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Research Article

Assessing the Effects of Tax Compliance on Business Growth: A Case Study Among Selected SMEs in Ndola District, Zambia

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ABSTRACT

This study assessed the effects of tax compliance on business growth for SMEs in Ndola District, Zambia. The objective was to assess the effects of tax compliance on business growth, measured in terms of revenue, business sustainability, and operational costs. The study adopted a mixed-methods research design with a sample size of 50 SMEs. Regarding business revenue, the findings showed that tax compliance was positively associated with revenue performance, although the relationship was not statistically significant ($p = 0.3064$). For business sustainability, the findings established a statistically significant positive effect of tax compliance, indicating that compliance contributes to long-term business continuity and sustainability ($p = 0.0002$). Regarding operational costs, the findings showed that tax compliance had a statistically significant positive effect on operational costs, with higher compliance-related costs associated with increased business performance and growth effects ($F = 4.35$, $p = 0.0423$). The study concludes that tax compliance has mixed effects on SME growth, supporting business sustainability while increasing operational costs, but its effect on revenue was not statistically significant. The study recommends strengthening taxpayer education, simplifying tax procedures, and providing appropriate support to SMEs to reduce compliance burdens and promote sustainable business growth that complies with tax obligations

Keywords: *Business Growth, Operation Costs, Sustainability, Tax Compliance, Taxation*

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1. INTRODUCTION

Amoaka *et al.* (2022) suggests that Small and Medium Enterprises (SMEs) contribute significantly to creating employment, generating income, yet their growth ways are often affected by complicated regulatory burdens and exaggerated compliance requirements. Tax compliance has, over the years, emerged as a central issue in the dissertation on SME development, particularly in developing economies where small and medium enterprises form the backbone of economic activities. OECD (2022) and Kirchler (2024) argue that compliance with tax laws through registration, accurate record-keeping, timely filing, and payment of taxes is not only a legal obligation but also a determinant of business legitimacy, access to finance, and long-term sustainability.

1.1. Background

Reports according to the World Bank (2024) indicate that levels of tax compliance among Small and Medium Enterprises (SMEs) differ considerably across countries. Economies that are developed record tax compliance rates ranging from 60% to about 90% with the developing economies experiencing lower tax compliance levels. Factors such as complex tax compliance procedures, limited tax knowledge, and the high tax compliance costs involved in meeting tax obligations are some of the causes associated with variations. In Zambia, SMEs are an important unit in both the public and private sector, yet there is a contradiction when it comes to levels of compliance. Chalwe *et al.* (2026) and Mweemba *et al.* (2025) added that SMEs face many challenges, including inadequacy in knowledge of tax obligations, administrative complications, as well as unequal compliance costs relative to their size. The contradiction of tax compliance lies in its two roles; while compliance enhances transparency, credibility, and access to formal markets, it continuously imposes financial and administrative burdens that may hinder reinvestment and expansion (Evans & Tran-Nam, 2020). This issue is especially relevant in commercial areas such as Ndola, where SMEs operate across different sectors, that include manufacturing, retail, hospitality, as well as service delivery. Mudaala and Silwimba (2025) talk about understanding how compliance practices affect the growth of SMEs, and such contexts are crucial for designing tax systems that balance revenue mobilization and enterprise sustainability.

1.2. Problem Statement

Small and Medium Enterprises (SMEs) contribute significantly to Zambia's economy even though their behaviour towards compliance may be unstable. (Owoeye, 2025; Smulders *et al.*, 2016) stated that high compliance costs, complex tax filing procedures, and inadequate tax awareness are a barrier to voluntary compliance and limit SME profitability. Ndola District, although there are a reasonable number of SMEs that add value to local economic activities, little to no valid evidence exists on how compliance influences key growth indicators such as business revenue, business sustainability, and the operational cost of business. This gap brings about the concern on whether the current tax systems indeed support SME development or inadvertently hinder their progress. Therefore, this study aims to provide empirical evidence on the effects of tax compliance on business growth in Ndola District.

1.3. Objectives

1.3.1. General Objective

- To assess the effects of tax compliance on business growth among selected Small and Medium Enterprises (SMEs) in Ndola District, Zambia, focusing on business revenue, business sustainability, and operational costs.

1.3.2. Specific Objectives

- To evaluate the effects of tax compliance on business revenue among SMEs in Ndola
- To examine the effects of tax compliance on business sustainability among SMEs in Ndola
- To assess the effects of tax compliance on the operational costs of SMEs in Ndola

1.4. Research Questions

- What is the effect of tax compliance on business revenue among SMEs in Ndola?
- How does tax compliance affect business sustainability among SMEs in Ndola?
- What is the effect of tax compliance on the operational costs of SMEs in Ndola?

1.5. Theoretical Framework

The Ability-to-Pay Theory and the Benefit Theory of taxation, supported by a broader behaviour of perception on tax compliance, are the theoretical foundation of this study. Lind (2021) and Rowlingson *et al.* (2021) explain the "Ability-to-Pay Theory" as a principle that is an important approach to tax fairness because it considers the financial resources of taxpayers when determining their tax contributions. The theory states that money for public expenditure should come from "him that hath" instead of from "him that hath not." It further says that the burden on taxpayers should be

designed so that each taxpayer contributes an equal sacrifice, and although vaguely, this sacrifice should be in terms of 'means.' The Ability-to-Pay Theory is relevant as it explains that the financial capacity of SMEs, their profitability, and size can affect their ability to meet tax obligations, especially when the costs of complying with these tax requirements reduce the available funds for investment and business expansion. On the other hand, the Benefit Theory suggests that SMEs are more likely to comply with tax obligations when they believe that the taxes they pay provide useful benefits such as infrastructure, security, public services, and a supportive business environment Lind (2021). The behavioural perspective also shows that factors such as knowledge of tax, fairness in perceptions, trust in government, and the benefits received from public services can influence SMEs that are willing to comply with tax obligations Appiah *et al.* (2024). Together, these perspectives explain the possible effects of tax compliance on business revenue, sustainability, and operational costs, recognizing that compliance may create short-term financial burdens while reducing penalties, regulatory risks, and disruptions in the long term. The study therefore applies these theories to SMEs in Ndola District to provide context-specific evidence on the benefits and burdens of tax compliance, and to contribute to understanding how tax administration can support government revenue mobilization without unnecessarily constraining SME growth.

1.6. Conceptual Framework

The conceptual framework highlights and illustrates the relationship that exists between tax compliance, which is the independent variable, and business growth encompassing all growth-related indicators as the dependent variable.

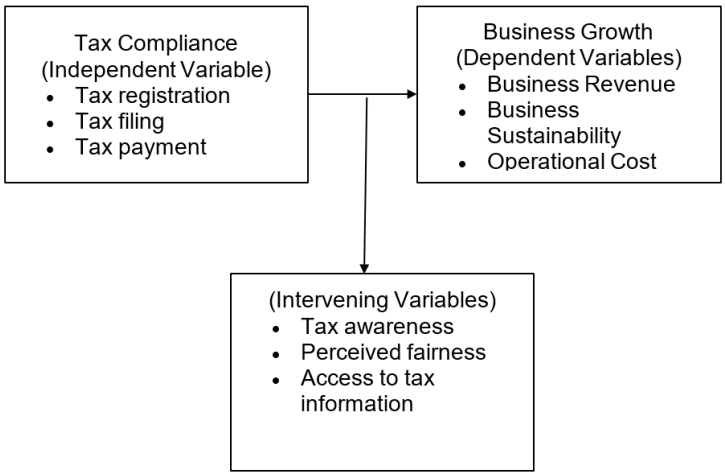


Figure 1. Conceptual Framework.

1.7. Significance of the Study

This study is significant because it provides empirical evidence on how tax compliance affects the growth of businesses and the performance of SMEs in Ndola District, with particular emphasis on business revenue, sustainability, and operational costs. The study is important to SME owners and managers because it demonstrates that tax compliance is not only a statutory obligation but can also influence financial performance, business continuity, and the resources available for reinvestment and expansion. The study also shows that tax compliance can create financial and administrative costs for SMEs, with smaller businesses often carrying a heavier burden. OECD (2022) report similarly noted that complex requirements and compliance costs can increase the operating expenses of small businesses and, at the same time, reduce the funds available for investment and growth. The study is also important to the Zambia Revenue Authority (ZRA) and policymakers because it provides evidence that can help inform the development of a tax system that supports domestic revenue collection while also considering the sustainability of SMEs. This is particularly important in Zambia, where improving tax compliance and increasing domestic revenue are important policy priorities, yet some requirements may also increase the costs of doing business for SMEs. The findings can therefore assist tax authorities in improving taxpayer education, simplifying compliance procedures, strengthening communication, and designing support mechanisms that encourage voluntary compliance without imposing unnecessary burdens on SMEs. Recent Zambian research similarly recommends continued training of SMEs and reductions in compliance and administrative costs to improve both compliance and business performance.

The study further contributes to the academic literature by addressing an empirical concern regarding the relationship between tax compliance and the combined dimensions of SME performance, including revenue, sustainability, and operational costs in Ndola District. In existing Zambian studies, profitability, expansion, and operating expenses pose a great threat and distraction to taxation and compliance requirements. Lupiya and Silwimba (2025) went further and elaborated that tax burdens are closely linked to the significance of SME growth, profitability, and operational expenses in Lusaka Central Business District (CBD). By focusing on Ndola District, the present study extends this body of

knowledge to another major commercial environment and provides context-specific evidence that can be compared with findings from other parts of Zambia. The author's contribution lies in integrating tax compliance with three interconnected dimensions of SME performance rather than treating compliance solely as a matter of regulatory behaviour. By examining its relationship with revenue generation, business sustainability, and operational costs simultaneously, the study provides a broader understanding of whether compliance functions as an enabler or constraint to SME growth. The findings can subsequently assist SME stakeholders, policymakers, and researchers in developing approaches that promote tax compliance while protecting the financial capacity and long-term sustainability of small businesses. This contribution is particularly relevant given continuing evidence that Zambia faces substantial tax gaps and that improving compliance remains important for strengthening domestic revenue and supporting development.

2. LITERATURE REVIEW

Tax compliance has increasingly attracted attention because of its potential influence on the financial and operational performance of small and medium enterprises (SMEs). Existing studies indicate that compliance can create benefits through improved financial records, business legitimacy, access to former markets, and stronger relationships with stakeholders. However, other scholars have established that taxation and compliance procedures can impose financial and administrative pressures on SMEs with limited resources. This review therefore examines the literature in line with the three study objectives, focusing on business revenue, business sustainability, and operational costs.

2.1. Effects of Tax Compliance on Business Revenue Among SMEs

Mascagni *et al.* (2021) examined the relationship between taxation and business formalization in Rwanda using a mixed-methods approach that combined qualitative focus group discussions with administrative and survey data, and found that interaction with the tax system can influence the extent to which SMEs participate in the formal economy. Findings from this study suggested that formalization can increase the visibility of the business, create suitable opportunities to support sales, and strengthen relationships with institutions to increase revenue generation. It also highlighted the importance of formalization and improved state-business relations in view of expanding access to formal economic opportunities.

However, a limitation is noted in that the study focused on Rwanda's VAT system, so its findings may not fully reflect the tax administration environment or business conditions in Ndola District, Zambia. Furthermore, formalization does not automatically lead to increased sales or revenue, meaning the relationship between tax compliance and revenue growth requires further investigation. The study is relevant to the present research because it demonstrates how tax administration and formalization may influence SMEs' business activities. However, there remains a need for district-specific evidence on whether tax compliance significantly affects business revenue among SMEs in Ndola District.

A study by Nartey (2023) investigated tax compliance among SMEs in Ghana using a quantitative survey of 233 respondents: 169 SME managers and 64 tax officials. The data were analysed using covariance-based structural equation modelling. Nartey unveiled the issue of fairness within the tax system and the challenges that arise from the institutions that have the potential to positively influence SMEs, leading them to voluntarily comply when businesses view the tax system as fair, transparent, and legal. A limitation is that the study focused on Ghana, so its findings may not fully reflect Zambia's tax policies and administrative environment. It also examined compliance behaviour rather than directly measuring changes in SME revenue or long-term sustainability. Nevertheless, it is relevant to the present study because it suggests that fairness and effective tax institutions may influence compliance among SMEs in Ndola District.

However, Bruce-Twum (2023) in his research examined the relationship between tax compliance costs and SME compliance behaviour in Ghana through a survey of SMEs and multiple regression analysis. The study measured internal, external, and incidental compliance expenses and found a significant relationship between compliance costs and tax compliance behaviour. The study discovered that the way SMEs might behave can be associated with the costs that arise from tax compliance, as well as how tax obligations might reduce the funds that may be available to purchase stock, do marketing, invest, and also in regard to business expansion. However, the findings do not by themselves establish that compliance costs directly reduce funds for stock, marketing, or business expansion; those effects need to be investigated separately. The study's focus on Ghana also limits the direct application of its findings to Ndola District. Despite these limitations, it provides a useful basis for examining whether tax-related expenses place pressure on SMEs' working capital and operating budgets in Ndola.

Ndlovu and Schutte (2024) investigated the challenges small business owners experience in complying with value-added tax (VAT) in Gauteng, South Africa. The researchers adopted a qualitative approach and conducted 22 semi-structured interviews with tax practitioners who advised small businesses. Their research established that tax compliance can be viewed as a vehicle to drive and improve the revenue performance of SMEs by encouraging businesses to improve management of resources, design a system for financial reporting, and maintain a clear record-keeping platform. The findings of their research suggest that if business owners find a way of maintaining accurate financial records, they will understand the financial position more clearly and make informed decisions that will be able to support business sales and the rate of turnover. Nevertheless, the findings are relevant to SMEs in Ndola District because they illustrate how

tax obligations can create cash-flow pressure, potentially limiting the funds available for stock, investment and other business activities.

Munjeyi and Schutte (2025) examined factors influencing voluntary tax compliance among SMEs in Botswana. They used a quantitative research design and collected questionnaire data from 389 registered SMEs with tax identification numbers. Their analysis found that tax literacy and effective service delivery were positively associated with voluntary compliance. Although the study provides evidence on factors that encourage SMEs to comply, its primary focus was compliance behaviour rather than the direct effect of compliance on business revenue. In addition, the study focused on registered SMEs, meaning that its findings may not represent informal or unregistered enterprises. Its relevance to the present research lies in demonstrating the importance of tax knowledge and administrative support, while further investigation is needed to establish whether these factors translate into improved revenue performance among SMEs in Ndola District.

Msoni and Mahlangu (2025) examined the influence of turnover tax compliance on the financial performance of SMEs in Solwezi Central Business District, Zambia. The study used structured interviews with 20 SMEs operating in the retail sector. The findings indicated that compliance experiences differed across businesses, with some enterprises reporting reduced profitability and constrained growth, particularly where income was low or seasonal. Although the study provides evidence from the Zambian business environment, its small sample and concentration on retail businesses limit the extent to which its findings can be generalised to other sectors. Furthermore, financial performance is broader than revenue alone, so the findings do not establish that tax compliance affects revenue in the same way for all SMEs. The study is particularly relevant to the present research because it offers local evidence of the potential tension between meeting tax obligations and maintaining business performance. However, evidence from SMEs across different sectors in Ndola District remains necessary.

The World Bank (2024) also emphasized that when SMEs adopt the concept of formalization and financial transparency, their access to formal financial markets is greatly improved. However, Adusei and Owusu in their research cautioned that the cost and expenses that are involved in meeting the tax requirements affect the capital that is involved to be available for investment and other activities that are productive. When these factors are put together, it suggests that being compliant is a motivating factor that supports revenue generation through better financial management, making credible business practices, and improving access to business opportunities. However, high compliance costs might lead to a reduction of resources for SMEs that may be available for activities and may directly contribute to business revenue decline.

Madimbini (2025) examined the effects that came about as a result of an electronic payment system among SMEs in Lusaka and discovered that a positive relationship exists between tax awareness, taxpayer training, functionality of e-tax systems, and tax compliance. The study adopted a quantitative research design, using questionnaire data and correlation and regression analyses to examine tax knowledge, training, and the accessibility and functionality of electronic tax systems. The findings for this study suggest that when electronic tax systems are accessible and easy to use, the procedures and processes of compliance are made easier and, in turn, reduce time and resources spent on tax administration by SMEs. Its geographical focus on Lusaka means that the findings may not fully represent the experiences of SMEs in Ndola, although they provide a useful basis for examining whether accessible electronic tax services can reduce administrative difficulties and support more efficient business management.

Bassongui and Honlonkui (2024) examined whether electronic tax reforms reduce tax compliance costs across 53 African countries over the period 2004–2020. They employed an econometric approach based on a staggered difference-in-differences estimator. They found that the use of electronic tax reforms in a lot of African countries may be an alternative to the reduction of compliance costs especially in relation to the time required for tax preparation and payments. Likewise, Adusei and Boadi (2023) reported on the better ways in which tax administration may make compliance a better support for financial management among SMEs through digital reforms. However, country-level analysis may not capture differences in digital access, taxpayer skills, and implementation among individual SMEs. Moreover, reduced compliance costs do not automatically demonstrate increased business revenue. The study is relevant to Ndola District because it suggests that effective digital tax systems may help limit the administrative burden associated with compliance, but their actual contribution to SME revenue requires local investigation.

Nonetheless, a study by Amos *et al.* (2024) uncovered that the majority of African businesses that are faced with complications and a weak tax administration system that is weak, end up having challenges with tax obligations, which in the long run make it costly to meet and thereby discourage compliance. Lumba *et al.* (2025) examined strategies for improving SME tax compliance in Livingstone, Zambia, using the Zambia Revenue Authority as a case study. They adopted a mixed-methods approach involving surveys and interviews with SME owners and ZRA officials. The study reported that 40.4% of SMEs were not registered for tax, with limited awareness of tax obligations identified as an important contributing factor. The researchers recommended targeted taxpayer education and improvements to electronic filing systems. Although the study provides evidence from Zambia, its focus was on compliance strategies

rather than the direct relationship between tax compliance and business revenue. The available abstract does not specify the sample size, which should be confirmed from the full article. Its findings are relevant to Ndola District because they highlight the possible role of taxpayer education and accessible administrative systems in reducing compliance barriers. Nevertheless, further evidence is required to determine whether these interventions improve revenue performance among SMEs in Ndola.

Bruce-Twum (2023) supported the above concern with evidence that found compliance costs affect the way SMEs behave by placing added pressure on business resources that are already limited. In a different context, Ndlovu and Schutte (2024) discovered that having organized record-keeping and a well-outlined financial reporting system, which is associated with tax compliance, can improve how revenue is managed and the overall performance of the business. Msoni and Mahlangu (2025) uncovered that regulatory requirements can improve business and enforce credibility that can lead to improved access to formal financial and commercial opportunities.

Additionally, Lumba *et al.* (2025) emphasized the Value that taxpayer awareness and administrative support have, which helps SMEs meet their tax obligations. The literature therefore shows both the positive and negative implications of tax compliance on SME revenue. On one hand, it may support growth of business revenue through improved financial management, improved credibility, formalization, and access to opportunities, but it may also limit revenue when tax payments and compliance-related costs put a lot of pressure on already limited resources. The unresolved relationship provides justification for examining the effects of tax compliance on business revenue among SMEs in Ndola District. Based on the reviewed literature, the study proposes that tax compliance has a significant effect on business revenue among SMEs in Ndola.

2.2. Effects of Tax Compliance on Business Sustainability Among SMEs

Mascagni *et al.* (2021) examined the practical challenges associated with value-added tax (VAT) compliance in Rwanda. They adopted a mixed-methods approach combining administrative tax records, focus group discussions, and survey data. Their national taxpayer survey included 1,059 small and medium-sized firms, while six focus group discussions involved representatives from 26 firms in Kigali. The findings showed that smaller firms experienced difficulties with electronic billing machines, tax procedures, and VAT reporting, and were more likely to bear a higher effective VAT burden because of difficulties claiming input VAT credits.

However, the study focused on VAT administration and compliance rather than directly measuring long-term business sustainability. Its focus on Rwanda also limits the direct transferability of its findings to Zambia because tax administration systems and business conditions differ. Nevertheless, it is relevant to SMEs in Ndola District because it demonstrates how complex tax procedures and limited administrative support may affect the financial resources required to maintain business operations. The study further did an investigation on the relationship that exists in economies that are developing between tax compliance and formalization of businesses, and found that when tax institutions are encouraged to interact, they become part of the formal economy. Their findings indicate that when business visibility is improved, relationships with government institutions are strengthened, and opportunities that support the long-term survival of SMEs are created, formalization is the key.

Nartey (2023) investigated tax compliance among SMEs in Ghana using a quantitative survey involving 233 respondents, comprising 169 SME managers and 64 tax officials. The researcher analysed the data using covariance-based structural equation modelling. The findings indicated that perceived tax fairness and institutional pressures positively influenced tax compliance, while strategic responses by SMEs did not have a statistically significant effect. A limitation is that the study examined compliance behaviour rather than directly measuring business continuity, profitability, or survival. Furthermore, its findings reflect the Ghanaian institutional environment and may not fully represent the experiences of SMEs in Ndola District. Despite these limitations, the study is relevant because it suggests that fair tax treatment and effective institutional relationships may encourage SMEs to comply with tax obligations and maintain more stable relationships with tax authorities.

The Organisation for Economic Co-operation and Development (OECD, 2022) has discussed the challenges smaller enterprises face in complying with tax regulations and the importance of proportionate tax administration. However, an institutional report should not automatically be treated as a single empirical study with a defined sample. The specific OECD publication and relevant sections should therefore be identified before attributing particular findings about SME formalisation, access to finance or long-term sustainability to it. The broader policy discussion remains relevant to Ndola District because the complexity of tax procedures and the administrative capacity of small enterprises may influence how easily they maintain compliance alongside their daily business activities.

The study further observed that stronger and improved relationships with public institutions, improved access to finance, as well as other forms of institutional support can bring benefits to formal and compliant businesses. New observations of data indicate that compliance can influence the sustainability of small and medium enterprises through its effects on financial stability, operating costs, profitability, business continuity, and access to formal economic

opportunities. Bird and Zolt (2022) elaborated that the poorly designing of tax systems may result in the funds available for productive investment to reduce causing uneven burdens on smaller businesses. The literature supports the fact that formalization, strengthening of institutional relationships, and tax compliance bring about positive contributions to SME sustainability, even though benefits may be reduced when tax obligations create excessive pressure on financial sustainability for small businesses.

Msoni and Mahlangu (2025) uncovered that some key players in business, such as financial institutions, suppliers, and customers, value the contribution of tax compliance to build business stability and strengthen the credibility of SME. The findings of their research suggest that for continued business operation, it's important for compliant businesses to uphold and embrace credibility for them to continue enjoying operations that are important, maintain relationships with stakeholders, and have access to finance. Mascagni *et al.* (2021) showed that SMEs who have regular interactions and full information on formal reporting requirements tend to be easily encouraged to improve their way of keeping and safeguarding records, which makes them more visible to formal institutions. The African Development Bank (2022) further noted that SMEs that participate in the formal economy may increase their access to government programs and institutional support which can be improved through procedures that govern businesses which can stand economic challenges and enhance their resilience.

However, Adusei and Owusu (2022) found that there's a negative effect that impacts the business's liquidity and causes an interference with the resources available for reinvestment. The World Bank (2024) highlighted that small businesses may face a number of pressures that are associated with and may come about as a result of excessive administrative requirements. These findings suggest that compliant businesses can have access to resources, build their confidence with stakeholders, and improve the validity of the business, while a reduction in SMEs' financial capacity to grow and maintain their operations can be incurred as a result of high compliance costs.

Chalwe *et al.* (2026) examined tax compliance mechanisms among SMEs in Lusaka District, Zambia, using survey data collected from 400 SMEs. They applied multinomial logistic regression to investigate the effects of tax amnesty, taxpayer awareness, tax audits, and penalties on different levels of tax compliance. The findings indicated that the effectiveness of these measures varied according to SMEs' existing compliance levels. Tax amnesty encouraged some businesses to regularise their tax obligations, while audits and penalties had different effects on low- and high-compliance groups. The study emphasized how important tax awareness is in helping business owners understand and meet their tax obligations. It also highlighted the role of tax audits, penalties, and tax amnesty in addressing some of the challenges SMEs face when it comes to complying with tax requirements. The findings show that effective compliance measures in place can help businesses avoid penalties and other regulatory problems that could affect their ability to continue operating smoothly. The limitation arising is that the study focused on compliance levels and mechanisms rather than directly examining long-term business survival. Its focus on Lusaka also means that its findings may not fully reflect the administrative conditions and business characteristics of SMEs in Ndola District. Nevertheless, it is relevant because it demonstrates the importance of appropriate compliance support and enforcement measures in helping SMEs meet tax obligations without unnecessarily disrupting their operations.

In another study, Libanda and Kachamba (2026) investigated taxpayer compliance behaviour among SMEs in Lusaka's clothing sector using a mixed-methods design. They collected quantitative survey data and qualitative interview information from 246 SME owners selected through simple random and purposive sampling. The study discovered that taxpayer education, perceptions of fairness, and other institutional factors can affect how taxpayers comply with tax requirements and make tax payments in Zambia. The study suggests that businesses that understand their tax obligations and believe that the tax system is fair are more likely to comply consistently and operate with a better understanding of the rules and regulations they need to follow. However, the study was restricted to clothing-sector SMEs in Lusaka and focused on tax compliance rather than directly measuring business sustainability. The sector-specific sample limits its applicability to SMEs operating in manufacturing, hospitality, agriculture, and other industries. Despite these limitations, the findings are relevant to Ndola District because taxpayer education, perceived fairness, and institutional support may influence SMEs' ability to maintain compliance and manage their businesses consistently.

Siregar and Targan (2026) examined the relationship between tax compliance behaviour, digital tax services, perceived fairness and SME sustainability through a qualitative literature review and discovered that digital tax services and people's views on the fairness of the tax system can affect how businesses meet their tax obligations and maintain their operations. Their approach involved reviewing and thematically synthesising existing academic literature, policy reports and theoretical studies rather than collecting primary data from a defined sample of SMEs. They concluded that digital services may support compliance and sustainability when they reduce costs, improve procedural clarity and are perceived as fair, while poorly implemented digital systems may increase administrative burdens. However, because the study synthesised existing literature rather than directly surveying SMEs in a particular district, it does not provide direct empirical evidence about business survival in Ndola District. Its relevance lies in providing a conceptual explanation of how digital tax administration and perceived fairness may influence SME sustainability, which can be investigated using local data.

However, Twum *et al.* (2023) noted that smaller businesses face greater challenges in meeting tax requirements because they often have limited financial resources and may not have staff with the necessary expertise. The impact of tax compliance on business sustainability may depend on how effectively taxes are administered and the level of support available to SMEs. Providing sufficient support can help reduce financial and administrative difficulties that businesses often face when meeting their tax obligations. A related study by Bruce-Twum *et al.* (2023) surveyed tax professional firms selected from the Institute of Chartered Accountants and the Chartered Institute of Taxation in Ghana to estimate external tax compliance costs incurred on behalf of SMEs. This research focused on the professional costs associated with preparing and filing tax returns, dealing with tax authorities, implementing changes in tax laws, and maintaining tax records. Because the respondents were tax professionals rather than a representative sample of SME owners, the findings are more informative about external compliance costs than about the direct effect of those costs on business survival. Furthermore, the Ghanaian setting limits direct generalisation to Ndola District. Nonetheless, the study is relevant because it highlights the administrative expenses that may place additional pressure on small businesses with limited resources.

OECD (2022) pointed out that the impact of tax compliance on the sustainability of SMEs partly depends on whether the tax requirements are reasonable and manageable for small businesses. When tax procedures are simplified, expected, and supported by effective administration, businesses may benefit from greater legitimacy, improved access to institutions, and limited or reduced regulatory challenges. However, when these tax obligations remain complicated and financially hard to meet, they bring pressure on the working capital and decline the resources made available for day-to-day operations and business growth. Msoni and Mahlangu (2025) discovered that tax compliance can help businesses build better relationships with stakeholders and improve SME access to finance. Similarly,

The World Bank points out the importance of financial transparency and taking part in the formal economy, as these can help businesses become stable and continue operating over time. However, Adusei and Owusu (2022) discovered that costs of tax compliance can affect SME liquidity and facilitate the reduction of resources available for business reinvestment. These findings provide a clear view that business sustainability is not directly influenced by compliance. Rather, its effect depends on the balance that exists between the benefits of formal operation and the costs involved in meeting tax obligations. This evidence provides a clear basis for assessing whether or not tax compliance significantly affects the ability of SMEs in Ndola District to continue being operational, manage financial pressure, and sustain their businesses.

The reviewed literature suggests that tax compliance may support SME sustainability through improved relationships with tax authorities, greater procedural certainty, access to formal business opportunities, and more organised financial administration. At the same time, complicated tax requirements, limited taxpayer knowledge, and compliance costs may reduce working capital and the resources available for daily operations and reinvestment. However, the studies reviewed differ in their geographical settings, methodologies and outcome measures. Research on tax compliance behaviour does not automatically establish an effect on business sustainability, while findings on compliance costs do not necessarily prove that compliant SMEs are less likely to survive. Furthermore, studies conducted in Ghana, Rwanda, Botswana and Lusaka may not fully reflect the financial and administrative conditions experienced by SMEs in Ndola District. This creates a need for district-specific empirical research to establish whether tax compliance significantly affects SMEs' ability to maintain operations, manage financial pressures and sustain their businesses over time.

2.3. Effects of Tax Compliance on the Operational Costs of SMEs

In a quest to examine the effects of tax costs on tax compliance among SMEs in Ghana, Bruce-Twum and Schutte (2023) established that small businesses can have burdens regarding expenses when dealing with the issue of tax obligations. They used a self-administered questionnaire administered to 116 SMEs across five regions of Ghana. The researchers distinguished internal expenses, external professional fees, and incidental costs, and found that smaller businesses experienced a relatively heavier compliance burden. However, the study could not quantify the benefits of compliance, even though many respondents acknowledged that benefits existed. Its focus on Ghana limits direct generalisation to Zambia because the tax systems and administrative procedures differ. Nevertheless, the study is relevant to Ndola District because it demonstrates that the financial burden of compliance extends beyond the taxes paid to include the resources required to meet tax obligations. On the other hand, Musonda and Phiri (2021) similarly found that tax compliance combined with financial management requirements can cause added pressure on SMEs due to the limited resources that have to be used in accounting, reporting, and various other administrative tasks.

Mascagni *et al.* (2021) showed that financial and time-related costs for small businesses can be created, documentation requirements can be imposed, and interactions with the tax authorities can be required. These findings therefore suggest that tax compliance costs supersede the actual taxes paid and might also bring about expenses that relate to bookkeeping, record-keeping, preparation of taxes, and filing procedures. Adusei and Owusu (2022) further established that when compliance costs are high, business liquidity and funds available for reinvestment can be limited and reduced. The African Development Bank (2022) showed that SMEs that face multiple tax obligations and complicated filing procedures are at a high risk of business distractions due to increased administrative costs and reduced working capital

available. In this regard, literature available indicates that tax compliance may result in an increase in the immediate operational costs of SMEs, especially for businesses with limited financial resources and administrative capacity.

Bruce-Twum *et al.* (2023) looked into the external tax compliance costs from the view of tax professionals and discovered that SMEs face a number of costs in relation to preparation and filing of tax returns, maintaining and managing tax records, responding to tax authorities, and putting up with the changes that come with tax laws. Their findings indicate that the requirements involved can bring about added administrative work and may interfere with financial and managerial resources, taking them away from other business activities that might be productive for the business. Bruce-Twum and Schutte (2023) discovered that various factors regarding business size, age of sector, and technology-related expenses can cause an effect in the level of tax compliance costs faced by SMEs, indicating further that burden is not the same for all businesses. OECD (2022), in a similar report, uncovered the experiences faced by small businesses that cause relatively higher compliance costs because of fewer administrative resources that they have and the limited economies of scale.

In another report, the International Monetary Fund IMF (2023) also emphasized that for there to be a reduction in some of the costs associated with ineffective regulatory processes, improved accountability must take place through efficient tax administration. Dixon *et al.* (2024) examined the cost of tax compliance for small, medium, and micro enterprises in South Africa. They used a quantitative research design and an online survey of enterprises registered with the South African Revenue Service to establish a baseline of compliance costs. The study discussed the relationship between compliance costs, the regulatory environment, and investment. However, the findings reflect South African businesses and tax administration, and the results may not be directly transferable to Zambia. The study found that lower levels of investment and other economic challenges among small businesses are a result of excessive compliance costs. The study is relevant to Ndola District because it provides a comparative basis for examining how compliance expenses may affect the resources available for productive business activities. Additionally, Akampurira and Agaba (2024) found that tax compliance can affect the performance of SMEs in several ways. Apart from the money spent on taxes, businesses also have to deal with the time required to complete tax-related activities and the stress that can come with meeting tax requirements. This shows that the effect of tax compliance on SMEs is not only about how much tax they pay. It also includes the time, money, and other resources businesses have to use to manage their tax obligations.

A study by Bassongui and Honlonkou (2024) examined the effect of electronic tax reforms on tax compliance costs across 53 African countries. The study found that using electronic tax systems can reduce the number of tax payments businesses have to make, as well as the time spent preparing and making those payments. This suggests that when tax systems are simple, accessible, and efficient, complying with tax requirements does not necessarily have to increase the operational costs of businesses.

Similarly, Adusei and Boadi (2023) found that digital tax reforms can make administration easier for SMEs by reducing some of the time and procedural difficulties they face.

Madimbini (2025) also found a positive relationship between tax knowledge, tax training, e-tax functionality, and tax compliance among SMEs in Lusaka. This points out to the importance of ensuring that business owners understand their tax responsibilities while also having access to digital tax systems that are easy to use and effective.

Lumba *et al.* (2025), however, found that some challenges continue to affect Zambian SMEs, particularly limited awareness of digital tax systems and difficulties with their accessibility and ease of use. The World Bank (2024) also noted that SMEs in developing economies often face both direct and indirect costs when dealing with regulatory requirements. These costs can include the time employees spend on compliance, preparing documents, and meeting financial reporting requirements. These findings suggest that tax compliance does not always have to be a major burden for SMEs. The costs involved can be reduced when businesses have access to effective technology, proper taxpayer education, and simpler tax procedures. Therefore, the effect of tax compliance on SME operational costs may largely depend on how efficient, accessible, and supportive the tax administration system is.

The World Bank (2024) noted that SMEs with limited managerial, financial, and administrative capacity often face a heavier regulatory burden. This is because compliance activities can take up a significant amount of the resources available to these businesses. This view is consistent with the Ability-to-Pay Theory, which suggests that businesses with weaker financial capacity are likely to feel the effects of taxation and the costs of complying with tax requirements more strongly. At the same time, evidence from recent African Studies suggests that compliance can provide long-term strategic advantages; for instance, adherence to regulatory frameworks can strengthen financial management, mitigate exposure to penalties, and improve corporate accountability. The empirical studies show a clear contrast between the immediate costs involved and the potential benefits in the long run.

Dixon *et al.* (2024) found that high compliance costs can limit investment and negatively affect business performance. Similarly, Akampurira and Agaba (2024) noted that both monetary and non-monetary compliance costs can affect SME performance, although the business environment can influence how strongly these costs are felt. Madimbini (2025) also

found that having good tax knowledge and access to effective digital systems can make the compliance process easier, although access to these systems is still not the same for all SMEs.

Lumba *et al.* (2025) further observed that limited awareness and technical difficulties with digital tax platforms continue to make it difficult for some SMEs to benefit from these systems. Overall, these studies show that the effects of tax compliance can be felt both in the short and long term. In the short term, SMEs may have to spend more time and money on administrative requirements. However, an effective tax administration system can also reduce penalties, simplify compliance processes, and lower regulatory risks over time. Despite the growing body of research on tax compliance, there is still limited evidence on how tax compliance affects the operational costs of SMEs, especially in Ndola District. The present study therefore addresses this gap by assessing whether tax compliance has a significant effect on the operational costs of SMEs in Ndola District.

3. METHODOLOGY

This chapter presents the methodology that was used to investigate the relationship between tax compliance and business growth among Small and Medium Enterprises (SMEs) in Ndola District.

3.1. Research Design

The quantitative component generated measurable evidence on tax compliance, business revenue, sustainability, and operational costs, while the qualitative component provided contextual views on respondents' experiences with tax obligations.

3.2. Target Population

The target population comprised all Small and Medium Enterprises operating in Ndola District.

3.3. Sampling Design

The study employed simple random sampling to select participating SMEs

3.4. Sample Size Determination

The study used a sample of 50 SMEs selected from the target population.

3.5. Data Collection Methods

Primary data were collected using a structured questionnaire administered to the 50 selected SME respondents, with a target selection of 10 amongst the 50 respondents selected for semi-interviews using a structured interview guide

3.6. Data Analysis

Collected data were coded, organized, and analysed using Mega-Stat statistical software and interpreted. The statistical techniques used were the frequency distribution, hypothesis tests for Means versus hypothesized values, and regression analysis.

3.7. Triangulation

Validity was enhanced by developing the questionnaire in accordance with the study objectives and conceptual framework. Questions were reviewed for clarity, relevance, and consistency with the variables under investigation; reliability was supported through the use of a standard questionnaire and consistent administration to all respondents. Completed questionnaires were checked for completeness and consistency before analysis. Qualitative data were obtained using semi-structured interview guides and integrated with the quantitative data to analyse the findings.

4. RESULTS AND DISCUSSION

This section presents the results and discussion of findings in detailed context regarding the effects of tax compliance on business growth.

4.1. Background Information

This section provides information relevant for understanding the effect of tax compliance on business growth in relation to business revenue, sustainability, and operational costs.

4.1.1. Types of SMEs

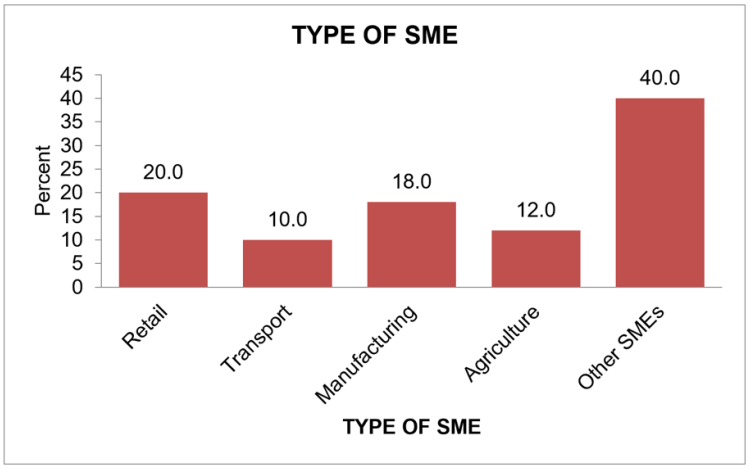


Figure 2. Type of SME.

The study indicates that 20% of the SMEs involved operated in the retail sector, 10% in transport, 18% engaged in manufacturing, and 12% operated in agriculture. Among the 50 SMEs studied, the majority 40% comprised SMEs from other business sectors, having the highest percentage. This distribution indicates that the study captured a broad representation of different types of SMEs, thereby improving the diversity and overall representativeness of the study findings. The study reveals the vast diversification of SMEs engaged in the study, which shows a variety of businesses that have a relationship with tax compliance; hence, the need to assess the effects of tax compliance on business growth.

4.1.2. Business Registration Status

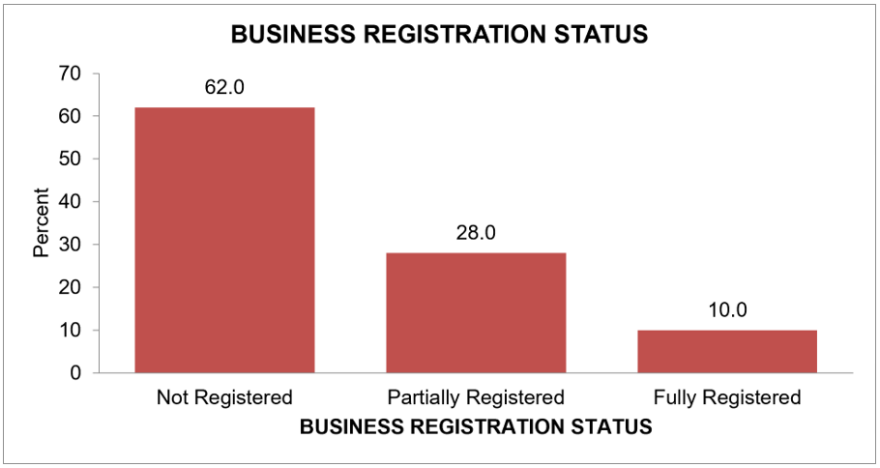


Figure 3. Business Registration Status.

The figure above shows the registration status of all SMEs involved in this study. The study indicates that 62% of the SMEs bearing the highest percentage recorded were not registered, 28% were partially registered, and the other 10% were fully registered. This distribution indicates that most of the SMEs operated without registration, hence creating the need to assess the effects of tax compliance on business growth.

4.2. Effects of Tax Compliance on Business Revenue

This section discusses the effects of tax compliance on business revenue

4.2.1. Impact on Business Revenue

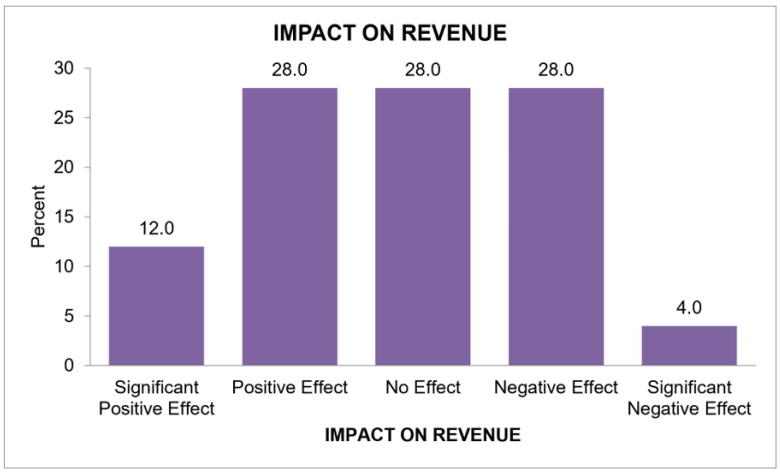


Figure 4. Impact on Revenue.

The study shows a 12% significant positive effect on business revenue, a 28% positive effect, no effect, as well as a negative effect, respectively, and a 4% significant negative effect. This shows the impact that tax compliance has on the revenue of SMEs engaged in the study, which shows a variety of businesses that have a relationship with tax compliance. This distribution calls for the need to assess the effects of tax compliance on business revenue.

4.2.2. Business Growth Percentage

The study indicated that 2% of the SMEs had 75% growth, 20% recorded 51% to 75% growth, the highest being 34% recorded 26% to 50% growth, 28% recorded 11% to 25% growth, and the other 16% recorded less than 10% growth. This shows the percentages of business growth in relation to tax compliance among the various SMEs engaged in the study. This distribution indicates that business growth among the SMEs was not static but varied according to each individual SME. Hence, creating the need for assessing the effects of tax compliance on business growth.

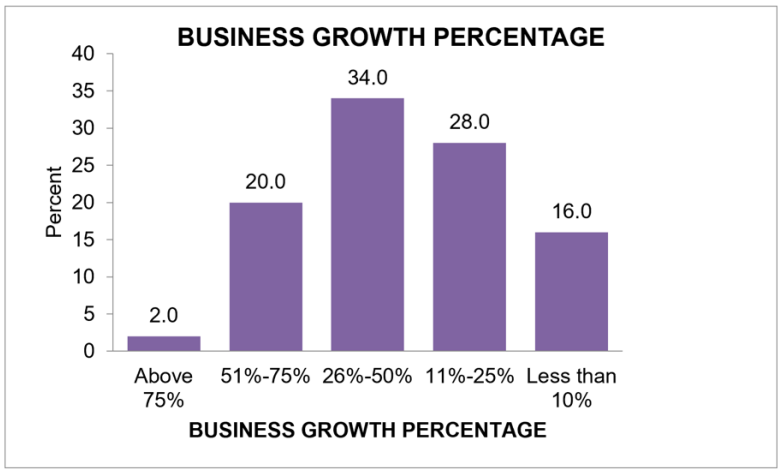


Figure 5. Business Growth Percentage.

4.2.3. Significance Testing

Table 1. Significance Testing.

Hypothesis Test: Mean vs. Hypothesized Value	
3.000	Hypothesized value
2.840	mean IMPACT ON REVENUE
1.095	std. dev.

Hypothesis Test: Mean vs. Hypothesized Value	
0.155	std. error
50	n
49	df
-1.03	t
.3064	p-value (two-tailed)
2.529	Confidence interval 95. % lower
3.151	Confidence interval 95. % upper
0.311	half-width

To supplement the scientific validity of the findings for the first objective, a one-sample t-test was conducted to assess the effect of tax compliance on business revenue among SMEs. The results showed a mean impact on revenue of 2.840 compared with the hypothesized mean of 3.000, with a standard deviation of 1.095 and a standard error of 0.155 based on 50 respondents (df=49). The test produced a t-value of -1.03 and a p-value of 0.3064, which is greater than the 0.05 significance level, indicating that the effect was not statistically significant. The 95% confidence interval ranged from 2.529 to 3.15, with a half-width of 0.311, and included the hypothesized value of 3.000. Therefore, the study failed to reject the Null hypothesis, indicating that tax compliance did not have a statistically significant effect on business revenue among the SMEs studied.

4.3. Effects of Tax Compliance on Business Sustainability

This section discusses the effects of tax compliance on business sustainability.

4.3.1. Sustainability Effect

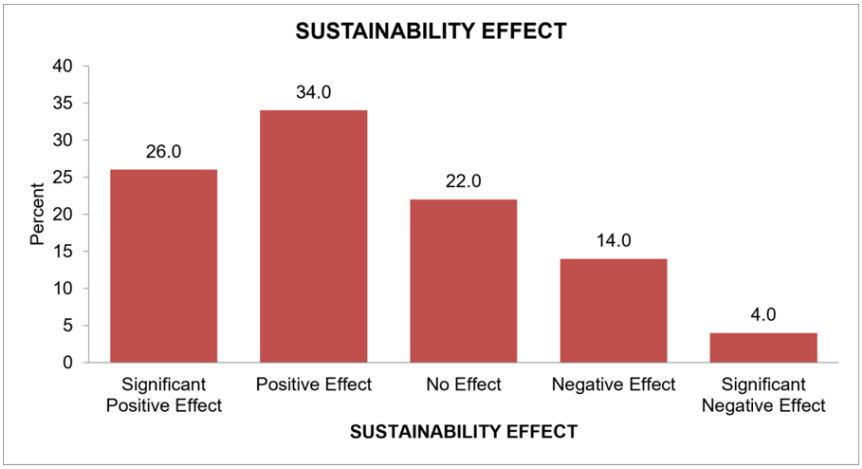


Figure 6. Sustainability Effect.

In the study, the impact on sustainability effect for each individual SME showed 26% significant positive effect, 34% recorded positive effect showing the highest percentage, 22% recorded No Effect, 14% recorded Negative Effect, and 4% recorded a Significant Negative Effect. This distribution provides a relevant basis for assessing the effects of tax compliance on business sustainability in Ndola District.

4.3.2. Growth and Expansion Impact

In the study, the percentage of growth and expansion of business for each individual SME showed results of 6 SMEs recording above 75% significance, 16 SMEs recorded 51% to 75% significance, 28 of the SMEs recorded 26% to 50%, the largest number being 34 of the SMEs recorded 1% to 25%, and 16 SMEs recorded no significance. The findings provide a relevant basis for assessing the effects of tax compliance on business growth and expansion in Ndola District.

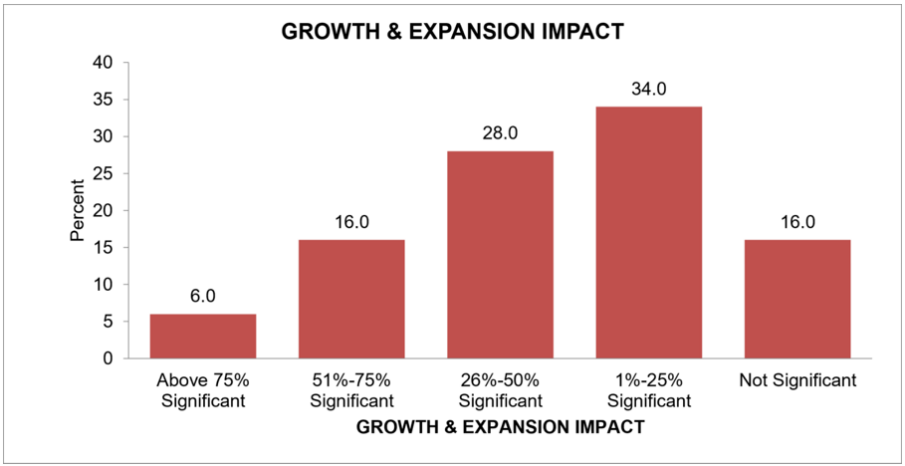


Figure 7. Growth and Expansion Impact.

4.3.3. Significance Testing

Table 2. Significance Testing.

Hypothesis Test: Mean vs. Hypothesized Value	
3.000	Hypothesized value
2.360	Mean SUSTAINABILITY/EFFECT
1.139	Std. dev.
0.161	Std. error
50	n
49	df
-3.97	t
.0002	P-value (two-tailed)
2.036	Confidence interval 95. % lo
2.684	Confidence interval 95. % upper
0.324	Half-width

To supplement the scientific validity of the findings for the study objective, a one sample t-test was conducted to assess the effect of business sustainability among SMEs. The results showed a mean effect of 2.360 compared with a hypothesized mean of 3.000, with a standard deviation of 1.139 and a standard error of 0.161, based on 50 respondents (df=49). The test produced a t-value of -3.97 and a p-value of 0.0002, which is less than the 0.05 significance level, indicating that the observed effect was statistically significant. The 95% confidence interval ranged from 2.036 to 2.684, with a half-width of 0.324, and did not include the hypothesized value of 3.000.

Therefore, the study rejected the Null hypothesis and failed to reject the alternative hypothesis, indicating that the sustainability effect had a statistically significant effect on the SMEs studied.

4.4. Effects of Tax Compliance on Operational Costs

This section discusses the effects of tax compliance on Operational costs of businesses.

4.4.1. Average Monthly Operational Costs

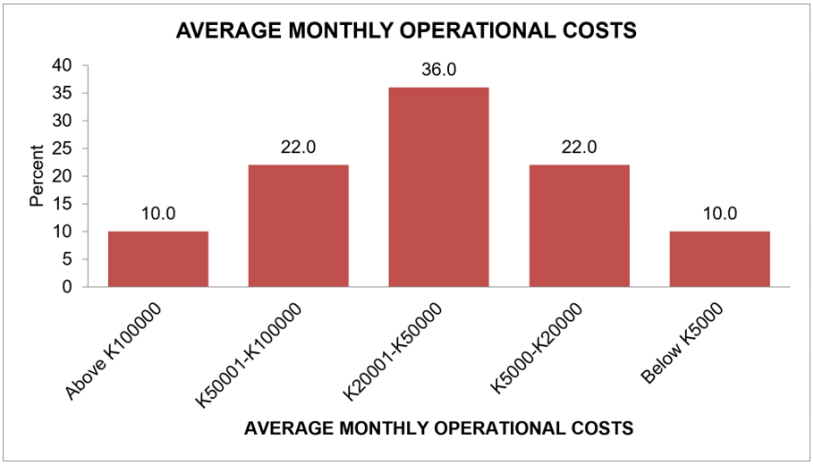


Figure 8. Average Monthly Operational Costs.

Figure 8 shows that 10% of the respondents recorded average monthly operational costs of below K5,000, 22% had average monthly operational costs of between K5,001 to K20,000, 36% recorded average monthly operational costs of between K20,001 to K50,000, another 22% recorded average monthly operational costs of between K50,001 to K100,000, and the other 10% recorded average monthly operational costs of above K100,000. The findings indicate that respondents had varying monthly operational costs and provide a relevant basis for assessing the effects of tax compliance on the average monthly operational costs of businesses in Ndola District.

4.4.2. Impact on Business Performance and Growth

In the study, Figure 9, focusing on impact on performance and growth for each individual SME, showed a 10% significant positive effect, 38% recorded a positive effect, 18% recorded no effect, 24% recorded a negative effect, and another 10% recorded a significant negative effect. The findings provide a relevant basis for assessing the effects of tax compliance on performance and growth impact in Ndola District.

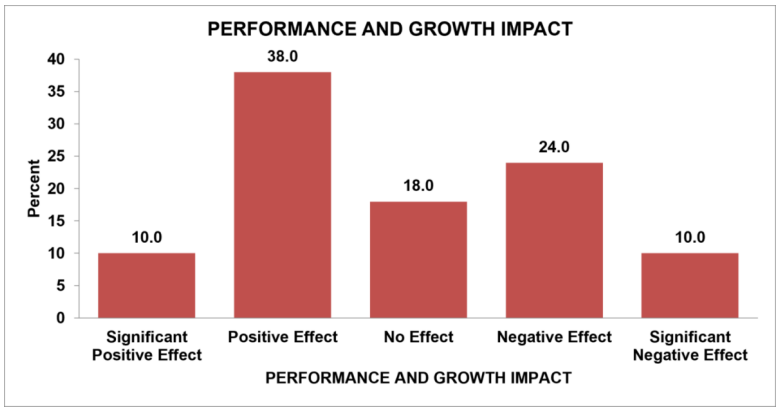


Figure 9. Performance and Growth Impact.

4.4.3. Regression Analysis

To support the scientific validity of the research study, the third objective was subjected to significance testing on the effects of tax compliance on business growth using regression analysis.

The regression analysis was conducted to determine the effect of monthly operational costs on performance and growth impact on SMEs. The results indicate a correlation coefficient (r=0.288) that showed a positive relationship between operational costs and performance and growth with the number of variables (n=50). The coefficient of determination was 0.083, and the standard error was 1.156. The ANOVA results show the F-statistic of 4.35 and the P-value of 0.0423.

The monthly operation cost showed a regression coefficient of 0.3065, with a standard error of 0.1469 and a t-value of 2.087 at degrees of freedom (df=48) and a P-value of 0.0423, at a 95% confidence interval (lower and upper.

- *Decision:* Therefore, we reject the Null hypothesis and fail to reject the alternative hypothesis, and conclude that operational costs have a statistically significant positive effect on performance and growth among the SMEs studied.

Table 3. Regression Analysis.

Regression Analysis							
	r^2	0.083					
	r	0.288					
	Std. Error	1.156					
	n	50					
	k	1					
	Dep. Var.	PERFORMANCE AND GROWTH IMPACT					
ANOVA table							
Source	*SS*	*df*	*MS*	*F*	*p-value*		
Regression	5.8226	1	5.8226	4.35	.0423		
Residual	64.1974	48	1.3374				
Total	70.0200	49					
Regression output					**confidence interval**		
variables	*coefficients*	*std. error*	*t (df=48)*	*p-value*	*95% lower*	*95% upper*	*std. coeff.*
Intercept	1.9406	0.4700	4.129	.0001	0.9957	2.8856	0.000
M/OPER COST	0.3065	0.1469	2.087	.0423	0.0111	0.6018	0.288

5. CONCLUSION

The study concludes that compliance has mixed effects on the growth and performance of SMEs in Ndola District. The findings in this first objective showed that tax compliance did not have a statistically significant effect on business revenue, as the significance testing using means versus the hypothesized value produced a P-value of 0.3064, which was greater than the 0.05 significance level. Some SMEs, despite reporting positive effects of tax compliance on revenue, did not provide sufficient evidence to conclude that compliance directly influences the generation of revenue.

Findings in the second objective showed that tax compliance had a statistically significant effect on business sustainability. Significance testing using means versus hypothesized value conducted on business sustainability produced a P-value of 0.0002, which was less than the 0.05 significance level. These findings suggest that if businesses comply with tax obligations, they can support the continued operation and sustainability of SMEs. Compliance in turn may help businesses to maintain their validity, avoid penalties and other regulatory disruptions, and operate more effectively within the formal business environment.

The third objective of the study further found that tax compliance is significantly associated with operational costs and business performance and growth. The regression analysis produced a t-value of 2.087 at degrees of freedom (df=48) and a P-value of 0.0423 at a 95% confidence interval (lower and upper. ANOVA, which is Analysis of Variance, gave an F-statistic value of 4.35 and a P-value of 0.0423.

This concludes that compliance should never be narrowed to a sole view of being a financial burden or as a direct influence on business growth. Rather, its major contribution among the SMEs studied appears to be through supporting businesses' sustainability and formal business operations, although compliance also creates operational costs. The findings therefore demonstrate the need for a balanced tax administration system that promotes compliance while minimizing unnecessary financial and administrative burdens on SMEs. The study therefore recommends as follows.

5.1. Strengthen Taxpayer Education and Awareness

The Zambia Revenue Authority and other relevant institutions should strengthen tax education programs targeting SMEs. They should have training that focuses on proper and safe record-keeping, improved, modernized filing procedures, the need for tax registration, and communicate any changes regarding tax legislation. By improving basic knowledge on tax, this can enable SMEs to comply and reduce the errors, penalties, and burdens associated with tax compliance costs.

5.2. Make Procedures for Tax Compliance Easier

The tax authorities should ensure procedures regarding tax obligations are made simple to be easily attainable by all; the payment procedures should be less complex, and filing timeframes should be stated in order to allow even small businesses that have limited administrative capacity to comply. When procedures are made user-friendly and accessible to all, time and resources spent on meeting tax obligations can be reduced.

5.3. Revise and Reduce the Unnecessary Compliance Costs

A reduction in the compliance costs will reduce unnecessary administrative and financial burdens associated with tax compliance. This reduction may include simple record-keeping requirements, electronic tax systems that are improved, as well as making accessible taxpayer support services. By reducing unnecessary compliance costs, this can allow SMEs to retain more resources for productive activities and business expansion.

5.4. Improve Taxpayer Support Services

Enhancing and improving communication channels by the Zambia Revenue Authority (ZRA) can help SMEs obtain timely clarification and assistance on tax obligations. Having dedicated SME support mechanisms, online information which is easily accessible and practical training can help the businesses to understand and fulfil required obligations more efficiently.

5.5. Strengthen the Link Between Taxation and Public Services

The government should ensure that SMEs can observe meaningful benefits from public revenue through improved infrastructure, market facilities, utilities and other services that support business activity. Visible benefits may strengthen the perception of taxpayers about fairness and therefore encourage voluntary compliance.

5.6. Support SMES in Managing Operational Costs

Following the significant relationship between operational costs and performance established by the study, SME owners should work on strengthening budget- or cost control-related practices and financial record-keeping. This can help businesses distinguish between necessary compliance expenditure and other operating costs and improve the efficient use of available resources.

5.7. Promote Compliance as a Tool for Business Sustainability

Encouragement and support should be given to SMEs to encourage them not only to view tax compliance as a statutory requirement, but also to see it as part of responsible and sustainable business management practice. This practice of maintaining proper tax records and fulfilling tax obligations can strengthen business legitimacy and reduce the risks associated with penalties, disputes, and business interruptions.

5.8. Encourage Further Research

Future studies should assess any additional factors that may influence the growth of SMEs following the variations in performance and growth that come from operational costs. Future research should consider factors such as access to finance, management skills, market conditions, tax awareness, technology, business size, and government support, using larger samples and broader geographical coverage.

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