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The Impact of Taxation on the Performance of Small to Medium Enterprises (SMEs) in the Lowveld/Chiredzi District

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This study investigates the impact of taxation on the performance of small and medium enterprises (SMEs) in the Lowveld of Zimbabwe. SMEs are crucial for economic development, job creation, and poverty reduction in Zimbabwe. However, high tax levels and complex tax systems pose significant challenges for these businesses. The primary problem addressed in this study is the negative impact of taxation on SME performance in the Lowveld. The aim is to understand the specific tax-related challenges SMEs face and to propose solutions that could enhance their performance and sustainability. The study is grounded in three key theories: The Theory of Taxation and Economic Growth, the Laffer Curve Theory, and the Theory of Compliance Costs. These theories provide a foundation for analyzing how different aspects of taxation influence SME performance. The researcher employed both qualitative and quantitative data since they all provide in-depth data about the relationship between taxation and SME performance. This study employed a descriptive research design, using document analysis, observation schedules, and questionnaires. Fieldwork revealed that high tax rates, lack of tax knowledge, and inefficient tax administration are major obstacles for SMEs. These factors negatively affect profitability, cash flow, and overall financial health. The average rating for ease of meeting tax obligations was 3.33 out of 10, highlighting the severe impact of taxes on business operations. The study concludes that taxation significantly hinders the performance of SMEs in the Lowveld. High tax burdens, coupled with poor tax knowledge and administrative inefficiencies, undermine SME growth and sustainability. To mitigate these challenges, the study recommends improving tax education among SME owners, simplifying tax administration processes, and introducing more effective tax incentives. These measures could alleviate the financial burden on SMEs, fostering a more conducive environment for their growth and contribution to the economy.

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INTRODUCTION

The research examines the impact of taxation on the performance of small to medium enterprises in the Lowveld/ Chiredzi district of Zimbabwe. The arbitrary tax system, high frequency of tax changes and the adjusting of the tax base are among the few common causes of the failure of most firms in Zimbabwe. This has also contributed to the demise of firms in the Lowveld town hence the focus on taxation and its impact on firm performance, particularly on small to medium enterprises in Chiredzi. The taxation of business has been the subject of much scholarly interest, ongoing policy debate, and a focal point of advocacy by various interest groups around the world. This is because taxes are the main source of government revenue in most countries and decisive tax policy can directly affect the goals of economic growth, full employment, price stability, and a favourable balance of payments. Since the onset of the economic structural adjustment programs in the 1990s, Zimbabwe has used various strategies to reform its tax system, yet further challenges of globalization and liberalization require it to rethink

tax policy in relation to the new economic objectives.

High taxes and frequent changes to the tax code have created an uncertain business investment climate in Zimbabwe and diverted resources from growth-oriented businesses to tax planning and rent-seeking activities. Taxes have caused economic inefficiency and less than optimal allocation of resources in Zimbabwe and have made the hardships of a struggling entrepreneur even more difficult. Small and medium entrepreneurs are a critical component to fostering a competitive business environment as they often supply the creativity, innovation, and flexibility required to achieve sustainable economic growth. Like many developed and developing countries, Zimbabwe favours small firms because they are thought to be more responsive to tax incentives than larger firms. The reasons are that tax incentives tend to be too small to affect large firms' investment decisions and that small firms are often unable to claim the full amount of tax deductions. This research is essential as there is a need to bring light to the plight and struggle of many small to medium enterprises that

are the backbone of most economies and the most affected by taxation.

Background to the study

Chiredzi is not different from any other town in Zimbabwe; there is evidence of the existence of the SME sector. Amid the prevailing harsh economic environment, SMEs have mushroomed, especially from the late 2020s, and have been termed as possible saviours, for they may create employment and lead towards an industrial-based economy. However, the best plans of men are often laid to waste. SMEs in Chiredzi, despite various forms of assistance, be it funding or grants, have tended to perform below expectations, and on various occasions, there have been several explanations for this effect. This study intends to provide an economic explanation for the performance of the SME sector through the impact of taxation.

Considering that taxation has become a common tool in the hands of the policymaker to correct and readjust the economic structure of the country, some measure of its impact on the performance of the economy is definitely of interest to the country. Thus, in Zimbabwe, taxation has been used as a tool for correcting the economic imbalances created during the colonial period and also to fulfil the post-independent ideology of redistributing resources between the rich and the poor so as to create a classless society. In order to achieve this, the government implemented the tax system as one of its tools of fiscal policy. Taxation comes in different forms: direct and indirect taxes. However, this study will concentrate on the taxes imposed on the businesses of the Small to Medium Enterprise (SME) sector.

Statement of the problem

The impact of taxation on the performance of SMEs in the Lowveld of Zimbabwe presents significant challenges that hinder their growth and economic contribution. SMEs in this region face high tax levels and a lack of understanding of tax laws,

which disproportionately affect their operations compared to larger businesses. These tax-related issues result in financial strain, reduced profitability, and limited capacity for expansion, ultimately impeding job creation and poverty reduction, thus why the researcher ought to undertake the study. Furthermore, the complex and often inconsistent tax regime enforced by ZIMRA exacerbates these problems, leading to compliance difficulties and increased operational costs. Addressing these taxation challenges is crucial for enhancing the performance and sustainability of SMEs in the Lowveld, thereby fostering economic development and improving the livelihoods of the local population.

LITERATURE REVIEW

The literature review aimed to obtain a comprehensive perspective on SMEs and the impact of taxation on their performance from available research, journals, and books. The central theme is to get a comprehensive and current review of taxation and SMEs. The review provides the definition of SMEs and investigates the overview of SMEs in Malaysia. Then, it moves to discuss the importance of SMEs in economic development. The next section discusses the overview of taxation on SMEs, starting with the government's effort to implement the tax system for SMEs. Then, it investigates the types of taxes that SMEs should abide by the law. This is followed by a discussion on the impact of taxation on SMEs' performance. The findings concluded with a summary of the impact of taxation on SMEs' performance from past research. Overall, it could be said that the review has successfully provided a comprehensive and clear perspective on the impact of taxation on SMEs' performance and acts as a precursor to the next section, which is the research methodology.

Taxation and SMEs

The conceptual framework for this study revolves around understanding the multifaceted relationship between taxation and the performance of Small and

Medium Enterprises (SMEs). It integrates various concepts such as tax systems, SME performance, and taxation policies. This framework guides the investigation into how tax-related factors influence SME operations, profitability, and growth. The performance of small to medium enterprises (SMEs) in the Southern African Development Community (SADC) member states' economies is constrained by, among other factors, the high tax burden (Clingsmith & Shane, 2017). The high tax burden on SMEs is manifested by high individual income tax rates and stringent compliance rules. Uganda, Tanzania, and Zambia are some of the countries with income tax rates ranging from 30% to 35%. In Chiredzi in Zimbabwe, tax rates are higher than prevailing rates for all SADC member states, with the highest rate being 50%. In addition, the stringent individual income tax compliance and payment rules like the gross profits-based presumptive tax system and Electronic Sales Registration Machines are biased against SMEs in such a way that it forces them to inject the little revenue they generate in taxes. Despite the high rate of foreign direct investment (FDI) inflow into selected SADC member states, no research has been undertaken to analyze the relationship between SMEs and taxation, with a particular focus on entrepreneurship (Jiang et al., 2022). This study explored the impact of taxation on the performance of the SMEs in Chiredzi.

Taxation Systems

Taxation systems encompass the policies, regulations, and administrative procedures established by governments to collect taxes. These systems can significantly impact the economic environment in which SMEs operate. According to Bird and Zolt (2003), effective tax systems should be fair, efficient, and simple. However, in many developing countries, tax systems are often characterized by complexity and high compliance costs, which can be burdensome for SMEs (Coolidge, 2012). In Zimbabwe, the Zimbabwe Revenue Authority (ZIMRA) oversees tax

collection and enforcement. The tax system includes various forms of taxes such as corporate income tax, value-added tax (VAT), and payroll tax. SMEs, due to their limited resources and often informal nature, can find it challenging to comply with these tax requirements (Masarirambi, 2013).

Empirical Studies on Taxation and SME Performance

Empirical research has consistently shown that high taxation and complex tax systems are detrimental to SME performance. A study by Atawodi and Ojeka (2012) in Nigeria found that high tax rates and multiple taxation significantly hindered SME growth. Similarly, Coolidge (2012) noted that simplification of tax systems and reduction in tax rates could lead to improved compliance and better performance among SMEs.

Corporate taxes and firm capital structure have been widely discussed in the literature, yet the attention given to the tax policy function is little. Flannery & Rangan (2016) studied the relationship between tax policy and firm; they claimed that the company must consider tax costs as a financing factor when choosing between financing with debts and choosing equity, debt would barrow tax costs whereas choosing equity means avoiding reaping those tax shields. This means that the firm risk will change significantly because of changes in the tax rate. Maditinos et al., (2018) conducted a study in Greece whereby the Malzeville tax exporter is Companies with Assets (CEIs) and the Stock Exchange. This study used dynamic panel data, conducting it in a simultaneous way with two equations, taking the effect of taxation on the debt policy, and that of the debt policy to be factored up on the financial risks. Their findings showed that corporate tax has affected the company on the capital structure with a negative impact. Besides, reducing the cumulative risk of the company, due to the neutrality of Modigliani-Miller theory which related to the impact of corporate income tax as a financing factor and the company assets valuation increase it causes this effect to be less if small.

Taxation Policies in Zimbabwe

Taxation policies refer to the strategic guidelines set by the government to structure the tax system. These policies aim to balance revenue generation with economic growth. For SMEs, favourable taxation policies can include tax incentives, lower tax rates, and simplified tax compliance procedures (Moore, 2014). In Zimbabwe, current taxation policies have been criticized for their high rates and complex procedures, which can stifle SME growth (Chigumira & Masiyandima, 2018).

The tax law requires that a presumptive tax be paid on income earned from an SME at a rate of 4% of the annual turnover. This tax is payable in quarterly instalments during the year, and should the SME feel that the 4% of turnover is greater than the income earned, they are still required to pay the presumptive tax. This is a very high rate of tax for small businesses, considering that it is a tax on gross income and there are often very high business costs incurred. This has the effect of reducing the income of these small businesses and often has led to the closure of some SMEs.

Small to Medium Enterprises (SMEs) in Chiredzi Town

The small to medium enterprises in the Zimbabwean economy play an integral role in economic growth and development. These businesses are widely accepted as important in a time of increasing global competition, fuelled by information and communication technology. For practical purposes, the Zimbabwean government has defined two categories of SMEs. The small enterprise is one that employs less than fifty people, and the medium enterprise employs less than two hundred and fifty people. Other criteria for defining small enterprises are based on an asset base. This definition clearly identifies the farming units in the Lowveld as small to medium enterprises. The farm is accepted as a business and income-generating activity; however, this is often forgotten due to its association with a specific lifestyle that is under

threat with the current economic crisis. Small to medium enterprises are seen as an alternative to declining formal sector wage employment. This is particularly relevant, as in the past, agricultural employment was a passport to improved standards of living. Lowveld employment has the potential to translate into improved standards of living since most activities are income-generating. This alternative form of employment is increasingly important in an environment where formal sector employment is declining and casual wage labour is less available due to the economic crisis and currently the COVID-19 pandemic.

The Relationship between Taxation and SME Performance

The imposition of higher tax rates will put pressure on SME entrepreneurs to evade taxes by underreporting their income. This allows SMEs to avoid tax audits and reduce tax payments. However, this situation can only improve the performance of SMEs in the short term because sooner or later, entrepreneurs will realize that they still must bear the tax burden. They may then decide to move to other businesses or shut down their current business because they cannot withstand the high taxes.

According to previous studies and the theoretical framework, there is a relationship between taxation and SME performance. However, it is still debatable what kind of relationship exists between them. Basically, the studies mentioned that the tax burden will have a negative impact on the performance of SMEs. This is because high taxes will reduce the net income of SMEs after being deducted, and the net income will be further reduced by the taxes imposed on the profit. As a result, the performance of taxed SMEs will be lower compared to other SMEs that are more profitable and have higher expectations due to the high taxation.

Factors Influencing SME Performance in the Lowveld

Customers are another important factor for the success of any business. They determine the profitability of the firm, and this is particularly true in Chiredzi, whose economy is largely agro-based. Many SMEs suffer from unclear demand for their products, and this could be due to the political situation as mentioned before. Farm invasions have led to uncertainty within the agriculture sector, with less funds being invested. High interest rates and inflation have also influenced customer spending. Thus, the agriculture sector, which purchases products from SMEs such as packaging, will purchase less since there is less agricultural output. (Step, 2019).

THEORETICAL FRAMEWORK

The theoretical framework of this research is composed of the interpretations of how tax affects SMEs, which are based on the opinion of the researchers and the empirical studies done in the related field. Tax is an enforced fee that people must pay and is considered the prime source of income for the government. The government imposes taxes on the people to maintain the country's stability and to improve the country's infrastructure, public facilities and services. Among the various types of tax, the SMEs are more concerned with the tax on profit. This is because the SMEs do not have high incomes or profits. A high tax rate on the profit of the SMEs can significantly decrease their income and thus affect their sustainability. Studies argued that there is a negative relationship between tax on profit and SMEs' performance. This is because a high tax on profit decreases the income of the SMEs and thus limits their capacity to grow and sustain the current level of business operation. The theoretical framework for this study is grounded in several economic theories that explain the relationship between taxation and business performance. These include:

The Theory of Taxation and Economic Growth: This theory posits that taxation can influence the rate of economic growth within a region by affecting investment decisions. High taxes can

discourage investment and entrepreneurship, thereby slowing down economic growth (Engen & Skinner, 1996). The Theory of Taxation and Economic Growth theory suggests that high tax rates can potentially stifle economic growth by reducing the incentives for investment, savings, and entrepreneurial activities. Conversely, lower tax rates may promote economic growth by leaving more capital in the hands of businesses and individuals, encouraging investment and expansion.

For SMEs in the Lowveld, high tax rates can limit their ability to reinvest profits into their businesses, thereby hindering growth and expansion. SMEs often operate with tight margins, and heavy tax burdens can reduce their financial flexibility, leading to slower growth or even business closures. On the other hand, tax incentives and lower tax rates can provide these SMEs with the needed capital to expand, innovate, and hire more employees, contributing to overall economic growth in the region. Policymakers should consider balancing tax rates to optimize economic growth while ensuring sufficient revenue for public services. Examples include reduced reinvestment, innovation stifling and employment impact. SMEs might delay or cancel planned expansions or upgrades due to high tax payments. High taxes can limit the funds available for research and development, reducing the competitiveness of SMEs. Higher tax rates can force SMEs to cut costs, often resulting in layoffs or reduced hiring.

The Laffer Curve Theory: This theory suggests that there is an optimal tax rate that maximizes government revenue without discouraging economic activity. Beyond this optimal point, higher taxes can lead to decreased tax revenue due to reduced economic activity (Laffer, 2004). The Laffer Curve Theory illustrates the relationship between tax rates and tax revenue. According to this theory, there is an optimal tax rate that maximizes revenue without overburdening taxpayers. If tax rates are too high, they can lead to a decrease in taxable income as individuals and businesses may

find ways to avoid taxes or reduce their economic activities. Conversely, if tax rates are too low, the government may not collect sufficient revenue.

The Theory of Compliance Costs: This theory focuses on the costs incurred by businesses in complying with tax regulations. High compliance costs can disproportionately affect SMEs due to their limited resources, thus impacting their performance (Sandford, Godwin, & Hardwick, 1989). The Theory of Compliance Costs focuses on the costs incurred by businesses in meeting tax obligations. These costs include time spent on record-keeping, preparing tax returns and the expenses related to hiring tax professionals. High compliance costs can disproportionately affect SMEs, which typically have fewer resources than larger firms.

METHODOLOGY

The researcher employed both qualitative and quantitative data since they all provide in-depth data about the relationship between taxation and SME performance. The study population was based on SME owners within the Chiredzi district, where the majority of SMEs are located. The district has approximately 950 registered small enterprises. According to Creswell (2013), a sample refers to the number of subjects in a sample. The researcher selected a sample of 98 SME respondents from a population of 120 SMEs. In order to come up with

the sample size the researcher used the formula below:

$$\text{Sample size, } n = N * \frac{\frac{Z^2 * p * (1 - p)}{e^2}}{[N - 1 + \frac{Z^2 * p * (1 - p)}{e^2}]}$$

where;

N = population size =

Z= Score

e = margin and

p = standard deviation

N = 120

Z= 2.33

e = 5%

p = 0.5%

$$n = \frac{5.4289 \times 0.25}{0.0025 + \frac{(5.4289 \times 0.25)}{0.30}} = 98$$

Table 1: Population, sample size and sampling Technique

Category	Population	Sample size	Sampling technique
Manufacturing	18	15	Random sampling
Motor vehicle repairs	16	14	Random sampling
Construction	17	15	Random sampling
Entertainment	7	6	Random sampling
Agriculture	33	25	Random sampling
Hotel and restaurant	17	13	Random sampling
Wholesale trade and retailers	12	10	Random sampling
Total	120	98	

Source: Study population accessed from Ntayi et al., (2013)

Sample Size determined by: The Krejcie & Morgan model (1970)

The study adopted questionnaires as instruments for collecting primary data and interviews as data collection methods. According to Kinnear (2013: p77), primary data is collected specifically for a project. Peterson (2012: p105) stresses that primary data is very important and unique as it provides accurate, sufficient, relevant and timeless information. Of the 50 questionnaires for the business owners, 30 were administered in Chiredzi town, and the remaining 20 were administered in Chiredzi rural. The researcher decided against administering questionnaires in Tshovani and Triangle high-density suburbs due to the fact that many of the people were not accessible due to work commitments in the town area.

The researcher used the internal consistency method, where a single pre-test cluster is evaluated. This method informs the scope to which the aspects of the questionnaire are interrelated. This was achieved by the help of the “Cronbach Co-efficient Alpha,” which assessed the dependability of the quantitative research tool. The Alpha varies; “from

0 to 1 and a value of 0.6 or less generally indicates unsatisfactory internal reliability” (Malhotra, 2010), on the other hand, Cooper & Schindler (2008) urged that a coefficient of 0.7 shows a consistent research tool. The Cronbach’s coefficient alpha formula is as follows:

$$\alpha = \frac{k - 1}{k} \frac{\sum \sigma^2_k}{\sigma^2}$$

Where $\sum \sigma^2_k$ = “the sum of variances of the k parts (usual items) of the test.”

α = Cronbach’s coefficient alpha.

k = Standard deviation of the test

The researcher used a questionnaire as the instrument to gather information on the independent and dependent variables. The questionnaires were dropped at respective business enterprises, therefore allowing the respondents to fill out the questionnaire at their most convenient time.

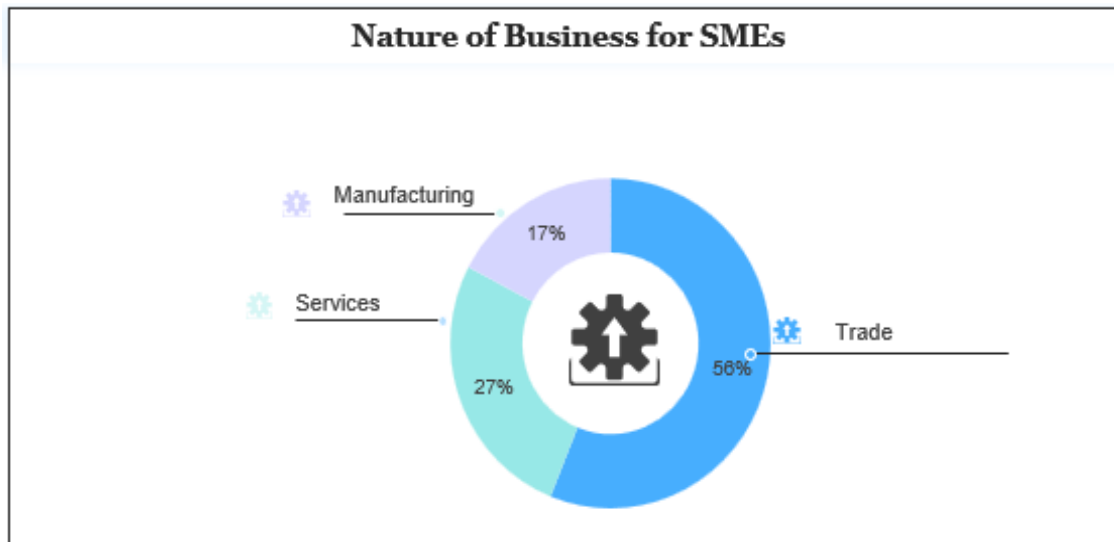
Data presentation, analysis, and interpretation of findings

Table 2: Nature of Business for SMEs

Status	Frequency	Percentage
Trade	55	56.12
Service	26	26.53
Manufacturing	17	17.35
Total	98	100

Table 2 above and Figure 1 below state that a bigger percentage of SMEs studied are in the Trading business as shown by their frequency of 56 of the total responses, this is followed by those SMEs which are engaged in services with a frequency rate

of 27. Very few enterprises are in the manufacturing business with a frequency of 17. The table shows that the study was well-represented among SMEs in the Chiredzi district.

Figure 1: Nature of business for SMEs

Source: Primary Data

EMPIRICAL FINDINGS BASED ON OBJECTIVES

Examine the impact of taxation on the performance of SMEs in Chiredzi District.

In the course of the study, a set of statements on the effects of taxation were given to respondents to determine their opinions regarding the performance of small and medium enterprises in the Chiredzi district. A Likert scale ranging from “Strongly

agree, Agree, Not sure, Disagree and Strongly disagree were expressed as responses.

Responses on General Tax Rates

During the study, statements about general tax rates were presented to the respondents on their effects on the performance of SMEs in the Chiredzi district. The results were presented using a Likert scale as “Strongly agree = 5, Agree 4, Not Sure = 3, Disagree = 3, Strongly Disagree = 1” were expressed as responses.

Table 3: Responses on General Tax Rates

Item	Mean	Std Deviation
3.1: Clarification on tax rates		
The government does not change the tax rate at their own discretion	2.34	2.27
Diverse taxes are imposed on SMEs	2.63	2.44
The tax rates are clear in terms of taxes payable.	3.51	3.26
3.2: Fair taxation rates		
Information on how much tax, period of payment and where to pay is known by SMEs	3.56	3.28
The nature of taxes reduces the revenue/profit base of SMEs	3.81	3.49
Tax rates charged are fair to SME owners.	3.49	3.20
Tax rates are economical for small business enterprises.	2.53	2.38
3.3 Level of Taxation		
Taxes Charged are oppressive to SMEs	2.42	2.23
Business pays taxes when it is due and convenient	3.65	3.34
The tax rates always consider the scale of operation of SMEs	3.66	3.31
Taxes allow for a short living for SMEs	3.73	3.39

Source: primary data

Table 3 above highlights that out of 98 respondents with a mean of 2.34 and standard deviation of 2.27, less than half of respondents agreed to government change tax rates at their own discretion. Thus, the government of Zimbabwe can increase or decrease its tax without consulting any party that will be paying tax. This has been supported by some key informant interviews where the researcher quotes; “the government of Zimbabwe has imposed IMT Tax, sugar levy and increases the excise duty on fuel which result in the increase of goods and services which make it more expensive to the consumers.” It is agreed that the government can change tax rates willingly without the involvement of SMEs. The respondents confirmed that there are diverse taxes among small and medium enterprises, this is shown by most respondents who confirmed that they pay different types of taxes (Mean = 2.63; SD = 2.44).

Most of the respondents agreed that tax rates are not clear in terms of what amount of tax to pay, this is indicated by a low standard deviation of 3.51 and mean of 3.26. This explains that small and medium enterprises are not well versed in tax payable. A number of respondents agreed that taxes reduce their revenue as shown by the (mean = 3.56, SD = 3.28). It implies that tax charged to small and medium enterprises affects the growth and performance of these enterprises negatively. This is supported by and sole trader who said “many small firms evade to pay taxes since they are very high and they cause a drastic increase on costs of operating business, for example, 15 % VAT can lead to increase in selling price, hence they evade VAT to lower the prices since they face competition from

unregistered traders”. Furthermore, the respondents pointed out that “several taxes are imposed on the same business It’s a challenge and hinders the growth and performance of any business, that is to say, a trader has to pay income tax, VAT, import and excise duty whenever he makes imports, and IMT tax for every time he makes purchases”.

This concludes that taxes contribute to the performance of SMEs and can lead to the collapse of the business due to their increase in operational costs related to taxes. The majority of respondents disagree that small and medium enterprises pay taxes when it is convenient to do so, (mean= 2.42, SD =2.23). This shows that ZIMRA always requires these businesses to meet their obligations on time as stipulated by laws.

On whether the nature of taxes reduces their revenue, most of the respondents agree that the nature of taxes on SMEs reduces their profit. Again, the respondents noted that tax rates charged are not economical for small and medium enterprises. This indicates that the taxes charged on SMEs reduce their capital bases and that is an obstacle to the growth and performance of small enterprises.

Responses to Tax Knowledge

During the study, feedback on tax knowledge was recorded by the respondents on their impact on the performance of SMEs in Chiredzi Urban. The results were established using Likert scale as “Strongly agree = 5, Agree 4, Not Sure = 3, Disagree = 3, Strongly Disagree = 1”

Table 4: Response to tax knowledge

Item	Mean	Std Deviation
4.4: Taxation System		
SMEs understand the taxation systems of Zimbabwe	2.48	2.29
I always represent my business in taxation workshops and seminars to have updates on the tax system	2.54	2.38
I can calculate the income tax of my business and know the due date for each tax category.	2.57	2.34
4.5: Interpretation of tax laws and regulations		
I know the tax laws and regulations and taxation guidelines for SMEs' incomes.	2.82	2.61
I can understand the tax laws of Zimbabwe	3.57	3.36
I always observe the time of returns filling as per ZIMRA deadlines.	2.81	2.58
I am able to compute tax liabilities and interpret tax law efficiently	2.88	2.66
4.6: Planning and Expertise Knowledge		
I understand how to treat the expenses incurred according to tax in Zimbabwe	2.78	2.51
I am always a team player in dealing with the process of income tax returns.	2.77	2.56
I am involved in the tax planning issues of the business.	3.76	3.55
I have full knowledge of the turnover on which the business pays tax.	3.62	3.34

Source: Primary Data

Table 4 above indicates that most of the respondents in the SME sector do not understand the taxation systems of Zimbabwe, this has been indicated by the average mean score of 2.48 and standard deviation of 2.29. In other words, these respondents do not have knowledge regarding various tax laws together with other tax compliance requirements.

Many respondents do not attend workshops and seminars on behalf of their business (mean= 2.54, SD= 2.38). This indicates that traders and other business employees in small and medium enterprises lack improved knowledge of tax policies which results in tax evasion and tax penalties. This has increased tax compliance costs and penalties for SMEs and reduced performance.

SME respondents have confirmed that they cannot calculate the income tax liability of their firms without facing difficulties. This has been revealed by a mean score of 2.57 and a standard deviation of 2.34. Thus, SME needs to seek help to have an understanding of how to compute tax payable. Again, most respondents disagree about having knowledge of most tax policies and taxation guidelines of SME income (mean = 2.82, SD =

2.61). This means that most SMEs cannot comprehend requirements by the relevant tax authorities.

On understanding the tax laws of Zimbabwe, most respondents agreed to have knowledge of Zimbabwean laws (mean = 3.57 and SD = 3.36). However, they must hire someone to compute their tax liability and hence they do not have enough knowledge about the time of filing returns as per ZIMRA requirements. This has been revealed by a mean score of 2.81 and a standard deviation of 2.58. This implies that most SME firms lack knowledge of how to compute their tax liabilities and interpret them efficiently (mean = 2.88, SD = 2.66). The study indicated that the majority of respondents are not well versed in the treatment of incurred expenses in relation to the Income Tax Act of Zimbabwe. As indicated by the mean score of 2.78 and standard deviation of 2.51, the respondents are well into tax planning of the business which is supported by their full knowledge about the turnover in which the business pays tax as indicated by the mean of 3.76 and standard deviation of 3.55.

Responses on Tax Assessment in Zimbabwe

During the study, responses on tax assessment were recorded by the respondents on their impact on the performance of SMEs in Chiredzi Urban. The

results were established using Likert scale as “Strongly agree = 5, Agree 4, Not Sure= 3, Disagree=3, Strongly Disagree=1”

Table 5: Responses on Tax Assessment in Zimbabwe

Item	Mean	STD Deviation
The tax assessment does not benefit SMEs	3.47	3.19
The government always provide incentives to small and medium firms when paying taxes in order to lower their operational tax	3.43	3.16
Special treatment is given to the SMEs by government in the form of tax holidays	3.67	3.44
The tax system is simple and easy to understand	2.81	2.64

Source: Primary data

Table 5 above indicates that the majority agreed that the tax system does not benefit SMEs as confirmed by a mean of 3.47 and a standard deviation of 3.19 hence the performance will be affected by the increase of operational costs influenced by tax issues. Most respondents (mean 3.43, SD 3.16) agreed that the government always provide tax incentives to small and medium enterprises as a way to reduce their operational costs associated with taxes. This ensured the growth and better performance of SMEs.

A large proportion with a mean score of 3.67 and a Standard deviation of 3.44 also agreed that the government have provided tax holidays to SMEs. Again, this has lowered their tax burden and has encouraged the performance of small and medium firms. On the simplicity of the tax assessment system, most respondents disagreed, they cited that the system is too broad and complex to understand (mean 2.81, SD 2.64) and thus SMEs miss several tax holidays and incentives by not understanding the whole tax system of Zimbabwe.

Table 6: Responses on the Performance of SMEs

Item	Mean	STD Deviation
Tax has affected the turnover of SMEs by increasing operational costs	3.71	3.36
Tax has reduced the growth of small business	3.82	3.52
SMEs cannot achieve attain their goals because of the taxes levied against them	3.70	3.43
The profits of small and medium firms are always affected by tax	4.13	3.74
Capital investments for innovation and development have been reduced by taxes levied	3.95	3.74
Tax has affected the working capital of SMEs	3.53	3.60

Source: Primary data

Table 6 above highlights that taxes have reduced the turnover of SMEs, this was seen by a large number of respondents with a mean score of 3.71 and a standard deviation of 3.36. In addition to this, most respondents agreed that tax has reduced the growth and performance of small and medium enterprises as indicated by a mean score of 3.82 and a standard deviation of 3.52. Most respondents have agreed

taxes levied against SMEs have made it almost impossible for small and medium enterprises to achieve their goals (mean = 3.70, SD = 3.43). Thus, tax levied on this business contributes to the failure of SMEs to achieve their objectives. On the effects of taxes on profit on small and medium enterprises most of the respondents (mean = 4.13, SD = 3.74) established that profits before taxes are always high,

however, they are reduced by an excessive tax levied against them. Again, most of the respondents agreed that taxes are obstacles to the performance and growth of SMEs in Zimbabwe (mean = 3.95, SD = 3.60). Moreover, most of the respondents noted that the working capital of SMEs is affected by the tax levied on their revenue thereby reducing their cashflows for further investments that have been revealed by the mean of 3.53 and standard deviation of 3.25.

DISCUSSION AND IMPLICATIONS

To emphasize the impact of taxation on the performance of small to medium enterprises, it is vital to understand the entities bearing the burden of the tax policy. It becomes even more significant when the entities belong to a particular geographic location such as a town because the people are raised and brought up in that specific environment. They have an emotional attachment and a sense of respect and responsibility to uplift and change the well-being of that specific area. They consider themselves as guardians or custodians of that place and are always motivated to do something for the favour and betterment of that place.

The aim of the study was to investigate the impact of taxation on the performance of SMEs in Chiredzi town. The research found that SMEs were not doing well, and the tax system influenced that declining performance. The tax system that is being used in Zimbabwe is a presumptive tax. SMEs have regarded the tax as being too high and the deadline for payment as being too early. The businesspeople interviewed said that this was the reason for having to close their businesses as they could not afford the tax. One of the accountants was saying "the tax is exorbitant" while a tax official admitted that it was too high. This tax has greatly affected businesses in Chiredzi. The reason for the negative effects of this tax is the fact that the tax is too high and is charged to any business, even those that are making losses, as this is a tax on the turnover of the business. This was mentioned by a tax official and an accountant. A hardware shop owner said that he had to close his

business because he was facing a tax with low sales, and this resulted in him making losses. He had been charged tax more than the profit from the sales.

The study found a positive and significant relationship between the application of tax revenue and SMEs showing that operating expenditures and business expansion are the two primary categories of expense avoidance. However, this clearly indicates that the volume of taxation is of the general average equal in all the respective business categories, increased taxes would mean compounding the costs of employees against any substantial profit in the future, which was also confirmed in the observation in the study of Chandler (2011) in Nigeria and Khataiwa (2018) in Kenya. " (p.116), this is an assertion touching on a similar smear issue of the decreasing profit margin in retail and baker's shops. This critical measure should be used as input to the regulatory authorities in areas of SMEs and small enterprises where the benefits of cottage industries are not realized, with the understanding that these businesses contribute to job stability and long-term economic and financial development (Orkaido Deyganto, 2022). Retrospectively, the businesses could avoid the expenses of job cuts i.e., worker layoff, high rental income taxes and business acquisition costs, however in the case where some applied for the private sectors of the workers individually. Otherwise, it would be objectively helpful in assessing the income and housing scales normally required. Meanwhile, at the local level, businesses may wish to avoid rental income tax thereby owning infrastructure and equipment at a tax avoidance level, even at the county council level compared to purchasing or renting.

SMEs showed a strong negative relationship with the level of taxation and an insignificant relationship with the frequency and rate of taxation implying that increased taxation levels harm the growth of these SMEs in Chiredzi town. The findings were consistent with Mokaya (2016) on the effects of taxation policies on the performance of

micro and small enterprises in Bondo sub-county, Kenya which found a strong negative effect on sales growth and the survival of small businesses. Taxes on profits and specific taxes were also linked to a significant decrease in the level of business delegation in the area. Khan, Ali, and Ahmad (2016) also observed that taxation was linked with decreased levels of trust and fair treatment of businesses in Khyber Pakhtunkhwa in Pakistan. Moreover, the main businesses in Chiredzi paying taxes, including the retail businesses and bakeries, were associated with a significant decrease in their sales growth and this can be attributed to the increased cost of compliance associated with taxes (Ngodoo Mile et al., 2022). Therefore, there is a need to determine voluntarily enforced taxes without consequences to lessen the impacts caused by the frequency and rate of Taxation. Meanwhile, those establishing the tax rates in SMEs and small enterprises need to consider the low annual revenue base of small entities generally.

This research essentially sought to assess the impact of tax levied on the performance of small to medium enterprises in Chiredzi. The researchers sought to assess the tax impact on the sectoral growth of small to medium enterprises in Chiredzi. The researchers used both qualitative and quantitative research, overriding the use of a single method in obtaining data. The revenue authority and the Ministry of Small to Medium Enterprises were helpful in providing information and statistics. This helped set a trend for the research as the researchers were able to compare performance over time. Secondary data was used, which involved the use of previous literature, rather than primary data obtained from the revenue authority and the Ministry of SMEs, and interviews were carried out with business owners. This was merely out of convenience and cost and time reduction as the researchers did not have to go to each and every enterprise in Chiredzi. This approach was also favourable as it was more thorough and descriptive to give the best results for the research. This gave a clear view as to which industries were affected relative to the tax, and from

there, the researchers were able to compare the trends in sectoral growth before and after the tax was introduced. A survey was also done in the form of questionnaires to the businesses that explained their performance before the tax and now.

The study findings established that:

High taxation compliance challenges for SMEs leading to non-compliance; evidenced by 75% of the SMEs in Chiredzi not being able to meet their tax obligations in time, and indicating incidences of the use of tax evading methods to cushion themselves from heavy tax burden (S. Sithole & Ruhode, 2021);

A significant negative relationship ($p \leq 0.05$) between SME performance in Chiredzi town and taxation with 57% of the respondents confirming that tax payment affected their businesses badly.

Significant firms' protection against tax compliance difficulties ($p \leq 0.05$), when there is an existence of a good firm growth strategy that is supported by highly skilled labour forces manageable costs and ownership to avoid dominance from foreign enterprises and a strong foundation of economic empowerment.

Reassessment by the government on tax compliance laws, policies, regulations, and more simplification of tax payment procedures for the SMEs in Chiredzi town of Zimbabwe after finding that there is a correlation ($p \geq 0.05$) between tax compliance law and barriers to taxation with tax rates leading at 85% as the topmost barrier to tax payment by the SMEs. Taxation compliance/social groups for tax payment from SMEs are moderated by newly formed empowerment groups led by economically empowered people who are progressive resultantly this hinders the older social groups as agents of tax payment frustrations and tax compliance social groups.

Implications for Policy and Practice

It is prudent that the government of Zimbabwe find ways through which they can create an enabling business environment if the thousands of youths being churned by institutions of higher learning annually are to be employed, which will create employment opportunities. Consequently, the government should review the type and rates of taxes on the MSMEs so that they can perform and contribute to employment. The government can focus on income tax because income tax has a positive relationship with the employment creation of small and medium enterprises. The Zimbabwean government can reduce income tax on small and medium enterprises for them to be able to grow and compete in the local market (Clingsmith & Shane, 2017). This development is meaningful since small enterprises are grouping themselves in the industry shifting therefore small enterprises need to pay income tax when they are growing and have expanded. In conclusion, the study has shown that taxes have a significant impact on the performance of small to medium enterprises. The most important hypothesis was that taxes significantly affect business performance. The study then recommended that due to the significant roles of small and medium enterprises in employment creation, the government should create an enabling environment for these businesses to be at their best. Taxes hurt employment for most of the employees who are now being retrenched due to tax implications on employers. Small and medium enterprises contribute meaningfully to the economy, employment, and employment creation. Therefore, the significance of this industry should be understood, and the government should reduce taxes on these businesses. Through tax reviews, the government can ensure that loans are accessed easily and at friendly interest rates. Through the reduction of taxes significant to performance, small and medium businesses can be able to stock enough inventory, and this will contribute significantly to the retail trade hence reducing inflation rates.

The study intended to assess the impact of taxation on the performance of SMEs in Chiredzi town,

Zimbabwe. The findings of this study are important in that they can assist in advocating for the reduction of taxes on MSMEs so that they can thrive in their business. Also, the findings of which types of taxes are more detrimental to the MSMEs sector. The focus of this study was mainly on small and medium enterprises. One of the implications of the study is that it provided a potential avenue through, which the government can create employment opportunities (Ngodoo Mile et al., 2022).

Implications for SMEs in Chiredzi Town

As the findings in this study suggest, survival is indeed the key issue at present for these SMEs and, more importantly, the level of business activity that is necessary for survival. Increased taxes combined with the other factors mentioned forced some SMEs to consider shutting down, despite being the primary or only source of income for the owner/entrepreneur and their employees. In cases where tax knowledge was low or there was a lack of communication from the tax authority, a sudden tax audit or inspection for non-compliance of any sort resulted in confusion and panic and forced some firms into premature cessation due to the inability to deal with the tax issue and the perceived severity of the consequences for failure to comply. In addition to the recent tax increases, SMEs in Chiredzi town are facing increased pressure from larger firms looking to them as suppliers of goods and services and from government initiatives aimed at SME formalization and growth. All of these represent a serious threat to SME survival and sustainability.

The information gained from this study, while predominantly exploratory, provides a crucial insight into the impact of tax on the small to medium enterprises operating in Chiredzi town. Several reasons justify the importance of this study. There is consensus in Zimbabwe that the state of the economy is in decline, taxes and levies are disproportionately high, and the business operating environment is continually becoming more difficult for SMEs. However, there is little evidence to support this view. The qualitative approach adopted

in this research allowed tax issues to be explored from the perspective of the SMEs themselves and provided an in-depth analysis not previously available.

Summary of chapters

The research was divided into five chapters. In chapter one, an introduction was done which included the background of the study, a statement of the problem, the significance of the study, the scope of the study and the conceptual framework. The chapter introduced the research to the reader and provided a road map to the research. The road map was used to anticipate findings and provide an insightful view of the objectives of the dissertation or essay.

This research aimed to assess the impact of taxation on the performance of SMEs in Chiredzi district. The research was motivated by the efforts of the government to raise taxes and the apparent resistance by SMEs to pay taxes. The government has been directly taxing SMEs through ZIMRA since 2005. This is contrary to the period before 2005 when tax for SMEs was through PAYE and it was considered during foreign currency payments to the RBZ.

Summary of findings

The sub-section summarizes the study findings on the effects of taxation on the performance of SMEs in Chiredzi Urban. The summary of findings was presented according to the study objectives.

The effect of tax rates on the performance of SMEs

The findings show that tax rates have a significant impact on the performance of SMEs. The government of Zimbabwe can increase or decrease its tax without consulting any party that will be paying tax. The research found that various types of tax such as IMT, 15% VAT and excise duty result in the increase of operational cost and eventually

reduce the SMEs' income which could have otherwise been used for investment.

Furthermore, the results pointed out that "several taxes are imposed on the same business is a challenge and hinders the growth and performance of any business since these taxes reduce their capital bases and that is a major setback to small enterprises. This is an indication that taxes contribute to the performance of SMEs and can lead to the collapse of the business due to their increase in operational costs related to taxes.

High tax levels have a detrimental impact on the financial performance and profitability of SMEs in the Lowveld of Zimbabwe. Presumptive tax is paid quarterly by all SMEs despite trading on profit or loss. Many SMEs struggle with cash flow issues due to the high tax burden, which affects their ability to reinvest in their businesses and hinders growth for example introduction of a sugar levy and 2% IMTT on all domestic transactions. The study revealed that high taxes lead to reduced profitability, making it challenging for SMEs to sustain operations in the long term.

Effect of general tax knowledge on the performance of SMEs

The results revealed that most SMEs in Chiredzi Urban do not have adequate knowledge of taxation systems in Zimbabwe. In other words, there is a knowledge gap on the application of taxation on the small and medium enterprises regarding various tax laws together with other tax compliance requirements. This has resulted in large amounts of income lost through penalties and tax evasion. Thus, they miss tax holidays which are associated with tax compliance. Because of this reason SMEs have increased tax compliance costs and reduced profit or revenues, hence the performance and growth will be affected.

The level of tax knowledge and education among SME owners and managers significantly influences their tax compliance behaviour. SMEs with better

tax knowledge and education exhibit higher compliance rates and find it easier to meet their tax obligations. However, 57% of SMEs lack sufficient tax education, which results in non-compliance and unintentional errors in tax reporting.

Specific Tax-Related Challenges Faced by SMEs in the Lowveld of Zimbabwe

SMEs encounter several tax-related challenges, including complex tax compliance procedures, inadequate understanding of tax laws, and the high financial burden of taxes. 75% of SME owners and managers reported difficulties in navigating the tax system (TARMS) due to insufficient guidance and support from tax authorities. Also, the introduction of the QR code system replacing fiscal signature – ZIMRA just launched without adequate training and manpower to fully implement the new system.

Responses on tax assessment system and the performance of SMEs

The findings of the research have revealed that tax assessment does not benefit SMEs much since the tax system of Zimbabwe is too broad for them to understand. Thus, they will eventually hire experts to compute their tax liabilities and this obviously increases compliance tax costs and has an adverse effect on the performance of small enterprises. Despite the fact that the government unveils tax holidays through various tax incentives, small and medium enterprises seem to miss them since it was noted that the assessment system is complex for them to understand, hence the performance and growth of their firms will be affected negatively.

SME performance and taxes

The research noted that taxes have reduced the turnover of small and medium firms by increasing the operational costs, which are transferred to the consumer, which translates to low turnover. Thus, it was agreed that tax affects the performance of SMEs. In addition, taxes make it impossible for business to achieve their objectives. The research shows that profits are high before taxes and are

reduced by a corporate tax which is pegged at 24 percent plus it adds a levy of 3 percent and these tax rates are the same as those of those well-established companies. This means that the competition is stiff for them and their chances of survival are slim. Moreover, the working capital of SMEs is affected by the tax levied on their revenue thereby reducing their cashflows for further investments.

DISCUSSION OF FINDINGS

This subsection will provide a discussion of the study findings in accordance with the study objectives of the research.

The effect of tax rates on the performance of SMEs

The findings of the research noted that tax rates applied to small and medium enterprises are the same as of those well-established companies, which means that they are not fair to them. These have affected the performance of the SMEs and growth which have also impacted the collection of taxes from these firms. Atawodi and Ojeka (2012), state that the choice of tax rates should turn on the tax preference given to small firms to enhance their performance which can be achieved through the reduction of their taxes. This includes providing tax relief and offering attractive tax holidays. The major objective is to ensure tax compliance and it would automatically increase tax income for growth and development.

Furthermore, according to Mungaya, Mbwanbo, & Tripathi, (2012), high tax rates increase the cost of production within small and medium enterprises which affects the performance of these firms and therefore should not be ignored. The findings of the research revealed that the nature of taxes levied on SMEs is oppressive to small and medium businesses, hence their performance is inhibited. Again, these taxes cannot be economical to these firms since they erode their revenue which could have been used for capital bases. In addition, Oludele and Emilie, (2012), point out that high tax

rates have a negative effect on the performance of small and medium enterprises.

Effect of general tax knowledge on the performance of SMEs

The research revealed that most SMEs do not have adequate knowledge of taxation in Zimbabwe. This implies that they will miss a number of tax incentives and tax holidays provided by ZIMRA. Philips, (2010), supports that tax incentives were created by the government in order to attract and retain investors within the economies. The objective of these is to reduce the operational costs associated with SMEs. Moreover, the knowledge gap exists on the application of taxation on small and medium enterprises in regard to the tax laws and other tax compliance requirements. Berhan (2011), argued that poor tax compliance is due to tax knowledge. Taxpayers don't even understand the purpose of taxes. This will result in penalties by ZIMRA, which will further diminish their performance and growth. Furthermore, most of the small enterprises depend on external accountants who do their books and thus performance will be negatively affected by the ever-increasing operational costs.

Tax assessment system and the performance of SMEs

During the research, it showed that tax assessment does not benefit most of the SMEs. The assessment system is too complex and broad for a layperson to understand. Despite the fact that the government unveils tax incentives, small and medium enterprises seem not to benefit from them since they can't comprehend the whole system of filing the tax returns. Due to such circumstances, SMEs will not get the tax incentives which are available thereby their performance is compromised. Bozdoğanoglu, (2016) highlights that above the directs associated with direct costs experienced by SMEs in for their tax compliance cost, there is a challenge of diverse and tax system complications hence inhibiting the performance and growth of the small firms.

SMEs Performance and taxes.

In general, some firms do not know the type of taxes they are supposed to pay, hence they are forced to spend more than the profits they make. The results of this research have indicated that taxation has a notable negative effect on small and medium enterprises business since it leads to losses. The result was supported by the findings of Oji (2019) whose study indicates that multiple taxations deplete investment on returns, crumble listed firms' capital base and consequently trigger the collapse of business. In addition, Ilemona, Nwite, and Oyedokun (2019), Cross (2019) and Agu, Onwuka and Aruomah (2019) on their studies confirm the significant negative impact of taxation on small businesses. Furthermore, taxes make it difficult for business to achieve their objectives. The study reveals that profits are high before taxes and are reduced by a corporate tax which is pegged at 24 percent plus it adds a levy of 3 percent. This implies the chances of the survival of SMEs are slim as they face various competition from well-established firms and their growth and performance are compromised.

Influence of Tax Incentives and Government Support Programs on SME Growth and Sustainability:

Existing tax incentives and government support programs have a positive influence on the growth and sustainability of SMEs in the Lowveld of Zimbabwe (e.g. Capital Allowances, SME Tax Relief thus Lower corporate tax rates for SMEs to enhance their financial viability and encourage formalization). SMEs that benefit from tax incentives and support programs (e.g. Youth Development Fund & Women & Youth Empowerment) report improved financial stability and higher growth rates compared to those that do not. Despite the positive impact, the study indicates that the reach and effectiveness of these programs could be enhanced to benefit a larger number of SMEs. Recently there was Operation Murambatsvina which affected more than 60% of

the SMEs in the remote areas of the Lowveld. It wiped out any structure which was purported to be illegal and majority were the SMEs.

The study findings established that:

Several taxes are imposed on the same business and it's a challenge and hinders the growth and performance of any business, that is to say, a trader has to pay income tax, VAT, presumptive tax, import and excise duty whenever he makes imports, and IMT tax for every time he makes purchases. This concludes that taxes contribute to the performance of SMEs and can lead to the collapse of the business due to their increase in operational costs related to taxes.

High taxation compliance challenges for SMEs leading to non-compliance; evidenced by 75% of the SMEs in Chiredzi not being able to meet their tax obligations in time, and indicating incidences of the use of tax evading methods to cushion themselves from heavy tax burden (S. Sithole & Ruhode, 2021);

A significant negative relationship between SME performance in the Chiredzi district and taxation with 57% of the respondents confirming that tax payment affected their businesses badly.

Tax compliance among SMEs is moderated by newly formed empowerment groups led by economically empowered and progressive individuals. This shift hinders the older social groups, which previously acted as agents for tax payment, causing frustration and challenges in maintaining tax compliance within these traditional groups.

Overall, the findings suggest that addressing the identified challenges and enhancing tax knowledge, along with more effective tax incentives and support programs, can significantly improve the performance and sustainability of SMEs in the Lowveld of Zimbabwe.

CONCLUSIONS

Taxes play a pivotal role in the generation of government role; however, it can be described as a burden to the tax SMEs which will then affect their performance negatively. Entrepreneurs are forced to pay a number of taxes which are regressive and progressive taxes. Thus, their revenue or profits will be reduced which in turn hampers their growth and performance. The research on the impact of taxation on the performance of SMEs in Chiredzi highlights significant challenges such as high tax levels and lack of technical knowledge. Improved access to capital and tax incentives are crucial for enhancing SME performance, contributing to GDP, job creation, and poverty reduction. SMEs are vital for economic development in Zimbabwe, employing around 5 million people. Tax issues disproportionately affect SMEs compared to larger businesses, underscoring the need for better policies. The study confirms that addressing these tax-related challenges is essential for supporting SME growth and economic contribution. Therefore, it is clear that SMEs are major contributors to the economic development of Zimbabwe (Clingsmith & Shane, 2017). The impact of taxes on the performance of SMEs, including aspects of entrepreneurship, is vital because those businesses are critical for economic growth and employment creation. Accordingly, SMEs are prominent worldwide (Jiang et al., 2022).

The research highlights specific incidents where tax issues have hindered businesses in Chiredzi. Examples include delayed tax demands and miscommunication leading to fines, showcasing poor communication between tax authorities and SMEs. High taxes have forced some businesses to take out loans, adding stress and affecting their performance. SMEs rated their ability to meet tax costs very low, with an average score of 3.33 out of 10. The study finds that taxes significantly impact SME performance, especially regarding firm survival and economic contribution. Future tax reforms should consider SME perspectives to

support economic recovery. Enhancing business and technological skills is also crucial for SME growth. Further research should explore SME financing and address identified limitations.

The effect of tax rates on the performance of SMEs

Based on the findings, the researcher concluded that there is a need for the proper and reasonable tax level of tax rates among SMEs, clarification of tax rates and equitable tax rates are important for the performance and growth of these firms. The government should work on a formula that suits the small business in terms of tax rates. This can be done by reducing tax rates, and providing more tax holidays and tax incentives to SMEs so as to reduce the operational costs of doing business. This would actually encourage the growth and performance of SMEs in the country.

General tax knowledge on the performance of SMEs

The study has revealed that most SME owners do not have a full understanding of taxation laws and regulations in Zimbabwe. If the owners of SMEs get a good understanding of tax, they will be able to benefit from various tax holidays and incentives which will lower their costs and hence improve performance. Knowledge ensures improved tax compliance within the SME sector. This would increase the revenue for the government as well as the performance of the small business and their operational costs will be reduced. This means that the profits generated will increase, and will be used for other investment activities. With SMEs accruing those benefits then their performance and growth will be affected positively.

Tax assessment system and the performance of SMEs

On the assessment system in Zimbabwe, the research concluded that the simplicity of the taxation system is important to the performance of entrepreneurs. Thus, encourages tax compliance to

the firms. The administration of tax law should use those strategies which benefit the performance of small enterprises. Thus, putting user-friendly systems is crucial for the growth of SMEs.

Recommendations

Small to Medium Enterprises (SMEs) should keep in mind the tax implications of their financial decisions and reduce tax burden through tax planning techniques such as income shifting, rates of depreciation and amortization, and investment tax incentives (Nuamah-Gyambrah et al., 2016). Having assessed the findings of the effects of taxation on the performance and growth of small and medium enterprises, the study recommends the following;

Develop training programs: Implement regular training and workshops for SME owners and managers to improve their understanding of tax laws and compliance requirements.

Simplify tax information: Provide clear and simplified tax information materials to make it easier for SMEs to understand their obligations.

Review and adjust tax rates: Consider lowering tax rates for SMEs to reduce their financial burden and encourage growth.

Simplify tax procedures: Streamline tax filing and payment processes to reduce the administrative burden on SMEs.

Enhance communication: Establish better communication channels between ZIMRA tax authorities and SMEs to address concerns and provide support promptly.

Implement fair assessment practices: Ensure tax assessments are fair and transparent, with mechanisms for SMEs to dispute and resolve tax-related issues efficiently.

Offer tax reliefs: Provide tax reliefs and exemptions for newly established SMEs and those in critical growth phases to support their development.

Encourage investment: Develop tax incentives to attract investment in SMEs, particularly in sectors with high growth potential.

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