). The coefficients showed that Turnover tax threshold increase emerged as the strongest standardized predictor ($\beta = 0.161$), followed by tax compliance ($\beta = 0.139$) and turnover tax rate ($\beta = 0.131$). These results are particularly important because they move beyond descriptive observations and establish empirical relationships between the key variables. The decline in profitability documented in this study imply that rather than encouraging formalization and compliance, the tax reform appears to be eroding the financial capacity of MSEs to survive and expand. The decline in profitability further underscores the financial challenges experienced by Micro and small enterprises.

Qualitative Evidence

Respondents repeatedly stated that their businesses are disadvantaged due the design of turnover tax system where tax is charged on gross sales rather than profit. Many respondents stated that paying tax on gross sales makes it difficult to expand

or reinvest in their businesses. Example comments include respondent 1 said “Turnover tax system does not take into account cost of sales making it hard to make tangible profit for small gross profit margins businesses” and respondent 3 stated: “After paying tax, my profit margins shrink considerably; some months it feels like I am working just to pay the tax.” Respondent 4 reinforced this view: “My business used to make a small profit when it was registered on income tax but now paying tax on gross sales negatively affects my profit.” Respondent 12 added: “We are barely breaking even, and turnover tax makes it even harder to grow”. and “Allow businesses to deduct expenses like on income tax. Respondents argued that taxing gross sales without recognizing operational costs disadvantages low-margin businesses. Respondent 9 stated: “If I could deduct expenses like rent and stock, I would only pay tax on what I really earn.” This proposal directly addresses the structural inequity identified in the equity and fairness theme.

Quantitatively, this is supported by the significant regression result for “paid tax despite losses” ($B = 0.69$, $p = 0.002$, $\text{Exp}(B) = 1.99$), confirming that this condition significantly contributes to challenges experienced by Micro enterprises.

From a comparative perspective, similar findings are reported by Mazwi & Kasongo (2020) in Zambia, who found that high tax rates discourage SME compliance and reduce business sustainability and Simbyakula & Hapompwe (2024) who observed that SMEs experience greater challenges than large companies when it comes to generating internal resources, arguing for minimized taxes to allow sustainable growth. Furthermore, Olaoye et al. (2020) in Nigeria argues that Turnover-based taxation creates distortions because it ignores sectoral and profitability differences leading to unequal burdens. Lopez and Kundu (2020) found that turnover tax systems in Indonesia increased voluntary compliance among MSMEs but often did not reflect true profitability, especially in urban areas with high operational costs. The findings are also consistent with Kumar (2019), who observed that simplified tax systems often create uncertainty when they fail to reflect business profitability variations.

Additionally, IFC (2018) notes that high compliance and operational costs in Sub-Saharan Africa discourage formalization and reduce SME competitiveness.

4.1.4 Increase in Tax Liability and Penalties

Tax Burden Perception

Tax burden emerged as one of the determinants of MSEs challenges on Turnover tax system, the findings revealed 38% of respondents “perceived the tax burden” as heavy $n=175$ ($M = 3.12$, $SD = 1.19$). The regression analysis reinforces this finding, showing that tax burden perception ($B = 0.82$, $p < 0.001$, $\text{Exp}(B) = 2.27$). The results imply that financial stress is not only widespread but also statistically significant in explaining SME hardship under the turnover tax system. In addition to liquidity constraints, (49%) of Micro and small businesses experienced increased tax liability and in penalties following Turnover tax threshold increase, thereby causing financial vulnerability among SMEs. The regression analysis reinforces this finding, showing that tax burden perception ($B = 0.82$, $p < 0.001$, $\text{Exp}(B) = 2.27$) and cashflow impact ($B = 0.76$, $p < 0.001$, $\text{Exp}(B) = 2.14$) significantly increase the likelihood of experiencing business challenges. Qualitatively results support this finding, respondents echoed “Our profit margins are very low, but the tax is calculated on sales, so we end up paying even when profit is minimal, because if we don’t pay on time, there are penalties”.

4.2 Tax Incentives Available on Turnover Tax System, Awareness and Incentive Utilization among Micro and Small Enterprises

4.2.1 Tax Incentives Available to Micro and Small Enterprises

The second objective sought to establish the turnover tax credits and incentives available to micro and small enterprises and assess the awareness and utilization of the tax incentives. The study established that Micro and small businesses on Turnover tax system are eligible to claim monthly deduction of K2,500, two thousand five hundred kwachas, translating into an annual or yearly exemption of K30,000.

Table 5: Correlation matrix

Variables	Awareness Index	Incentive Utilization	Perceived Benefit
Awareness Index	1		
Incentive Utilization	0.62**	1	
Perceived Benefit Index	0.48**	0.55**	1

Table 5. shows, the Pearson correlation results indicate statistically significant positive relationships among all variables.

Awareness is strongly correlated with incentive utilization ($r = 0.62$, $p < 0.01$), meaning that higher awareness significantly increases the likelihood of claiming incentives. Perceived benefit also shows moderate positive relationships with both awareness ($r = 0.48$) and utilization ($r = 0.55$).

The logistic regression results further confirm that awareness is the strongest predictor of incentive utilization ($B = 1.05$, $p < 0.001$, $\text{Exp}(B) = 2.86$, implying that the likelihood of claiming tax incentives is dependent on awareness. Perceived benefit ($B = 0.68$, $p = 0.003$, $\text{Exp}(B) = 1.97$) and the impact of the K30,000 exemption ($B = 0.54$, $p = 0.005$, $\text{Exp}(B) = 1.71$) also significantly influence utilization. Qualitative findings revealed 80% of respondents were not aware of any tax incentives available on turnover tax system, awareness is limited to only 20 % of respondents. This implies that most businesses are unaware of existing tax incentives and lack sufficient knowledge of how to access them.

4.2.2 Qualitative Evidence

Qualitative findings reinforce earlier quantitative findings, majority of respondents stated they are unaware of tax incentives. Example comments from respondents include respondent 2 said “The government does not explain clearly what incentives are available to small businesses, I have never claimed anything.” Closely linked to low awareness is the low utilization of tax incentives. Even among the small fraction of respondents who had some knowledge of incentives, very few had ever attempted to claim them respondent 5 added “I have heard about tax incentives, but I do not know how to apply or qualify for them.” respondent 8 reinforced this sentiment: “I know there are supposed to be incentives, but the steps are not clear, so I just ignore them and pay the full tax.” respondent 13 highlighted the practical consequences: “Even if there are incentives, without clear guidance, we just pay the tax because we do not know how to benefit from them.” respondent 15 emphasized: “No one in my business has ever used any tax credit; it feels like something only big companies can benefit from”. These comments indicate an awareness gap, that while tax incentives may exist, their effectiveness as policy tool is dependent on taxpayers’ awareness and utilization. Therefore, Zambia Revenue Authority should establish communication mechanisms that ensure taxpayers are adequately informed of available tax exemptions and tax incentives. Effective dissemination of this information is essential to promote taxpayer awareness, as limited awareness of tax incentives and relief provisions may undermine their ability to benefit from measures designed to alleviate tax burdens and support business sustainability.

Table 6: Qualitative Evidence (ZRA Officials): Eligibility of Micro and Small enterprises to claim capital allowances, losses and deduct expenses

Variable / Indicator	Frequency	Min	Max	Yes	No	Mean	Std Deviation	Interpretation
Micro and Small businesses eligibility to carry losses forward as offset for future tax payable	7	1	2	0 (0%)	7 (100%)	1.00	0.00	Negative
Eligibility of Micro and Small businesses to claim tax deductions such as capital allowances	7	1	2	0 (0%)	7 (100%)	1.00	0.00	Negative
Eligibility of Micro and Small businesses to deduct business expenses in determination of taxable amount	7	1	2	0 (0%)	7 (100%)	1.00	0.00	Negative

The finding above indicates disagreement from ZRA tax officials, on eligibility of Micro and small enterprises to deduct business expenses, claim capital allowances and to carry losses forward as tax offset in future periods. All variables recorded the lowest mean score of 1. In comparison, unlike taxpayers registered on Income Tax system, taxpayers on Turnover tax system are not eligible to carry losses incurred in a particular period and offset the losses in future. Furthermore, taxpayers on Turnover tax system are not eligible to claim capital allowances as tax deductions and are not allowed to deduct business expenses in determination of taxable amount.

The evidence that Turnover tax system does not allow enterprises to deduct business expenses, carry losses suffered during a financial year, and non-allowable of capital expenditure expenses and, that these small enterprises in loss making position are expected to pay tax goes against the principle of fairness and equitability. Business losses suffered in the course of the business affect an enterprise’s ability to continue in operation. Therefore, there should be a provision in the law that allow Micro and small enterprises taxpayers access tax benefits and incentives that large companies’ taxpayers enjoy under Income tax system.

4.3 The Extent to Which Zambia's Turnover Tax System Align with the Principles of a Good Tax System

4.3.1 Principles of Taxation

Principles of taxation are those formal guidelines which are widely accepted, discussed and should be considered whenever specific laws are proposed, discussed and implemented. (Kabinga, 2016). This study focused on four principles of tax first published by Adam Smith in his famous book "The Wealth of Nations", the book outlined the four principles of an ideal tax system namely equity, certainty, economy and convenience. These canons of taxation define certain rules and principles upon which a good taxation system should be built and serve as foundation of discussion on basis of tax policy, tax laws and tax administration. According to Olakekan & Oyedokun (2019) canons of tax form the basis of reforms of any nation tax systems aimed at ensuring tax competitiveness among nations in order to attract human as well as investment capital in a world that has become a global village (Olakekan & Oyedokun, 2019). A good tax system should strive to impose tax rate through progressive tax system tax rate increases as the taxable income increases. The person with higher income pays a higher tax than the person with lower income in the spirit of fairness. These principles are still relevant and are important to the creation of tax policies to today's tax environment. The principles of a good taxation system are individually discussed in detail to assess how the Zambian Turnover taxation system align with these principles.

4.3.2 The Principle of Equity

Fairness of the Turnover Tax System

The principle of equity is central to this study; equity expresses the idea that tax should reflect a taxpayer's ability to pay without creating undue hardship or excessive tax burden. Vertical equity addresses questions about how people at different income levels should be taxed, taking into account their relative abilities to pay. The main theory guiding the study is the Adam Smith theory of "The ability to Pay Theory" which requires that tax burden will be distributed among individuals or entities according to their capacity to bear it.

Determinant of Equity and Fairness: Regression Evidence

The findings indicate that Zambia's Turnover tax system performs weak in terms of equity and fairness based on the results. Fairness emerges as the most critical determinant of tax system compliance, regression results show that fairness perception is linked to compliance ($B = 0.88$, $p = 0.001$, $\text{Exp}(B) = 2.42$). A higher percentage of 74% of respondents indicated turnover tax system does not distribute tax burden according to their businesses' capacity to pay tax. A more concerning finding is that 65% of micro businesses reported paying tax in loss making positions, and 22% of those businesses relied on short-term loans to finance tax obligations. The evidence that Turnover tax system does not allow enterprises to deduct business expenses, carry losses suffered during a financial year, and non-allowable of capital expenditure expenses and, that these small enterprises in loss making position are expected to pay tax goes against the principle of fairness and equitability. Business losses suffered in the course of the business affect an enterprise's ability to continue in operation. Therefore, there should be a provision in the law that allows TOT taxpayers access benefits that large companies payers enjoy under Income tax system.

Table 7: Descriptive Statistics: Perceived Fairness of Turnover Tax Reform among Respondents

Variable / Indicator	SA	A	N	DA	SD	Frequency	Mean	Std Deviation	Interpretation
Fairness of Turnover Tax Rate (5%) and Threshold increase (K800,000–K5 million) relative to Business Income	6 (3%)	40 (23%)	17 (10%)	71(40%)	41(23 %)	175	2.42	1.176	Low Perception of Fairness
Perception of Vertical Equity - does Turnover tax system fairly distribute the tax burden among taxpayers according to their ability to pay ?	2 (1%)	6 (35)	38 (22%)	67 (38%)	62 (35%)	175	1.97	0.903	Low Perception of Equity
Turnover Tax vs Income Tax - Is Turnover tax system a more equitable tax system for small businesses than Income tax in Zambia	4 (2.3 %)	23 (13%)	49 (28%)	60 (34%)	39 (22%)	175	2.39	1.044	Low Perception of Equitable
Pereception on Public Benefits of Tax Revenue Collected	20 (5%)	75 (43%)	27 (15%)	42 (24%)	11 (6%)	175	3.29	1.14	Low Perception of Equitable

Qualitative Evidence

Qualitative findings underscore a widespread perception that the turnover tax system is inequitable, particularly from the standpoint of Micro and small businesses. Example of comments from interviews include; respondent 9 said “I think bigger businesses pay less tax because of deductions and exemptions they claim which we small business don’t have” and “The way tax is applied, it doesn’t reflect our ability to pay, we currently struggling for the business to survive.” respondent 11 stated: “This turnover system does not consider business costs but just looks at revenue, it’s not unfair”. This proposal directly addresses the structural inequity identified in the equity and fairness theme.

4.3.3 The Principle of Simplicity

The principle of simplicity advocates that a tax system should be plain, simple to understand by the common taxpayers. It should not be complicated to understand how to calculate and ultimately ascertain. taxpayers find it easy to comply when a tax system is easy and less complex, the opposite is true, when tax system is complex, it can affect the ability of the taxpayers to understand their obligations, resulting in lower compliance levels. Consequently, tax authorities should be able to administer taxes efficiently without complexity when the principle of simplicity is utilized.

Determinant of Simplicity: Descriptive Evidence

Table 8: Descriptive Statistics: Simplicity, Certainty, Economic Efficiency and Administrative convenience of Turnover Tax System

Indicator	SA	A	N	DA	SD	Frequency	Mean	Std Deviation	Interpretation
Ease of Filing Turnover Tax Return	8 (5%)	85 (49%)	45 (26%)	34 (19%)	3 (1%)	175	3.35	0.903	Moderate positive
Does not use Consultant or Accountant for Tax Filing	8 (5%)	46 (26%)	34 (19%)	85 (49%)	2 (1%)	175	2.85	0.979	Weak
Ability to Estimate Tax payable Before Filing	5 (3%)	25 (14%)	50 (29%)	83 (47%)	12 (7%)	175	2.59	0.917	Weak
Turnover Tax Reform reduced cost of Compliance	3 (1%)	11 (6%)	74 (42%)	78 (45%)	9 (5%)	175	2.55	0.763	Weak
Guidance from Tax Officials(ZRA) on Tax filling	11 (6%)	120 (69%)	17 (10%)	24 (14%)	3 (1%)	175	3.64	0.859	Moderate positive
Tax Disputes are Resolved Timely	1 (0.6%)	64 (37%)	47 (29%)	44 (25%)	19 (11%)	175	2.91	1.035	Weak
Tax Information is Adequately Communicated	4 (2%)	75 (43%)	35 (20%)	42 (24%)	19 (11)	175	3.02	1.096	Moderate positive

The findings indicate that the Zambian Turnover Tax system demonstrates moderate positive level of simplicity. The descriptive results show that “Ease of Filing” recorded a mean score of 3.35 (SD = 0.9), The qualitative findings on simplicity align with quantitative results. Survey data indicated that 54% of respondents agreed that filing returns was easy and suggesting that the administrative structure of the system is relatively straight forward. Comments include respondent 8 stated that “Filing the turnover tax return is straightforward, the forms are simple and easy to complete.” respondent 13 added: “Compared to other taxes, turnover tax returns are less complicated and faster to fill.”

However, 40% of Micro enterprises reported that they still use consultants and accountants to file their tax returns to ensure accurate reporting. Respondent 2 commented: “Many small businesses hire someone to help with filing otherwise mistakes are common and penalties are a risk.”

This reliance suggests that while filing is relatively simple in form, small businesses still perceive a need for professional assistance to avoid errors, which adds to compliance costs. However, the fact that 40% of respondents relied on accountants or consultants reflects the ongoing need for professional support despite intended simplicity to the reform.

4.3.4 Administrative Convenience

Administrative convenience, focuses on how businesses experience the procedural aspects of the turnover tax system, including ease of filing returns and interaction with Revenue Agency the Zambia Revenue Authority (ZRA) officials. Descriptive evidence shows “ZRA Guidance on filling” recorded a mean of 3.64 (SD = 0.97), suggested that taxpayers receive some level of institutional support and noted the positive role of guidance from ZRA officials.

Qualitative Evidence

Qualitative results reinforce quantitative findings. Respondents noted the positive role of guidance from ZRA officials. respondent 5 stated: “ZRA officers are helpful when you enquire about taxes, they guided me when I wanted tax clearance.” another participant added, “ZRA officials pass through our business and if you ask them for guidance, they assist.” This finding that most respondents found filing returns easy and reported positive interactions with ZRA officials suggests that the reform has made meaningful progress in reducing procedural complexity of return filling. This direct support contributes to the perception that businesses are not left entirely on their own to interpret tax requirements. 75% reported that ZRA officials provide guidance on tax related matters.

Table 9: Descriptive Statistics: Easy of Turnover Tax System Administration by Tax Officials (Zambia Revenue Authority)

Variable / Indicator	SA	A	N	DA	SD	Frequency	Mean	Std Deviation	Interpretation
Easy of Turnover Tax System to Administer by Zambia Revenue Authority	3(43%)	2(29%)	1(14%)	0(0%)	1(14%)	7	3.86	1.47	Positive

Survey findings from Zambia Revenue Authority (ZRA) officials recorded a mean of 3.86, and agreement by 71% of ZRA respondents, indicating overall agreement that Turnover tax system is easy to administer. This supports increase in tax revenue reported by Zambia Revenue Authority; the Agency has been efficiency in collection of Tax revenue.

4.4 The Principle of Certainty

Adam Smith argues that the tax which each individual is bound to pay ought to be certain, and not arbitrary”. This entails that the time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain. A predictable and transparent tax system enables individuals and businesses to plan effectively.

Determinant of Certainty: Descriptive Evidence

The principle of certainty is found to be weakly achieved in Zambia’s Turnover tax system. The Ability to Estimate Tax recorded a mean of 2.59 (SD = 0.92), indicating that taxpayers struggle to predict their tax liabilities with accuracy. This finding aligns with Mazwi and Kasongo (2020) study, that found that unclear tax obligations contribute to non-compliance among SMEs. Therefore, the current system only partially satisfies the certainty principle. While the procedural simplicity of filing was acknowledged, the inability of many respondents to estimate their tax liability before filing suggests that predictability remains elusive.

4.5 The principle of Economy

4.5.1 Efficiency of Turnover Tax System

Pereira (2018) argues that taxes affect the efficiency of the tax system in various ways. Thus, in order for the tax system to be efficient, tax policies must seek to minimize the interference of taxes on the decisions of economic agents and promote the efficient correction of negative externalities.

Determinant of Economic Efficiency: Descriptive Evidence

The findings reveal that the turnover tax system performs weakly in the principle of economic efficiency. Reduced compliance cost recorded a mean of 2.59 (SD = 1.14), indicate that compliance cost reduction is limited as only 17% of respondents agreed that turnover tax registration lowered the cost of compliance, with the remainder neutral and negative responses. Qualitative findings further confirm that compliance costs remain high, particularly for small businesses operating under constrained financial conditions. This indicates that the system has not effectively minimized the cost of compliance for most micro and small enterprises as many businesses still face significant costs in complying with tax obligations. It is worth noting that when compliance costs and tax burdens are high relative to business income, taxpayers

may resort to remain informal or evading tax. Therefore, the Zambia turnover tax system only partially aligns with the principle of economic efficiency, as compliance costs remain significant to businesses operations.

This finding aligns with IFC (2018), which reported that high compliance costs are a major reason for informality among SMEs in Sub-Saharan Africa. While the turnover tax may be efficient from the perspective of the Zambia Revenue Authority, the taxpayer perspective appears more opposite as responded repeatedly stated that they still incur significant compliance costs

4.6 The principle of Neutrality

A good tax system should raise revenue, promote and support the growth of investment in a country. The OECD observes that taxation should be neutral and equitable between forms of business activities and should be applied equally to all forms of economic relationships without jeopardizing the uniform and neutral application of tax law (OECD, 2014, p. 30)

The principle of neutrality is weakly achieved by the Zambia Turnover tax system, the results revealed that changes in Turnover tax reform has affected financial performance of Micro businesses in trading industry.

5 Conclusion and Recommendations

5.1 Conclusion

We concluded that a good tax system requires a set of objectives other than economic efficiency in raising revenue for public spending, a good tax system should consider the principles of equity and fairness, simplicity and neutrality. A tax policy founded on equity and fairness is a non-distortive and economically more efficient policy which reduces tax inequality. In terms of theoretical implications, the study reinforces the relevance of the Ability-to-Pay Theory as foundation of the discussion of fairness in taxation. The results support the idea that tax systems must reflect taxpayers' capacity to contribute, as excessive taxation structures can reduce compliance and negatively affect business performance. The findings also suggest that beyond a certain level of tax burden, the intended revenue collection may be undermined by reduced business sustainability and lower compliance levels, consistent with the Laffer Curve Theory.

Turnover tax system in Zambia, while intended to simplify tax compliance, the findings revealed increase in turnover tax threshold and tax rate has negatively affected the economic agents such as the Micro and small enterprises sector in Lusaka. The evidence of decline in profitability and payment of tax even in loss-making periods suggests that Turnover tax system may be placing an unintended tax burden on small enterprises. In my view, the tax system appears to prioritize revenue collection efficiency over business sustainability, which may contradict the broader developmental goal of supporting SMEs growth as catalysts of economic development.

The study further concludes that although turnover tax incentives and credits exist within the tax framework, their impact remains limited due to low levels of awareness and weak dissemination mechanisms. Most micro and small enterprise owners are not adequately informed about available tax incentives resulting in extremely low utilization of incentives that could otherwise improve business performance and reduce tax burden. The extremely low utilization rates of incentives suggest that policy effectiveness is being undermined not by absence of policy tools, but by weak dissemination and communication gaps.

Findings on objective three, established that Zambia Turnover tax system partially aligns with principles of a good tax system. The principle of simplicity recorded a mean score of 3.35 a moderate positive mean indicating taxpayers' agreement to easiness of filling tax returns. Administrative efficiency results revealed 75% of respondents agree that Zambia Revenue Authority officials provide guidance on tax related matters, but timely resolution of tax disputes recorded a lower mean score of 2.91 with 53% of respondents stating that tax disputes are not resolved on time. The system performed weak on the principle of equity and economic efficiency. Findings of evaluation against the principle of equity, Zambia Turnover tax system performed weak, with 73% of respondents disagreeing that the tax burden is fairly distributed according to their ability to pay. This is supported by 65% of businesses that reported paying tax in loss making periods and 22% of business that relied on short-term loans to pay taxes. The principle of economic efficiency was also weak, with about 14% of respondents indicating that compliance costs had been reduced under the reform.

Therefore, the evidence that Turnover tax system does not allow enterprises to deduct business expenses, carry losses suffered during a financial year, and non-allowable of capital expenditure expenses and, that these small enterprises in loss making position are expected to pay tax goes against the principle of fairness and equitability. Business losses suffered in the course of the business affect an enterprise's ability to continue in operation. Therefore, there should be a provision in the law that allow Micro and small enterprises taxpayers access tax benefits and incentives that large companies'

taxpayers enjoy under Income tax system.

5.2 Study Limitations

This study was subject to certain limitations. The study was limited to Micro and small enterprises in wholesale and retail industry in Lusaka, this sample restricted the generalization of findings across all Micro and small enterprises sectors in Zambia. The reliance on self-reported data from Micro and small enterprise owners introduced the possibility of subjective bias, where respondents may have overemphasized or understated their experiences with the turnover tax system. However, these limitations were mitigated through several methodological strategies. To reduce bias in self-reported data, the study triangulated quantitative survey data with qualitative interview responses to validate recurring themes and ensure consistency in findings. The use of both descriptive and regression also strengthened the robustness of the results by allowing objective testing of relationships between variables.

5.3 Recommendations

- The first recommendation is for the Ministry of Finance to increase annual Turnover tax exemption from K30,000 to K100,000 to support Micro and Small enterprises growth and reduce tax burden.
- The second recommendation is for the Ministry of Finance to consider introducing Tax holidays to qualifying Micro and Small enterprises in startup phases to foster growth of the Micro enterprises.
- The third recommendation is for design of Turnover tax system that allows Micro and Small enterprises to carry losses forward incurred in the course of business, this will eliminate the practice of small business paying tax in loss making periods.
- The fourth recommendation is for Zambia Revenue Authority Agency to incorporate an electronic tax incentives module into tax registration process to ensure businesses receive guidance on the tax reliefs such as tax incentives and tax exemptions which are available on Turnover tax system.

Study Approval

The study was approved by The University of Zambia Research and Ethics Committee

Researcher's Objectivity

The researcher maintained the principle of objectivity in conducting the study and reporting findings.

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