Tax Knowledge, Rates, Procedures and Enforcement: What Separates Compliant from Non-Compliant SMEs in Chipata District, Zambia

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ABSTRACT

Small firms are most of Zambia's businesses and a small part of its tax base. This study examined what separates small and medium enterprises (SMEs) that comply with tax rules from those that do not, using a survey of licensed firms in Chipata District, Eastern Province. A structured questionnaire was administered to 123 purposively selected owners, managers and tax agents. The 112 usable responses (91%) were analysed in SPSS 28 with chi-square tests and correlation. Compliance was low. Thirty-seven percent of firms were registered with the Zambia Revenue Authority (ZRA; 95% CI 28-46%), 43% filed returns regularly, 26% paid in full, and respondents reported declaring about 18% of their income on average. Registration rose from 13% among firms with low tax knowledge to 68% among firms with high knowledge. Perceived procedural complexity showed the strongest correlations with compliance ($r = -0.58$ with registration, -0.63 with full payment), and only 12% of firms reported an audit. Firms that called tax rates too high registered less often than those that called them affordable (29% against 52%), but this gap was the smallest of the four factors. All results are bivariate associations from a non-probability sample of licensed firms, which probably overstates compliance. They are not causal estimates, and models adjusting for firm size, sector and owner education were not estimated. The pattern points first to simpler registration and filing routes, then to education pitched at small firms and audits visible and consistent enough to be believed. Rate cuts should come last, because these data cannot separate the burden of the rate from the burden of getting it right.

Keywords: tax compliance; SMEs; tax knowledge; tax enforcement; Zambia

INTRODUCTION

Zambia talks about its small and medium enterprises a great deal and taxes them very little. The Zambia Development Agency counted more than 1.1 million micro, small and medium enterprises employing about 3.2 million people (ZDA, 2015), and the Seventh National Development Plan leaned on the sector to cut poverty and widen the economy (MNDP, 2017). Yet the African Development Bank put SME tax compliance in Zambia at roughly 25% (AfDB, 2016). A survey of 1,390 micro, small and medium enterprises in 52 market hubs in Lusaka and Central Province found a similar picture: average compliance near 30%, and only 7.4% of firms ever audited (Seim, 2020). A sector this large, paying this little, is a revenue problem before it is anything else.

It is also a local problem. Chipata is the administrative centre of Eastern Province and a trading town close to Malawi and Mozambique. The Chipata Municipal Council (2021) reported that more than 70% of the district's SMEs operate informally and that compliance sits below 30%. When firms stay outside the tax net, the council has less to spend on the roads, markets and services those same firms depend on.

The usual suspects are known. The ZRA names weak record keeping, poor understanding of obligations, high rates and thin enforcement (ZRA, 2018). What is missing is district-level evidence that weighs them against each other. That matters because a revenue authority with limited staff cannot fix everything at once, and a wrong first move, a rate cut for example, is expensive to reverse. Most Zambian studies we found use national or Lusaka samples, or concentrate on compliance costs (Mwansa, 2021), rather than asking what separates compliers from non-compliers in a single trading district.

This paper makes three contributions. First, it supplies district-level evidence from a border trade town outside the capital. Second, it measures registration, filing and full payment separately, with one instrument, so that the stages of compliance can be compared rather than folded into one score. Third, it sets four correlates side by side (tax knowledge, rate perceptions, procedural complexity and enforcement perceptions) using the same comparison for each, which lets rates be weighed against the other three. The questions are simple. Is each factor associated with higher compliance, and which carries the most weight in Chipata? We report what the numbers can and cannot carry, and then say what the revenue authority should do first.

LITERATURE AND THEORETICAL BACKGROUND

Two theories that disagree usefully

The first is economic deterrence. Allingham and Sandmo (1972) treated evasion as a gamble, declare honestly and pay, or underreport and risk detection and a penalty. Raise the rate and the gamble becomes more attractive. Raise the audit probability or the penalty and it becomes less so. The model is clean, and it predicts that high rates and weak enforcement both depress compliance. Its weak point is the assumption that the taxpayer knows what is owed. A shopkeeper who has never been told that a business must register is not gambling. They simply have not registered.

The second is fiscal psychology. Kirchler (2007) and Kirchler, Hoelzl and Wahl (2008) separate enforced compliance, which depends on the power of the authority, from voluntary compliance, which depends on trust. Their "slippery slope" argument is that heavy-handed enforcement can erode the trust that voluntary compliance rests on. Alm (2019), reviewing the evidence, gives real weight to motives beyond deterrence, including norms and perceived fairness. This account explains better why people pay when nobody is checking. It explains less well why a firm fails to register when it has never been asked to.

A third channel sits beside both: plain administrative friction. A firm can know the rules, accept the rate and fear an audit, and still not file because filing is slow, confusing or far away. Neither theory is built around that cost, yet in small firm taxation it may matter most.

Recent evidence

Recent work has shifted from asking whether deterrence works to asking how information, convenience and trust shape behaviour. Slemrod (2019) reviews the field and gives particular attention to randomised trials, many of them run through letters from the tax authority, and to what audits, information reporting and remittance regimes actually achieve. Pomeranz (2015) ran two experiments among more than 400,000 Chilean firms and found that announcing extra monitoring changed behaviour less on transactions already visible through a paper trail, which she reads as a preventive deterrence effect of the trail itself. The lesson for small firms is that enforcement depends on what the authority can observe, and a small trader paid in cash is hard to observe. Consistent with this, Bachas, Fattal Jaef and Jensen (2019) used data on 125,000 firms in 140 countries and found that enforcement and compliance both rise with firm size, so the smallest firms face the least pressure.

On the behavioural side, a field experiment in Rwanda tested deterrence, fiscal-exchange and reminder messages sent by letter, SMS and email. It found that friendly approaches, meaning information on how revenue is spent and gentle reminders of deadlines, were generally more effective, and that cheap SMS and email delivery worked well compared with letters (Mascagni, Nell & Monkam, 2017). Dom, Custers, Davenport and Prichard (2022) build a broader framework around building trust, navigating politics and tailoring reform to local conditions.

Evidence on the cost of complying points the same way. Benzarti (2020) showed that US taxpayers give up large tax savings to avoid the work of itemising deductions, and that his revealed-preference estimates of filing costs are well above survey-based ones. If filing costs shape the behaviour of taxpayers with good records and ready access to software, they are unlikely to be negligible for a Chipata trader with neither. Okunogbe and Santoro (2023) review how technology can help African administrations identify the tax base, monitor compliance and make compliance easier.

Zambian evidence

Zambian studies are more recent and more varied. Beyond Seim's (2020) survey, which reported that low profitability, high rates, difficult payment logistics and doubts about how revenue is spent all stood in the way of compliance, a study of SMEs in the clothing sector in Lusaka found that taxpayer education, perceived fairness and social norms together explained a large share of compliance behaviour, and that although 70.1% of respondents knew their obligations, 54.5% had never attended formal tax education (Libanda & Kachamba, 2026). In Solwezi, interviews with 20 retail SMEs found that many were registered for turnover tax but struggled to file and pay on time because of limited knowledge, platform inefficiencies and thin taxpayer education (Msoni & Mahlungu, 2025). Mwansa (2021) documents the weight of compliance costs on small businesses. Studies of tax knowledge elsewhere, in Malaysia, find that it goes with compliance (Palil, 2010; Sapiei, Kasipillai & Eze, 2014), and Kiselbach (2016) points to the difficulty of meeting obligations as a barrier for small enterprises in South Africa. Most of this work comes from Lusaka, Central Province or Solwezi, and much of it is small in scale or qualitative. A district like Chipata, built on cross border trade, has been left out.

Expectations

The two theories, and the friction channel, give one expected sign for each factor. We tested four expectations. H1: higher tax knowledge is associated with higher compliance. H2: perceiving tax rates as too high is associated with lower compliance. H3: perceiving procedures as more complex is associated with lower compliance. H4: perceiving enforcement as stronger is associated with higher compliance. Deterrence speaks most directly to H2 and H4. Fiscal psychology and administrative friction speak to H1 and H3. Because the signs coincide, a cross-sectional survey cannot decide between the theories. What it can do is show where each has the most to explain, and that is how we use it.

METHODS

Design and study setting

We used a quantitative, cross-sectional descriptive survey. Fieldwork took place in Chipata District, Eastern Province, over three months in 2023.

Population and sampling frame

The ZDA register listed about 3,000 licensed small and medium firms in the district across agriculture, manufacturing, retail and services (ZDA, 2018). We grouped firms by sector using local government registrations. The people we wanted to hear from were those who handle tax decisions in these firms: owners, managers and tax agents. An SME was defined as a business with 1 to 100 employees, annual turnover below ZMW 800,000 and capital investment below ZMW 500,000.

Every firm in the frame was licensed, and licensing is not the same as being registered for tax. Fully informal firms, the group most likely to be non-compliant, were therefore never in the frame.

Sample and response

Selection was purposive. Within each sector we chose firms on accessibility, and within each firm we approached the person with direct knowledge of its tax affairs. The target was 123 respondents. We received 112 usable questionnaires, a response of 91%, which is about 3.7% of the registered population. Because the sample is non-

probability, we make no claim that it represents Chipata's SMEs statistically, and the percentages below describe these respondents. Sector, firm size and years in operation were recorded in the questionnaire, but the distribution of respondents across them is not reported in this paper.

Instrument and variable measurement

Data came from a self-administered questionnaire with closed-ended items, most on five-point scales, in seven sections: respondent and firm background, compliance, tax knowledge, tax rates, regulations and procedures, enforcement, and other factors. Table 1 shows how each variable was measured. Each of the four explanatory variables is measured by a block of five rating items plus one further item: help-seeking for knowledge, and for the other three the extent to which the factor discourages compliance or evasion.

Table 1: Variables, questionnaire items and coding

Variable	Item	Scale	Coding in analysis
Registration	Q7	Yes / No	1 = registered with ZRA
Regular filing	Q8	Never to Always (5 points)	1 = files regularly
Declared income	Q9	Four bands (<25% to >75%)	Share declared; mean reported as approximate
Audit experience	Q10	Yes / No / Not sure	Reported audit (descriptive)
Tax knowledge	Q11-Q12	Very poor to Very good (5 points)	Five-item score grouped as low, moderate, high
Perceived rates	Q13-Q14	Too high to Too low (5 points)	“Too high” versus “affordable”
Perceived complexity	Q15-Q16	Very difficult to Very easy (5 points)	Score grouped as low, moderate, high
Perceived enforcement	Q17-Q18	Very ineffective to Very effective (5 points)	Score grouped as weak, moderate, strong

Validity and reliability

The questionnaire was reviewed by experts for content validity and piloted with 35 SMEs before fieldwork. Internal consistency was assessed with Cronbach’s alpha (α) against the conventional threshold of 0.7. The α for each scale: knowledge, rates, complexity, enforcement was 0.65, 0.71, 0.69 and 7.0 respectively. Construct validity was not tested with factor analysis, and the five-item blocks are treated as simple scores.

Analysis

Data were analysed in SPSS version 28. Proportions are reported with 95% Wilson score intervals (Wilson, 1927). Compliance across the three levels of tax knowledge and of perceived enforcement was compared with Pearson chi-square tests, and we report Cramer’s V as the effect size, read against Cohen’s (1988) benchmarks of 0.10, 0.30 and 0.50 for small, medium and large. The association between perceived procedural complexity and each outcome is reported as a correlation coefficient with a 95% interval from the Fisher transformation, assuming n = 112. Because registration, filing and payment are yes or no outcomes, differences between two groups on these outcomes, as for rate perceptions, call for a chi-square test or Fisher's exact test, not a t-test, and we report them that way. All tests are two-sided at the 5% level and all are bivariate.

We did not estimate multivariable models. Only 29 firms paid in full, 41 were registered and 48 filed regularly. A common rule of thumb asks for about ten events per predictor in a logistic model, which would allow three to

five predictors. That is too few for four perceptions plus firm size, sector, owner education and years in operation, and a model that tried would overfit. This is a real limit, and we return to it below.

Ethical considerations

Participation was voluntary, and responses were kept confidential and used for academic purposes only. The university's ethical clearance and approval were obtained.

RESULTS

Respondents

Of the 112 respondents, 76 (68%) were men and 36 (32%) women. Sixty (54%) were owners, 43 (38%) managers and 9 (8%) tax agents. Most (79%) were between 31 and 50 years old, and 56% had tertiary education, against 39% with secondary and 5% with primary schooling. This was a fairly educated, middle-aged group, and if anyone could be expected to find the tax system manageable, it would be them.

Compliance levels

Table 2 shows how little of the sample met basic obligations. The intervals are wide, as they must be at n = 112: the true share of registered firms among the sampled population could plausibly lie anywhere from 28% to 46%.

Table 2: Compliance indicators among surveyed SMEs (n = 112)

Indicator	Frequency	Percentage	95% CI
Registered with ZRA	41	37%	28-46%
Files tax returns regularly	48	43%	34-52%
Pays taxes fully	29	26%	19-35%
Maintains proper records	34	30%	23-39%
Reported an audit by ZRA	about 13	12%	7-19%

Source: Authors' compilation from field survey. Intervals are Wilson score intervals. The audit count is back-calculated from the reported percentage.

Respondents reported declaring about 18% of their income for tax purposes, on average. The indicators do not move together neatly. More firms file than pay in full, and fewer still keep proper records. Filing a return is one thing. Having the books to support it is another.

Tax knowledge

Only 26% of respondents showed a good understanding of registration, filing and payment obligations. Compliance climbed sharply with knowledge (Table 3). The gap between high and low knowledge firms was 55 points for registration, 55 for filing and 52 for full payment, with effect sizes around the conventional medium level.

Table 3: Compliance by level of tax knowledge

Tax knowledge	Registered	Files returns	Pays fully
Low	13%	19%	7%
Moderate	32%	41%	24%
High	68%	74%	59%
Chi-square (df = 2)	11.62	8.97	14.25
p-value	0.003	0.011	0.001
Cramér's V	0.32	0.28	0.36
Odds ratio, high vs low (point estimate)	14.2	12.1	19.1

Source: Authors' compilation from data analysis. Cramér's V is calculated from the chi-square values with n = 112.

The differences were significant at the 1% level for registration and payment and at the 5% level for filing. We treat the size of the odds ratios with caution. The high-knowledge group is small, probably around 29 firms, and a proportion of 68% in a group of that size has a 95% interval of roughly 51% to 83%.

Tax rates

Seventy-eight percent of respondents thought tax rates were too high to afford. Those firms were less compliant on every measure than firms that called the rates affordable (Table 4), by 23 points for registration and 24 for both filing and payment. Respondents also regarded the 4% turnover tax as more acceptable than the 35% corporate income tax rate.

Table 4: Compliance by perception of tax rates

Tax knowledge	**Registered**	**Files returns**	**Pays fully**
Low	13%	19%	7%
Moderate	32%	41%	24%
High	68%	74%	59%
Chi-square (df = 2)	11.62	8.97	14.25

Source: Authors' compilation from data analysis.

Regulations and procedures

Sixty-nine percent found tax regulations and procedures complex and hard to understand. Of the four factors, complexity had the strongest correlations with compliance (Table 5).

Table 5: Compliance by perceived procedural complexity

Complexity rating	**Registered**	**Files returns**	**Pays fully**
Low	64%	71%	53%

Moderate	41%	48%	31%
High	18%	26%	11%
Correlation (r)	-0.58	-0.51	-0.63
95% CI for r	-0.69 to -0.44	-0.64 to -0.36	-0.73 to -0.50
Shared variance (r^2)	0.34	0.26	0.40
p-value	<0.001	<0.001	<0.001

Source: Authors' compilation from data analysis. Intervals use the Fisher transformation with n = 112.

Enforcement

Only 12% of firms reported an audit, and respondents said detected non-compliance rarely led to a penalty. Firms that rated enforcement as strong complied more often than those that rated it weak (Table 6), by 31 points on each outcome.

Table 6: Compliance by perception of enforcement

Enforcement rating	**Registered**	**Files returns**	**Pays fully**
Weak	27%	35%	18%
Moderate	43%	51%	36%
Strong	58%	66%	49%
Chi-square (df = 2)	7.31	5.84	9.17
p-value	0.026	0.054	0.010
Cramér's V	0.26	0.23	0.29

Source: Authors' compilation from data analysis. Cramér's V is calculated with n = 112.

The registration and payment differences were significant at the 5% level or better. The filing difference narrowly missed it (p = 0.054), hence we do not count it as a finding.

Comparing the four factors

The four factors can be compared on the gap between their extreme categories, with the caution that the groups differ in size and that all of this is bivariate. For registration, the gap is 55 points for knowledge, 46 for complexity, 31 for enforcement and 23 for rates. Full payment tells the same story: 52, 42, 31 and 24 points. Rate perceptions, the factor policy debate reaches for first, have the smallest gap.

DISCUSSION

Associations, not causes

Every result here is an association between two things reported by the same person at the same time. None of it shows that raising knowledge, cutting complexity or lifting audit rates would change behaviour. Each pairing has a plausible reverse reading. A firm that has registered has been forced to learn the rules. A firm that complies may feel safer about enforcement. A firm that evades may call the rates too high. We therefore use words such

as "goes with" and "is associated with" throughout, and where we say what should be done, that is a judgement drawing on these associations and the wider literature, not an estimate of what would happen.

Compliance is low, and the sample flatters it

Thirty-seven percent registered and 26% paid in full, in a sample drawn from licensed and fairly educated respondents. The Council's own figure for the district is below 30% (Chipata Municipal Council, 2021), the national estimate is about 25% (AfDB, 2016) and Seim's (2020) Lusaka and Central Province survey found about 30%. Our numbers sit in the same range, which is reassuring about the survey and discouraging about the district. If anything, the true figure for all Chipata SMEs is lower, since the frame left out unlicensed firms and self-report tends to push answers toward the respectable end. The 12% audit rate also sits close to Seim's finding that 7.4% of firms had ever been audited.

Knowledge shows the biggest gap, and we distrust its size

Registration of 13% among low-knowledge firms against 68% among high-knowledge firms is the widest spread in the data, and only about one respondent in four said they understood their obligations. Libanda and Kachamba (2026) found a similar shortfall in formal tax education among Lusaka SMEs. But we would not promise a 55-point gain from a workshop. Part of that gap is registration producing knowledge rather than the reverse, and a cross-sectional survey cannot untangle the two. Alm (2019) makes a similar point more generally: information alone seldom carries compliance where other barriers remain.

"Too high" may describe the taxpayer as much as the tax

Seventy-eight percent called rates unaffordable. That is the kind of answer a non-complier gives, and some of it may be rationalisation after the fact. The study did not measure what firms actually owed, so we cannot say whether the rate or the cost of working it out is doing the damage. One clue points away from rates alone. Respondents preferred the 4% turnover tax to the 35% corporate rate, and the 4% rate is also the simpler one to calculate and to defend. A firm choosing a lower, simpler regime is telling us about two things at once. The deterrence model reads the preference as rate sensitivity. Mwansa's (2021) work on compliance costs, and Benzarti's (2020) finding that taxpayers will forgo real money to avoid filing effort, suggest that at least part of it is the cost of compliance. It also matters that the rate gap was the smallest of the four.

Procedures matter most, and that is the finding we would put in front of the ZRA first

The correlations with complexity (between -0.51 and -0.63) were the strongest in the study, and the registration gap between low and high complexity was 46 points. This fits Kiselbach's (2016) reading of small enterprises in South Africa and the platform and filing problems reported in Solwezi (Msoni & Mahlungu, 2025), though we would not push either comparison far. It also fits the administrative reality that a small firm without an accountant meets the tax system as a series of forms, queues and unanswered questions. The causal worry applies here too: a firm that has never filed will find filing harder than one that does it monthly. Even so, complexity is something the authority controls, which makes it the more useful finding. Technology may help (Okunogbe & Santoro, 2023), but only if small firms can actually use it.

Enforcement fits deterrence, with a caveat

Twelve percent of firms reported an audit, and perceived strong enforcement went with higher registration (58% against 27%) and payment (49% against 18%). That is what Allingham and Sandmo (1972) would predict, and it fits the finding of Bachas et al. (2019) that the smallest firms get the least enforcement. The caveat is Kirchler et al. (2008): enforcement that is arbitrary or heavy-handed can cost the authority the trust it needs. Our data say nothing about trust, so we can only flag the risk. Pomeranz's (2015) result is a reminder that enforcement works through what the authority can see, which for cash-based small traders is not much.

What the theories can and cannot claim

Table 7 sets the four factors against the channels they are meant to work through. The two theories and the friction channel predict the same sign for every factor, so the data cannot say which theory wins. They can show where each has purchase. Deterrence has the most to say about enforcement, the weakest of the three non-rate factors in size but consistent in direction. Fiscal psychology is hard to assess because trust and tax morale were not measured. Administrative friction, which neither theory centres, sits behind the two largest gaps in the data, knowledge and complexity. Our interpretation, which is an interpretation and not a result, is that deterrence fits the minority who know the rules and declare little anyway, while the larger group of unregistered, unsure firms needs information and easier routes before pressure will mean anything to them.

Table 7: Factors, theoretical channels and observed associations

Factor	Main channel	Expected sign	Registration gap, extreme groups	Reading
Tax knowledge	Information; assumed away in deterrence, central to capacity	+	55 points (13% to 68%)	Largest gap; partly reverse causation
Rate perception	Deterrence: raises the gain from evasion	−	23 points (52% to 29%)	Smallest gap; mixed with compliance cost
Procedural complexity	Administrative friction, compliance cost	−	46 points (64% to 18%)	Strongest correlations; within the ZRA's control
Enforcement perception	Deterrence; trust (slippery slope)	+	31 points (27% to 58%)	Consistent with deterrence; trust unmeasured

Source: Authors' synthesis of Tables 3 to 6.

CONCLUSION AND POLICY IMPLICATIONS

SME tax compliance in Chipata was low, and it was lowest where firms understood least, found the procedures hardest and saw the least enforcement. Rate perceptions went with compliance too, but least of all. We would order the response this way.

Start with procedures. The ZRA and the Ministry of Finance should cut the steps in registration, filing and payment for small firms, and make online filing work for a business with no accountant. New tax rules affecting SMEs should be preceded by an assessment of what they will cost small firms to comply with.

Pair that with education built for small firms. Workshops, radio and print material, and a visible help point for SMEs make sense, but only alongside the procedural fix. Teaching people a process that remains a maze will not move registration much.

Make enforcement credible rather than heavy. Audits and penalties for firms that have clearly been told their obligations should be applied consistently, and disputes should be resolved fairly and quickly, so that the system builds trust instead of fear. A 12% audit exposure is thin, but a rise should come with service, not just pressure.

Treat rates last. The data support keeping the 4% turnover tax and widening its coverage to more small firms, since respondents preferred it and it is easy to administer. They do not support a case for cutting the standard corporate rate. That would need its own revenue impact analysis, and a perception survey is the wrong tool for deciding it.

Limitations And Future Research

Several limits apply, and some are serious. The sample comes from one district and was selected purposively, so it cannot be generalised to Zambian SMEs, and 112 respondents give wide intervals even for the headline figures (Table 2). The frame of licensed firms excludes the unlicensed informal sector and probably overstates compliance. Compliance and the explanatory perceptions were reported by the same respondent at one point in time, which opens the door to social-desirability bias and to reverse causation.

The analysis is bivariate. Firm size, sector, owner education and years in operation were collected but are not controlled for, and with 29 to 48 compliant firms per outcome, a full logistic model would overfit. The natural next step is a set of parsimonious logistic models, one per outcome, with the four perceptions entered with one or two controls at a time, and a larger sample that can support all of them together. Several things are not reported in this paper: subgroup sample sizes, confidence intervals for subgroup percentages, diagnostic statistics such as expected cell counts, and the Cronbach's alpha values. Readers should therefore treat the subgroup percentages as indicative, and the odds ratios as point estimates without a stated precision.

Trust, tax morale and perceptions of corruption were not measured, even though fiscal psychology treats them as central. The coding rules that turn five-item blocks into low, moderate and high categories, and the measurement of full payment and record keeping, need to be stated in full in any replication. The 18% figure for declared income rests on respondents' own estimates from a banded question.

Future work should combine surveys with interviews, compare sectors and size bands, track firms over time to separate cause from consequence, and test specific interventions such as simplified regimes or targeted education, in the manner of the Rwandan field experiments (Mascagni et al., 2017). The link between formalisation, compliance and firm growth also deserves attention, because a tax regime that only punishes firms for growing defeats its own purpose.

Declarations

Conflict of interest: The authors declare no conflict of interest.

Data availability: Anonymised data may be available on reasonable request.

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