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Analyzing Tax Compliance Perceptions of Financial Sector Emerging SMEs: A Case Study of Kasama District

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Abstract
Tax compliance is a crucial aspect of business operations, yet many small and medium-sized enterprises (SMEs) struggle to meet their obligations, particularly in emerging economies. This study examines the impact of taxation and compliance on SMEs in Zambia's financial services sector, with a focus on Kasama District. Using a quantitative research approach, the study analysed data from 65 SMEs, achieving a response rate of 97%. The findings highlight that while most SMEs are aware of their tax obligations, they face considerable challenges such as high tax rates, complex regulations, and bureaucratic hurdles. These factors not only increase operational costs but also discourage business growth, investment, and job creation. Limited access to professional accounting services and a lack of awareness about tax incentives further exacerbate compliance difficulties. The study concludes that reducing tax complexity, enhancing tax education, and implementing SME-friendly policies could significantly improve compliance rates and business performance. Addressing these issues would not only boost government revenue but also create a more supportive environment for SME growth and economic development in Zambia.

1. Introduction
Tax compliance among small and medium-sized enterprises (SMEs) is a crucial issue worldwide, especially in developing economies. Governments rely on tax revenues to fund public services, but many SMEs struggle to navigate complex tax systems. The Southern African region faces similar challenges, with high informality due to opaque tax systems, despite efforts for tax harmonization (SADC, 2019). In Zambia, the Zambia Revenue Authority (ZRA) has introduced measures like the Presumptive Tax System to simplify tax compliance. However, many SMEs still operate informally, citing high compliance costs and limited understanding of tax obligations (ZRA, 2018; World Bank, 2021). Specifically, in Kasama District, remote and economically underdeveloped, SMEs face unique challenges, including inadequate infrastructure and limited access to tax services, exacerbated by low financial literacy and business education (Central Statistical Office, 2019; ZRA, 2020).

1.2 Statement of the problem
Taxation is both a necessity and a challenge for emerging SMEs, particularly in Kasama District. SMEs contribute approximately 70% of Zambia's GDP, yet about 60% of them operate informally, avoiding the complexities and costs associated with tax compliance. The financial services sector, which plays a vital role in economic growth and financial inclusion, faces similar struggles. (Zambia Development Agency, 2022). Studies have shown that excessive taxation can stifle business growth and innovation (OECD, 2022). In Zambia, the financial services industry, characterized by its dynamic nature and contribution to financial inclusion, is not immune to these challenges. Despite the sector's potential, emerging SMEs in this domain grapple with complex tax laws, administrative burdens, and high compliance costs (Zambia Revenue Authority, 2024). This research aims to explore the effects of taxation and compliance on emerging SMEs in Kasama District, where the local economy relies heavily on these enterprises for economic growth and employment. The high cost of compliance, estimated to be around 30% of total tax revenue, coupled with complex tax codes, presents a significant barrier to formalization and growth (World Bank, 2021). Understanding these dynamics is crucial, as enhanced compliance could potentially increase tax revenue

by 20% while fostering a more robust business environment (Zambia Revenue Authority, 2023). Consequently, this study sought to understand how these tax-related challenges impact the growth and sustainability of emerging SMEs in the financial services industry, with a specific focus on Kasama District.

1.3 Objectives of the study
1.3.1 General Objective
The general objective of this research was to analyze tax compliance perceptions of financial sector emerging small and medium-sized enterprises, with a specific focus on emerging SMEs in Kasama district.

1.3.2 Specific Objectives
1. To examine the current level of awareness and comprehension of tax responsibilities among emerging SMEs in the financial sector in Kasama district.
2. To assess how emerging SMEs in the financial sector in Kasama district perceive the fairness and effectiveness of the current tax system.
3. To explore the role of tax education and awareness programs in improving tax compliance perceptions among emerging SMEs in the financial sector in Kasama district.
4. To analyze perceptions influencing tax compliance behaviour among emerging SMEs in the financial sector in Kasama district.

1.4 Theoretical Framework
Institutional Theory
Institutional Theory explains how regulatory frameworks, cultural norms, and societal expectations influence business behavior. SMEs often conform to tax regulations to gain legitimacy and avoid legal repercussions. However, when tax policies are complex or rigid, compliance costs may stifle business growth. (Meyer & Rowan, 1977; Scott, 1995). It highlights that organizations, including SMEs, are influenced by their institutional environments, which encompass regulatory frameworks, cultural norms, and expectations. DiMaggio and Powell (1983) introduced the concept of institutional isomorphism, suggesting that organizations conform to institutional expectations for legitimacy and survival. This theory has been used to study the impact of taxation and regulatory compliance on SMEs, with Christensen and Ebrahim (2006) noting that complex and rigid regulations can impose significant compliance costs, potentially stifling SME growth. In the context of this study, Institutional Theory provides a framework to explore how taxation and compliance requirements shape the behavior and performance of SMEs in Kasama District, focusing on the financial services sector. It examines the interplay between regulatory frameworks and SME behavior, offering insights into how these businesses navigate and adapt to their institutional environment to achieve compliance and growth.

Agency Theory
Agency Theory focuses on the relationship between business owners (agents) and tax authorities (principals). High compliance costs and regulatory burdens create conflicts, as SMEs prioritize profitability while tax authorities push for adherence (Jensen & Meckling, 1976; Eisenhardt, 1989). In the context of SMEs, this theory explores the impact of governance structures and compliance on firm performance, as seen in works by Fama and Jensen (1983) and Shleifer and Vishny (1997). Ahmed and Hossain (2016) applied Agency Theory to analyze tax compliance among SMEs, highlighting conflicts between business owners and tax authorities due to high compliance costs. The study focused on emerging SMEs in Kasama District, facing significant tax compliance challenges due to limited resources and knowledge. By applying Agency Theory, it addressed how principal-agent dynamics between SMEs and tax authorities create agency costs and affect operational efficiency, offering insights into the complexities of tax compliance and its effects on SME performance in Zambia.

2. Literature Review
2.1 The awareness and understanding of tax obligations among SMEs
Research suggests that while many SMEs are aware of their tax responsibilities, they often lack a deep understanding of tax laws. Studies from the US and Canada highlight that complex tax codes lead to frequent misunderstandings and non-compliance.

In the study by Slemrod and Gillitzer (2014) in the United States, the researchers utilized a mixed-methods approach, including both qualitative interviews and quantitative surveys, to assess the awareness and understanding of tax obligations among small and medium-sized enterprises (SMEs). They found that while many SMEs exhibited a reasonable awareness of their tax obligations, there was significant variability in the depth of understanding. Slemrod and Gillitzer reported that the complexity of the tax code often led to misunderstandings and compliance issues among SMEs. They suggested that enhanced tax education and simpler regulations could improve compliance rates (Slemrod & Gillitzer, 2014).

Palliam and Vasarhelyi (2018) explored the tax compliance of SMEs in Canada using a mixed-methods approach that included interviews and survey data. Their study revealed that SMEs faced significant challenges in understanding and managing their tax obligations due to the complexities of tax regulations and the lack of adequate tax planning resources. Palliam and Vasarhelyi emphasized the importance of simplifying tax regulations and enhancing the availability of tax planning tools for SMEs (Palliam & Vasarhelyi, 2018).

2.2 The perceptions of emerging SME regarding the fairness and effectiveness of the tax system
Taylor (2013) investigated SME perceptions of tax fairness within the financial services industry in the United Kingdom. The study used a mixed-methods approach, combining quantitative surveys with qualitative interviews. The survey, which involved 150 financial service SMEs, was analysed using statistical techniques, while the interviews with 20 industry experts were analysed thematically. The findings highlighted that SMEs in the financial services sector perceived the UK tax system as generally fair but criticized the complexity and administrative burden associated with tax compliance. Respondents emphasized the need for clearer tax guidelines and more efficient tax administration to reduce compliance costs (Taylor, 2013).

Adeyemi (2013) explored the perceptions of SMEs in Nigeria regarding tax fairness and effectiveness. The study utilized a mixed-methods approach, combining quantitative surveys with qualitative interviews. Data were collected

from 180 SMEs through surveys, and in-depth interviews were conducted with 25 tax professionals. The analysis of the quantitative data used statistical methods, while thematic analysis was applied to qualitative data. The findings indicated that Nigerian SMEs viewed the tax system as complex and unfair, with many respondents highlighting the burden of high tax rates and inconsistent enforcement as major concerns. The study called for reforms to simplify tax procedures and enhance transparency (Adeyemi, 2013).

2.3 The relationship between tax compliance costs and the growth of emerging SMEs

Thompson (2014) conducted a study on the impact of tax compliance costs on SMEs in the financial services sector in the United States. The research utilized a quantitative survey of 150 financial service SMEs and applied regression analysis to interpret the data. Thompson found that high tax compliance costs significantly impeded SME growth by limiting their ability to invest in business expansion and increasing operational expenses. The study suggested that simplifying tax regulations and improving tax support services could enhance the growth prospects of financial service SMEs (Thompson, 2014).

Kim (2018) analysed the impact of tax compliance costs on SMEs in the financial services sector in South Korea. The study utilized a quantitative survey of 110 SMEs and employed panel data analysis to assess the data. Kim's findings revealed that high tax compliance costs adversely affected SME growth by increasing financial burdens and reducing operational flexibility. The study recommended simplifying tax compliance procedures and enhancing support for financial service SMEs (Kim, 2018).

2.4 The perceived challenges faced by emerging SMEs in complying with tax regulations

Common obstacles include bureaucratic inefficiencies, frequent policy changes, and limited access to professional tax services. In Zambia, SMEs cite high compliance costs, lack of digital resources, and financial literacy gaps as major challenges.

Martin (2014) conducted a study on the tax compliance challenges faced by SMEs in Ireland. Utilizing a mixed-methods approach, the research included a survey of 150 SMEs and interviews with 20 tax advisors. Quantitative data were analysed using statistical techniques such as descriptive statistics and regression analysis, while qualitative data were analysed thematically. The study found that SMEs struggled with the complexity of tax regulations, high compliance costs, and frequent changes in tax laws. It also highlighted the lack of accessible tax education and support as significant barriers to compliance.

Kim (2015) examined tax compliance issues for SMEs in South Korea. Using a qualitative approach, the study involved semi-structured interviews with 25 SME owners and tax professionals. Data were analysed using thematic analysis to identify key challenges. The study found that SMEs in Korea faced difficulties with complicated tax filing processes, insufficient tax education, and frequent changes in tax laws. The research highlighted the need for clearer tax guidelines and more accessible support resources to aid SMEs in meeting their tax obligations.

Patel (2016) investigated the tax compliance challenges experienced by SMEs in India. The study used a mixed-

methods design, combining quantitative data from a survey of 180 SMEs with qualitative data from focus group discussions. Quantitative analysis involved descriptive statistics and inferential tests, while qualitative data were analysed thematically. Findings revealed that high compliance costs, complex tax procedures, and lack of awareness about tax regulations were major challenges. The study emphasized the need for tax reforms and better educational initiatives to support SMEs.

Chansa and Zulu (2017) explored the effectiveness of tax education programs in improving tax compliance among emerging SMEs in Zambia. The study involved a survey of 150 SMEs and an evaluation of existing tax education initiatives. The findings indicated that while tax education programs were available, their impact on SME compliance was limited due to inadequate awareness, low participation rates, and lack of practical training. The study recommended targeted tax education programs tailored to the specific needs of SMEs.

3. Methodology
3.1 Research Design

This study adopted a correlational research design to analyze the relationship between taxation, compliance, and SME performance. A correlational research design was employed to investigate the relationships between taxation, compliance, and their impacts on SMEs. Correlational research is particularly suitable for examining the strength and direction of relationships between variables without manipulating them, which is essential for understanding how taxation and compliance interact in the context of SMEs. By using a correlational approach, the study revealed patterns and associations, providing insights into how variations in tax policies and compliance efforts might be linked to outcomes for SMEs, thus offering valuable information for policymakers and business owners (Field, 2018).

3.2 Research approach

In this study, a quantitative approach was employed to provide a statistically robust analysis of the relationship between taxation, compliance encompassed, and the performance of emerging SMEs. By utilizing structured surveys and statistical techniques, the study aimed to quantify the extent to which taxation and compliance affect various performance metrics, such as profitability and growth rates, thereby providing a clear, objective basis for policy recommendations (Bryman, 2016). This approach also facilitates generalization of findings to a broader population of SMEs in Zambia, enhancing the study's relevance and applicability to similar contexts (Hair et al., 2019).

3.3 Target Population

According to Kombo and Troup (2006), a population is a group of individuals, objects or items from which samples are taken for measurements. For this study, the population the entirety of SMEs in the financial service industry in Kasama. The financial services industry encompasses a broad range of businesses that provide financial products and services to consumers and corporations.

It includes sectors such as banking, insurance, investments, and real estate (Japoa, 2013).

3.4 Sample size

Subsets of bigger populations are known as samples (Schindler, 2014). The size of the sample is essential to the accuracy of the results in research. In this study, the sample size was calculated using a Yamane formula as follows:

$$n = \frac{N}{1+Ne^2}$$

Where n = number of respondents, N = total population and e = error margin/margin of error
Given N = 80 and e = 5%

$$n = \frac{80}{1+80(0.05)^2}$$

$$= \frac{80}{1+80(0.0025)}$$

n=66.666

n=67

Therefore, the sample consisted of 67 SMEs.

3.5 Sampling procedure

Given the study's focus on a specific geographic area, Kasama District, which encompasses a limited number of emerging SMEs, convenience sampling allowed for the efficient gathering of data from available and willing participants, thereby facilitating timely analysis and insights (Saunders et al., 2016). This method, while potentially limiting the generalizability of the findings, provided a pragmatic approach to understanding the taxation and compliance issues faced by SMEs in a specific context (Creswell, 2014).

3.6 Data collection instruments

The design of the research project heavily relies on the methods used to collect data, whether from primary or secondary sources. Available facilities, researcher's experience, duration of the study, and the costs and resources associated with data gathering all influence the method ultimately implemented. The primary data collection instrument for this study was the questionnaire. The questionnaire consisted only of closed-ended questions directly related to the study. Where possible, questions with a fixed number of possible answers will be scored using the Likert scale. The survey included questions about respondents' demographic information and their experiences with the independent and dependent variables.

3.7 Ethical consideration

Confidentiality and privacy of the respondents were observed throughout the research process and the respondents were told the essence of the research and all the processes involved. The opinions of respondents were highly respected and not tempered with in any way.

4. Results and Discussion
4.1 Response Rate

The study involved 67 emerging SMEs in the financial sector in Kasama District. Out of a total of 67 questionnaires distributed to emerging SMEs in the financial sector in Kasama District, 65 were returned, representing a total response rate of 97 percent. Regarding response rates,

Martellan and Moran (2010) in their reports posit that a response rate of 75% is sufficient to represent the overall population.

4.2 The awareness and understanding of tax obligations among emerging SMEs in the financial services sector in Kasama District

Figure 4.1 illustrates the level of awareness and understanding of tax obligations among emerging SMEs in the financial services sector in Kasama District. According to the data, a majority of respondents (84.60%) indicated awareness and understanding of their tax obligations, while 6.20% were not aware, and 9.20% were uncertain. This high level of awareness suggests that most emerging SMEs in the area are informed about their tax responsibilities, which is crucial for compliance and proper financial management. Similar findings have been reported by other researchers; for instance, Kasomo (2020) found that awareness of tax obligations among SMEs in Nairobi significantly influenced their compliance levels.
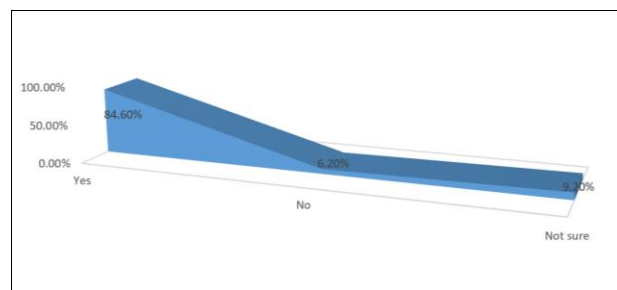

Fig 4.2: Awareness and understanding of tax obligations

Figure 4.2 reveals a varied level of awareness and understanding across different tax types. Corporate tax enjoys the highest rating, with a substantial 96.90% of respondents demonstrating a strong understanding (rated 4.5). PAYE follows closely, with 83% of respondents rating it at a commendable level of 4.0. However, income tax and VAT exhibit a lower understanding, with 65% and 52% of respondents respectively rating them at an average level of 3.5 and 3.0. The relatively new withholding tax garnered the lowest understanding, with only 15.30% of respondents rating it at 2.5. These findings indicate a clear need for focused tax education initiatives, particularly for income tax, VAT, and withholding tax, to bridge the knowledge gap and enhance tax compliance among emerging SMEs in the financial services sector within Kasama District.
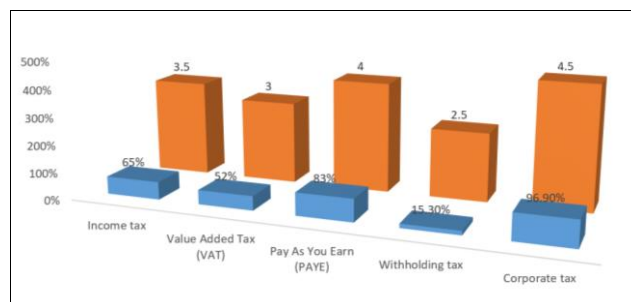

Fig 4.2: Ratings of the understanding of tax obligations

4.3 The perceptions of emerging SMEs in the financial service industry in Kasama District regarding the fairness and effectiveness of the current tax system

Table 1

	SA	A	N	D	SD
The current tax rates for SMEs in the financial service industry fair	10 (15.3)	15 (23.1)	8 (12.3)	32 (49.2)	-
The tax system does not disproportionately burden SMEs compared to larger businesses.	-	15 (23.1)	8 (12.3)	33 (50.7)	11(16.9)
The tax system provides adequate support and incentives for the growth of SMEs.	-	21 (32.3)	10 (15.3)	24 (36.9)	10(15.3)
The tax filing process is straightforward and easy for SMEs to navigate.	10(15.3)	26 (40)	-	19 (29.2)	-
The current tax system encourages compliance among SMEs	5(7.7)	19 (29.2)	7 (10.8)	34 (52.3)	-
Overall, I am satisfied with the current tax system for SMEs in Kasama.	4 (6.2)	26 (40)	-	35 (53.8)	-

A Likert scale was used to evaluate the perceptions of emerging SME owners and managers in Kasama District regarding the fairness and effectiveness of the current tax system

SD (Strongly Disagree), D (Disagree), N (Neutral), A (Agree), SA (Strongly Agree)

The numbers in parentheses represent the percentages.

The majority of respondents (49.2%) disagreed with the claim that the current tax rates for SMEs in the financial service industry fair, 15.3% strongly agreed, 23.1% agreed while a minor (12.3%) were undecided. Besides, the bulk of respondents (50.7%) disagreed with the assertion that the tax system does not disproportionately burden SMEs compared to larger businesses, 23.1% agreed, 16.9% strongly disagreed while a minor (12.3%) remained neutral. Furthermore, the majority of partakers in the study (36.9%) disagreed with the contention that the tax system provides adequate support and incentives for the growth of SMEs, 32.3% agreed, 15.3% were undecided while another 15.3% strongly disagreed. In addition, most of the respondents (40%) agreed with the assertion that the tax filing process is straightforward and easy for SMEs to navigate, 29.2% disagreed while a minor (15.3%) strongly agreed.

The bulk of respondents (52.3%) disagreed with the claim that the current tax system encourages compliance among SMEs in the financial service industry, 29.2% agreed, 1-0.8% were undecided while a minor (7.7%) strongly agreed. Finally, the majority of partakers in the study (53/.8%) disagreed with the statement that they were overly satisfied with the current tax system for SMEs in the financial service industry in Kasama, 40% agreed while a minor (6.2%) strongly agreed.

4.4 The challenges faced by emerging SMEs in Kasama District in complying with tax regulations

The researcher further asked the respondents to state the challenges they faced in complying with tax regulations. The findings in figure 4.3 highlight a multitude of challenges faced by emerging SMEs in Kasama District when complying with tax regulations. The most prevalent issues include bureaucratic processes (87.70%), fear of penalties and fines (83.10%), complexity of tax regulations (83.10%), informal business practices (84.60%), and limited financial resources (84.60%). Other significant challenges are perceived unfairness (67.70%), lack of awareness and knowledge (72.30%), lack of professional support (72.30%), frequent changes in tax policies (60%), and limited support from tax authorities (63%). Additionally, economic

instability (56.90%), irregular cash flow (56.90%), and high compliance costs (56.90%) pose substantial hurdles. These challenges are further compounded by limited access to digital resources (36.09%), inadequate record-keeping (26.12%), lack of financial literacy (26%), and limited tax incentives (47.70%). These findings underscore the need for comprehensive support and reforms to address these multifaceted obstacles and enhance tax compliance among emerging SMEs in the financial services sector.
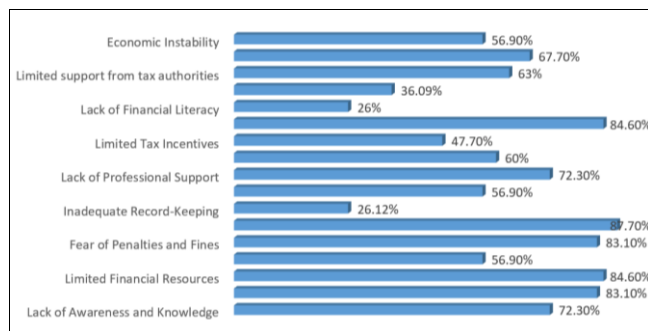

Fig 4.3: The challenges faced by emerging SMEs

4.5 Discussion and Interpretation of Findings

The first objective of the present study sought to analyze the awareness and understanding of tax obligations among emerging SMEs in the financial services sector in Kasama District. The study's findings reveal a generally high level of awareness and understanding of tax obligations among emerging SMEs in the financial services sector in Kasama District. The data indicates that 84.60% of respondents were aware of their tax obligations, with a small portion either unaware (6.20%) or uncertain (9.20%). This significant awareness level suggests effective communication and education efforts, particularly from the Zambia Revenue Authority (ZRA), which 96.90% of respondents identified as their primary source of tax information. Other sources, including tax consultants, government websites, workshops, seminars, peer networks, and online resources, also contribute to disseminating tax information, underscoring the multifaceted approach to educating SMEs. The findings further highlighted varying levels of comprehension across different taxes, with corporate tax having the highest understanding rating of 4.5, followed by PAYE at 4.0, and lower ratings for income tax (3.5), VAT (3.0), and withholding tax (2.5), point to the need for targeted educational initiatives. These efforts should focus on enhancing knowledge of income tax, VAT, and withholding

tax to ensure comprehensive tax compliance among SMEs in Kasama District.

To draw parallels with similar studies, the findings on the high level of awareness and understanding of tax obligations among emerging SMEs in the financial services sector in Kasama District align with previous research. For instance, a study by Ekanem (2015) found that tax awareness is crucial for ensuring compliance among SMEs. Ekanem (2015) highlighted that effective communication from tax authorities significantly influences SME compliance rates.

Research objective two sought to evaluate the perceptions of emerging SMEs in the financial services sector in Kasama District regarding the fairness and effectiveness of the current tax system

The study's findings on the perceptions of emerging SMEs in the financial services sector in Kasama District regarding the fairness and effectiveness of the current tax system reveal significant insights into the sector's challenges and concerns. A substantial majority (52.3%) of the respondents perceived the current tax rates as "too high," indicating a general sentiment that the tax system is burdensome and potentially detrimental to business growth. Moreover, the study highlighted a significant gap in awareness of tax incentives, with 67.7% of respondents unaware of such incentives, contrasting with 23% who affirmed their knowledge and 9.2% who were uncertain. The perceived benefits from tax incentives also exhibited a disparity, with 58.3% of respondents affirming benefits, while 46.7% denied any such advantages, indicating potential inequities in the distribution of these incentives. Finally, the effectiveness of tax incentives received mixed reviews, with 38.9% finding them "effective," while a combined 33.4% rated them as "very ineffective" or "neutral," suggesting areas for improvement in policy design and implementation. The Likert scale responses further reinforced these findings, with a majority expressing dissatisfaction with various aspects of the tax system, including fairness, support for growth, and ease of compliance, highlighting the need for reforms tailored to the unique challenges faced by SMEs in the financial services sector in Kasama District.

The study's findings are consistent with Karingi and Wanjala (2005) who discussed the burden of tax rates on businesses, noting that high tax rates can hinder the growth and development of SMEs by reducing their profitability and available capital for reinvestment.

The third objective of the study focused on investigating the relationship between tax compliance costs and the growth of emerging SMEs in the financial services sector in Kasama District's financial services industry. The regression analysis underscored a statistically significant negative relationship between tax compliance costs and SME growth, with each unit increase in costs leading to a 0.98% decrease in growth. This demonstrates that high compliance costs are a critical constraint on the financial performance and expansion of SMEs in the region. Conversely, a positive relationship was observed between favorable tax policies and SME financial performance, suggesting that improving these policies could enhance growth prospects. Overall, the study's findings highlight the crucial need for accessible, affordable tax services and more supportive tax policies to foster the development of emerging SMEs in Kasama District.

The findings that tax compliance costs significantly hinder SME growth are consistent with previous research by several scholars. For instance, Coolidge (2010) and Lignier and Evans (2012) highlight that high tax compliance costs can be a major impediment to the growth and development of SMEs. They argue that these costs consume a considerable portion of SMEs' resources, which could otherwise be invested in business expansion and innovation.

Finally, the study sough to examine the challenges faced by emerging SMEs in the financial services sector in Kasama District in complying with tax regulations. The study's findings revealed a range of significant challenges faced by emerging SMEs in the financial services sector in Kasama District when it comes to complying with tax regulations. The most pressing issues identified include bureaucratic processes, with a striking 87.70% of respondents highlighting this as a challenge, alongside fear of penalties and fines, and the complexity of tax regulations, both at 83.10%. Informal business practices and limited financial resources also emerged as critical concerns, each noted by 84.60% of the respondents. Other notable challenges include perceived unfairness in the tax system (67.70%), a lack of awareness and knowledge about tax obligations (72.30%), and insufficient professional support, also at 72.30%. The study also identified frequent changes in tax policies (60%), limited support from tax authorities (63%), economic instability (56.90%), irregular cash flow (56.90%), and high compliance costs (56.90%) as significant barriers. Additionally, limited access to digital resources (36.09%), inadequate record-keeping (26.12%), lack of financial literacy (26%), and limited tax incentives (47.70%) were highlighted as further impediments. These findings indicate a need for comprehensive support and reforms to address these diverse challenges, ultimately aiming to enhance tax compliance among emerging SMEs in the region's financial services sector.

The identification of bureaucratic processes as a significant barrier to tax compliance, noted by 87.70% of respondents, aligns with findings by Terkper (2003) and Bird (2008), who highlighted the complexity and inefficiency of bureaucratic procedures as major obstacles for SMEs. Additionally, the fear of penalties and fines and the complexity of tax regulations, reported by 83.10% of respondents, are consistent with the observations made by Coolidge (2010) and Joshi et al. (2013), who found that SMEs often face significant compliance challenges due to the intricate and frequently changing tax laws.

5. Conclusions

The study highlights that taxation and compliance significantly impact SMEs in Kasama District. While awareness of tax obligations is high, the complexity of tax regulations, high compliance costs, and bureaucratic hurdles create significant challenges. Many SMEs feel that tax rates are excessive and that incentives are either ineffective or poorly communicated. These factors discourage compliance and hinder business growth.

Taxation and compliance significantly impact emerging SMEs in the financial services industry in Kasama District, as evidenced by the study's findings. The majority of SMEs demonstrate a high level of awareness and understanding of their tax obligations, primarily informed by the Zambia Revenue Authority, yet they face substantial challenges in compliance. The perceived high tax rates and the complexity of tax regulations, coupled with bureaucratic processes, limited financial resources, and insufficient awareness of available tax incentives, create a burdensome environment

that hinders business growth and investment. The data indicates that high tax compliance costs not only strain financial resources but also limit access to professional accounting services, increase the likelihood of fines, and reduce profit margins. This, in turn, affects the ability of these businesses to expand, innovate, and hire new employees. Furthermore, the mixed perceptions of the effectiveness and fairness of the current tax system, along with significant dissatisfaction with tax policies, underscore the need for targeted tax education and reform. Therefore, addressing these issues through more supportive and transparent tax policies could foster a more conducive environment for the growth and financial performance of SMEs in Kasama District.

Based on the study's findings, several recommendations are made for improving tax compliance among emerging SMEs in the financial services sector in Kasama District. The Zambia Revenue Authority (ZRA), recognized by 96.90% of respondents as the primary tax information source, should enhance educational programs, particularly on less understood taxes like income tax, VAT, and withholding tax. This can be achieved through targeted workshops, seminars, and online resources. The government should consider revising tax policies to be more equitable and transparent, promoting awareness of tax incentives and simplifying the tax system to reduce complexities. High tax compliance costs hinder SME growth, suggesting the need for affordable tax services, streamlined filing processes, and favorable tax policies like tax breaks for small businesses.

6. Acknowledgments

7. References

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