

***INCREASING WITHHOLDING TAX REVENUE FROM PROPERTY: A CASE OF
ZAMBIA REVENUE AUTHORITY***

By

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**A Dissertation submitted to the University of Zambia in partial fulfilment of
the requirements for the award of the Degree of Master of Business
Administration Finance**

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DECLARATION

I, *Muziya Mutungwa*, do hereby declare that this work is my original work achieved through personal reading and research. This work has never been submitted to the University of Zambia or any other Universities. All sources of data used and literature on related works previously done by others, used in the production of this Dissertation have been duly acknowledged. If any omission has been made, it is not by choice but by error.

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APPROVAL

This Dissertation by *Muziya Mutungwa* is approved as a partial fulfilment of the requirements for the award of the Degree of Master of Business Administration Finance

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ABSTRACT

The aim of the study was to develop a framework of measures that could be employed by ZRA to increase revenue from rented properties especially homes. A qualitative phenomenological study involving ZRA staff and was employed. Data was collected using in-depth interviews and future search conference techniques (presentations, discussions at plenary sessions and document review. Data was analysed using modified content analysis which has an extension of Katherine Charmaz's Constructivist Grounded Theory. In this sense, the research focused on the meanings attributed by the participants to the research phenomenon and in this case Income tax on rent. The main findings in this study are that the quantum of ITR that is remitted by the taxpayer was based on a self-assessment estimate principle. ZRA did not assess property and not even the lease agreement to ensure that it received a commensurate quantum of ITR. In essence ITR is merely received and accounted for. As from January 2022, the authority changed the ITR liability which initially was placed on the tenant for the landlord. The landlord as an income earner is now mandated to remit the rental tax. There are several barriers that influenced tax compliance including the improbability of conducting audit, low tax knowledge by the citizenry, and the perception of equity and fairness, low citizenry tax education, lack of transparency due to weak news media, cultural factors, such as weak national identity where the citizenry are not committed to pay taxes, tax evasion, tax under declaring, poor record keeping. Following a change in targeting tenants to landlords, the month-on-month income figures for the tax from the time it was changed, self-withholding the tax in 2023 has increased. The study concludes that Income tax on rent is not being paid as expected because there are barriers on the taxpayer's side and ZRA side. There are a number of viable ways to break ground as far as reaching out to landlords. There is need for designing effective measures.

KEY WORDS: Withholding Tax, Revenue, Property, Zambia Revenue Authority

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CHAPTER ONE - INTRODUCTION

1.1 Introduction

The state in developing countries, is challenged by the increasing needs of its citizens and by the limitedness of the resources it can mobilize (USAID/RCSA, 2004). This situation is accentuated, on one hand, by the high increase of the costs of public services, which become difficult to sustain, especially in the actual context of limitation of collection of levies (IDS, 2014). In this context, marked by the scarcity of resources and by the unlimitedness of needs, the supply of public goods requires a special focus on the mobilization of the different resources in order to implement a tax policy capable to generate the maximum financing needed for public goods and services. This however is contingent on a sound tax policy (IDS, 2014; Beer and Loeprick, 2015; IMF, 2013; 2017).

Tax policy is one of the instruments by which public action impacts social economic growth in that taxes are the main source of funds to finance essential services and to invest in public goods in the long run (DFID, 2016). According to research (Fjeldstad and Moore, 2009; G20 2011; Durst, 2016), tax system is complex and due to complexity of the tax system and the issues related to its governance in developing countries require the implementation of reforms to improve the relationship between tax administration and taxpayers in order to promote their adhesion and to integrate the evolution of social demand into the making of public policies.

1.2 Background

The tax base in Zambia, as in most sub-Saharan African countries, is extremely narrow (Moore, 2013). So far, attempts to increase tax revenue have focused on closing the ‘taxation gap’ and expanding the tax base. The main policies recommended by the IMF have led to trade liberalization, the transition from a sales tax to a system of VAT, and the creation of the Zambia Revenue Authority (IMF, 2013). These policies have had mixed results. However, the impact of domestic tax reforms has been less impressive. Most importantly, revenues collected from Income tax on rent, VAT and direct taxation have not increased as hoped.

Neither the switch to VAT, nor the creation of the ZRA has significantly altered the proportion of government revenue made up by domestic taxation.

One reason for this is the structural weaknesses in the Zambian economy that place limits on the possibilities of revenue expansion. In particular, low levels of tax collections coupled with a low base of formal employment, poverty wages and a high dependency ratio (Lundstøl et al., 2013). These all mean that there are strong constraints on the state's ability to increase tax revenue. In this context, the continued emphasis of the IMF on broadening the tax base and capturing more taxpayers who ought to pay Income tax on rent has been of great concern. IMF reports have suggested that countries such as Zambia can compensate for this decline by increasing revenue from domestic taxation (IMF, 2013). Given the constraints on the expansion of domestic taxation linked with property when barriers remain unknown, this seems unlikely, and the consequence will be that the Zambian government will remain dependent on international donors to support basic government programs.

Worryingly, there is some evidence that the pressure to meet both domestic expectations and display fiscal responsibility is leading the Zambian government to exaggerate estimated future tax revenues. This allows the government to fulfil its expensive election promises and present balanced books to the donor community but will ultimately lead to future budget cuts unless donors agree to cover the short fall in the near future (Monkam and Moore, 2015). To support the ability of the Zambian government to attain self-sufficiency and to allow for consistent economic planning it is imperative that the existing tax opportunities are exploited. This could include Income tax on rent on rent.

Withholding Tax was first introduced in Zambia on Interest, Management and Consultancy Fees, Royalties and Public Entertainment Fees in 1971. The Withholding Tax has over the years been extended to Dividends, Rent, Commissions and Payments to Non- Resident Contractors. Rent is one area where this tax could have contributed a great deal to the treasury. Rent is taken to mean payment in any form a premium or any like amount, made as a consideration for the use or occupation of or the right to use or occupy any real property including personal property directly connected with the use or occupation or the right to use or occupy such real property. It is important to note that the rate of Withholding Tax is 10%. The payer (tenant) is responsible for deducting Withholding Tax from gross rentals on the

date of accrual of any amount due to the payee (landlord). The tenant should remit the amount so deducted to the Zambia Revenue Authority. This is the final tax. This then brings us to the foundation of the research problem.

The performance of the Zambian tax system Zambia is facing particular tax performance challenges that need to be addressed urgently. The ratio of tax revenue to Gross Domestic Product (GDP), often used as a basic measure of the performance of a tax system, has been on the decline, from 19.2 percent in 2000 to 15 percent in 2009¹. Underlying this overall decline in this performance measure is a slow change in the structure of tax revenue (i.e. the different sources of tax revenue). The global recession of 2008/2009 once highlighted the dangers of relying on trade taxes and emphasized the need to broaden the tax base. However, the best alternative, that is, reliance on consumption taxes, especially domestic VAT and Income tax on rent have been declining in performance. The country, therefore, has continued to rely on income taxes as the major sources of tax revenue.

1.3 Statement of the Problem

The ability to collect taxes is central to a country's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods. One ZRA Commissioner General at a launch of the tax amnesty, called for the need to increase revenue and among some of the measures was the need to increase Income tax on rent from rented properties. The Commissioner General noted that a large proportion of tenants were not remitting Income tax on rent. This accounted for 80% loss of the projected Income tax on rent from rent annually. Considering the vast needs of the citizenry, this low level of tax collection from rent is adding as well to social economic development risks. It is not yet known what barriers ZRA is facing to fail to collect the targeted quantum of Income tax on rent every year. Solutions to this poor collection have been hard to find because it is yet to be known why ZRA has allowed the majority of tenants not remitting Income tax on rent and hence this study.

1.4 Purpose of the Study

The premise of this study is that Zambia can equitably and efficiently raise enough resources through Income tax on rentals and raise some of the necessary finances for development, address the needs of the poor and improve social justice. The purpose of this study is to increase withholding tax revenue from property by way of developing a framework of measures that could be employed by ZRA.

1.5 Research Objectives

- 1) To determine the current ZRA practices of Income tax on rent on rented household properties.
- 2) To establish the barriers ZRA faces in targeting landlords to increase revenue from rented household properties.
- 3) To describe what operational tax policy measures would be appropriate to increase revenue from Income tax on rent linked with rented household properties.

1.6 Research Questions

- 1) What are the current ZRA practices of Income tax on rent on rented household properties?
- 2) What barriers does ZRA face in targeting tenants Landlords to increase revenue from rented household properties?
- 3) What operational tax policy measures would be appropriate to increase revenue from Income tax on rent linked with rented household properties?

1.7 Scope of the study

This is a study anchored on domestic rent and takes a qualitative approach. It will be limited to ZRA and the department of domestic revenue. The study will focus on the current ZRA practices of Income tax on rent on rented household properties while establishing the barriers ZRA could be facing in targeting tenants to increase revenue from rented household properties.

1.8 Theoretical framework

This study will employ an integrative theoretical approach. It will be anchored on phenomenology and the theory of constraints. Phenomenology which philosophical approach has an epistemological orientation to derive meanings from social actors and the theory of constraints which was developed and popularized by manufacturing guru Eliyahu M. Goldratt in 1984(Goldratt, 1990) are being applied to explore the problem, describe the outcomes and provide solutions will be employed.

The big idea behind the theory of constraints is that every process has a constraint (bottleneck) and focusing improvement efforts on that constraint is the fastest and most effective path to improved profitability (Gupta, 2003; Gupta et al., 2004; Davies et al., 2005; Boyd and Gupta (2004) established TOC as a theory by clearly identifying the underlying construct “throughput orientation” along with its three dimensions: Mindset, Measures and Methodology. AS such, the Theory of Constraints is a methodology for identifying the most important limiting factor (i.e., constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. In manufacturing, the constraint is often referred to as a bottleneck. TOC further defines a constraint as anything that limits an organization’s higher performance in terms of its goal (Fry et al., 1992; Gupta, 2003; Mabin and Balderstone, 2003; Kim et al., 2008; Mabin et al., 2011). The Theory of Constraints provides a powerful set of tools for helping to achieve the practitioner’s goal (Gupta, 2003; Gupta et al., 2004; Davies et al., 2005) covering:

Identifying barriers or constraints using the constructs below:

- 1) Equipment as tangible items, such as material shortages have been a barrier to raise revenue.
- 2) Material shortages as tangible items have been a barrier to raise revenue.
- 3) Lack of qualified people, been a barrier to raise revenue.
- 4) Lack of adequate numbers of people been a barrier to raise revenue.
- 5) Lack of space been a barrier to raise revenue.
- 6) Material shortages as tangible items have been a barrier to raise revenue.

- 7) Five Focusing Steps (a methodology for identifying and eliminating constraints)
- 8) The Thinking Processes (tools for analysing and resolving problems)
- 9) Throughput Accounting (a method for measuring performance and guiding management decisions).

1.10 Operational definitions

The key terms requiring defining in this study are Income tax on rent and revenue.

Withholding Tax

This is a tax deducted at source and paid directly to the government by a person.

Revenue

Revenue is the total amount of income generated by the sale of goods or services related to the company's primary operations. *Rent*

A tenant's regular payment to a landlord for the use of property or land.

1.11 Brief Research Methodology

This shall be a phenomenological inquiry that will target interviewing 15 ZRA officers in decision and operational positions dealing with domestic tax. The officers will be recruited using critical incident technique (CIT) which is a systematic procedure for obtaining rich, qualitative information about significant incidents relating to encounters with tenants and landlords to document first-hand experience, which in turn helps researchers understand the critical requirements for individuals, processes or systems. Interpretive phenomenological analysis will be employed to analyse the data (FitzGerald, 2008).

1.12 Chapter Synthesis

The chapter has demonstrated that in order to support the ability of the Zambian government to attain self-sufficiency and to allow for consistent economic planning it is imperative that the existing tax opportunities like Income tax on rent on rent are explored. This stemming from the background where rent is one area where Income tax on rent could have contributed a great deal to the treasury. As such, there is absolute need for operational tax policy measures which are appropriate to increase revenue from Income tax on rent linked with rented household properties.

CHAPTER TWO- LITERATURE REVIEW

2.1 Review Process

This chapter provides a review of the teaching excellence concept in taxation and Income tax on rent and the literature relevant to the study, highlighting the issues around barriers. The extant literature that are relevant for this study amount to 150. The period of reading when research was done stems from 1967 to 2021. However, the bulk of literature review on the subject matter is between 1967 and 2000 accounting for 80% and only a small fraction covers the period 2001 to 2021 accounting for 15%. In this literature, classical works as old as 1967 are cited because they are original versions of the constructs. Though universities give a specific timeframe that articles referred to should not be more than ten (10) years, in this dissertation, this rule could not be applied as most of the data bases the University subscribes to are not accessible save for abstracts. This therefore compelled the researcher to use citations older than ten years.

The review covers a range of themes including the need for citizens to pay taxes, the centrality of tax for development, tax revenue especially income from rented property, barriers to tax revenue collection, consequences of barriers to tax revenue collection, debates surrounding tax innovations, theories on taxation and observed gaps in the reviewed literature.

2.2 The need for tax

Conceptually, developmental needs can be funded from both private and public sources. Resources from private entities can be provided through domestic private borrowing while resources from public entities are provided mainly through taxation as well as from foreign sources, both private and public. External private sources include Foreign Direct Investment (FDI), portfolio investments and remittances from nationals abroad

while external public sources include foreign aid and foreign public borrowing. According to studies commissioned by the Civil Society for Poverty Reduction (CSPR, JCTR and CSTNZ) in 2008, Zambia needs a significant increase in income from donor countries in addition to local resources if it is to meet the Millennium Development Goals (MDGs). Given the immense difficulties of raising sufficient taxes and the costs to economic efficiency and equity, there is a case for supporting alternative sources of funding for developing countries. What this means is that tax is just one form of funding development, and if other sources fall, then tax resources have to increase to maintain the balance.

2.3 The Centrality of Taxation to Economic Development and Poverty Reduction

A well-functioning revenue system is a necessary condition for strong, sustained and inclusive economic development. Revenue funds the public expenditure on physical, social and administrative infrastructure that enables businesses to start or expand. The revenue system is also a central element in supporting a strong citizen–state relationship that underpins effective, accountable and stable governments. Both of these elements contribute to stronger economic and employment growth outcomes (Cottrell, 2011).

Revenue from wealth taxation One important reason for the inequality of the income tax system in Zambia is the weak taxation of wealth held by the well off. Currently, Zambia taxes wealth solely through the Property transfer tax on real estate and shares in unlisted companies. Extra tax income can be earned on sustainable basis from selling assets like property or shares. While there is an equity case for exempting tax on gains from selling an individual’s primary residence, tax should be applied to sales of additional properties. Currently Zambia does not tax any of these capital gains. In the 2018 Budget, Government has proposed an increase of the property tax rate from 4 percent to 6 percent . This can be done by taxing capital gains (i.e. income from capital assets) and taxing all dividends income and interest income from bonds, government loans and such assets. Meanwhile, the property levy, administered by local councils, may or may not be considered a wealth tax in the redistributive sense. Officially, the revenue from the levy should only be spent on local council projects within the area

in which the levy is raised. For example, revenue raised in a particular residential area in Lusaka should be spent by the Lusaka City Council in that area only. Hence, these funds cannot officially be spent in other poorer areas of Lusaka. Even so, the property transfer tax has not performed well principally because of a lack of tax inspectors trained in property taxation and the property valuation system itself, which is likely to be undervaluing properties. Withholding tax on rental income is another way to increase the tax burden of the wealthy. Withholding tax is a government requirement for the payer of an item of income to withhold or deduct tax from the payment and pay that tax to the government. This includes withholding tax on dividends, interest, rent, commissions, management and consultancy fees. Unfortunately, in Zambia, this tax has not performed very well and has only averaged 5 percent of total revenue collection in the last ten years. The main reason for its poor performance is the lack of disclosure of such earned income by the majority of earners. Particularly for withholding taxes on rental property, very few properties particularly houses are registered for tax purposes. Effective use of tax can assist Government to combat tax evasion, because typically the withholding tax is treated as a payment on account of the recipient's final tax liability. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the Government is less than the tax withheld, or additional tax may be due if it is determined that the recipient's tax liability is more than the Income tax on rent. In some cases, the Income tax on rent is treated as discharging the recipient's tax liability, and no tax return or additional tax is required.

Typically, withholding is required to be done by the employer of someone else, taking the tax payment funds out of the employee or contractor's salary or wages. The withheld taxes are then paid by the employer to the Government, and applied to the account of the employee, if applicable. The employee (consultant) may also be required by the Government to file a tax return self-assessing their tax and reporting their withheld payments. Since the law requires that withholding taxes are paid directly to Government, it is advantageous to the tax system because it ensures that taxes will be paid first, and on time.

2.4 Tax Revenue

The difference in tax revenues across countries have been a topic of widespread debate in the relevant literature (Dohrmann and Pinshaw, 2009). The main factors that have been found, as the cause of variations in tax pressure are, the level of development, which is usually represented by the gross domestic product (GDP) per capita (Gupta, 2007; Pessino and Fenochietto, 2010), the productive specialization, or the structure of the economy, that can be explored through the sectoral composition of the GDP (Piancastelli, 2001; Karagöz, 2013;), external factors such as the level of foreign direct investment (FDI) and trade (Gupta, 2007; Bird et al., 2008). and accountability and civil and political rights are also considered determinants of tax revenue (Easter, 2002; Bird et al., 2008; Martin-Mayoral and Uribe, 2010). Some studies have explored the effect of social variables such as the educational level, measured by public expenditure on education or illiteracy rate (Pessino and Fenochietto, 2010; Piancastelli, 2001) and population growth (Bahland Wallace, 2005).

The methodology to analyse the determinants of tax revenue across countries has been diverse. For instance, some authors have applied dynamic general equilibrium models (Feltenstein and Cyan, 2012), while others have conducted diverse Morss, 1967). Pessino and Fenochietto (2010) developed a panel version of a stochastic tax frontier model. Other panel data studies (Braithwaite, 2007; Gupta, 2007) Martin-Mayoral panel data techniques that use the generalised method of moments (GMM) have been proved ideal. It is worth noting that the previous dynamic studies have neglected to incorporate in the (2010), already quoted, incorporated large samples from low, middle-income countries (Ángeles-Castro, 2006).

2.5 Withholding tax

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additional properties. Currently Zambia does not tax any of these capital gains (CSO, 2007). In the 2011 Budget, Government has proposed an increase of the property tax rate from 3 percent to 5 percent which this study supports. The study recommends that such taxes that reflect wealth should be introduced or enhanced. This can be done by taxing capital gains (i.e. income from capital assets) and taxing all dividends income and interest income from bonds, government loans and such assets. Meanwhile, the property levy, administered by local councils, may or may not be considered a wealth tax in the redistributive sense. Officially, the revenue from the levy should only be spent on local council projects within the area in which the levy is raised. For example, revenue raised in a particular residential area in Lusaka should be spent by the Lusaka City Council in that area only. Hence, these funds cannot officially be spent in other poorer areas of Lusaka. Even so, the property transfer tax has not performed well principally because of a lack of tax inspectors trained in property taxation and the property valuation system itself, which is likely to be undervaluing properties. Withholding tax on rental income is another way to increase the tax burden of the wealthy. Withholding tax is a government requirement for the payer of an item of income to withhold or deduct tax from the payment and pay that tax to the government. This includes withholding tax on dividends, interest, rent, commissions, management and consultancy fees. Unfortunately, in Zambia, this tax has not performed very well and has only averaged 5 percent of total revenue collection in the last ten years. The main reason for its poor performance is the lack of disclosure of such earned income by the majority of earners. Particularly for withholding taxes on rental property, very few properties particularly houses are registered for tax purposes. Effective use of Income tax on rent can assist Government to combat tax evasion, because typically the withholding tax is treated as a payment on account of the recipient's final tax liability. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the Government is less than the tax withheld, or additional tax may be due if it is determined that the recipient's tax liability is more than the Income tax on rent. In some cases, the Income tax on rent is treated as discharging the recipient's tax liability, and no tax return or additional tax is required. Typically, withholding is required to be done by the employer of someone else, taking the tax payment funds

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2.6 Barriers to Tax Revenue Collection

The literature on endogenous evasion and optimal taxation is fairly limited and, without exception, uses expected utility theory (EUT). There are three main strands of the literature. The first strand is exemplified in the work of Reinganum and Wilde (1985), Cremer and Gahvari (1993; 1996), Marhuenda and Ortuno-Ortin (1997) and Chandar and Wilde (1998). Here the approach is to choose, simultaneously, the optimal tax and the enforcement structure in order to induce truthful reporting of income. These models predict that, in equilibrium, there would be no tax evasion. Hence, these models fail to explain the existence of tax evasion.

In the second strand, associated with Cremer and Gahvari (1993) and Boadway et al. (1994), the problem is to find the optimal taxes set by a benevolent planner in the presence of tax avoidance, rather than tax evasion. So, by incurring a cost, the taxpayer can ensure that the tax authorities never discover evasion. This in itself is an interesting problem and allows one to make a case for commodity taxation. Because, in these models, income tax can be avoided while commodity tax cannot be, it is efficient to have some commodity taxes. However, this leaves open the relation between tax evasion and optimal taxation (Camerer et al., 2003).

The third strand in the literature is exemplified by the work of Richter and Boadway (2005). They explicitly model the tax evasion decision in the standard Allingham and Sandmo (1972) framework. They consider a representative household; hence, the focus is entirely on efficiency issues. The central question, as in the second strand, is the optimal mix of income and consumption taxes when the ease of evading different types of taxes is different. The welfare objective of the government is to maximise its total revenues (arising from income taxes, consumption taxes and penalties on those caught evading) subject to a taxpayer participation constraint. The main disadvantage of the income tax is that, by inviting tax

evasion, it exposes the risk-averse taxpayer to income risk. While the consumption tax cannot be evaded, its main disadvantage is that it distorts relative prices of goods. Hence, optimal taxation arises from a tradeoff between imposing income risk on the taxpayer and creating tax distortions (Kahneman and Tversky, 2000).

In the context of this study the main criticisms of the existing literature are as follows. First, the behavioural approach to tax evasion shows that an EUT based analysis of tax evasion is seriously misleading. However, the existing literature is based entirely on the EUT framework. Second, the mechanism design approach to evasion, which typically searches for optimal tax/penalty schemes to completely eliminate evasion, seems at variance with the evidence. Third, the cost of risk to the taxpayer from the risky activity of tax evasion needs to be explicitly modelled. Fourth, one needs to explore welfare criteria other than revenue maximization in designing optimal tax schemes (Kahneman and Tversky, 2000).

Realistic expectations of tax increases for developing country economies. Developing country governments collect much lower proportions of their GDPs in tax revenue than the governments of the OECD countries do: 10-20% compared with 30-40%. The lowest tax shares are observed in Southeast Asia and in the Pacific region, at levels close to 10%. Sub-Saharan Africa, the MENA region, and Latin America have higher average tax-to-GDP ratios (around 18%), although there is great variation within each region. Latin America and MENA have seen larger increases in tax revenue in recent years than Sub-Saharan Africa. Within Africa, countries differ according to income level, with upper-middle income countries approaching OECD levels of tax-to-GDP ratios. Low-income countries still lag behind, with many having rates below 15% of GDP, which is generally considered the threshold below which contemporary governments find it hard to finance their basic functioning and services (Mascagni et al, 2014). Tax take is broadly proportional to national income levels because in higher income (and urbanised, non-agricultural) countries it is much easier for tax agencies to tap into revenue sources without incurring high collection costs or generating adverse political reactions (Moore, 2013). A high-tax state may even be seen as part and parcel of development. As economic development creates a need for institutions that can support and sustain markets, it simultaneously fosters incentives

for higher levels of taxation (Besley and Persson, 2014). As country tax effort indices (revenue collections relative to estimated revenue potentials) for many developing countries show, there is considerable potential to increase tax revenue (Mascagni et al, 2014). However, it is not realistic to expect developing countries to reach the tax proportions of OECD countries quickly; there are no quick fixes and no prospects for sharp increases. Tax reform and public financial management reforms more broadly have been happening over decades in many of today's high-income countries, and we should not expect similar changes to happen very quickly in low-income countries. Even an increase of two percentage points in the tax to GDP ratio over a period of five years would be quite good, as such an increase would mean that tax revenue has not only kept up with GDP growth but performed better than the economy (Bwalya et al., 2009; CSO, 2007).

Low Tax compliance

Tax compliance is the act of taxpayers in fulfilling their tax obligations in accordance with statutory provisions and regulations on the implementation of taxation in a country". The several indicators of tax compliance are as follows: 1) Registration for a Taxpayer Identification Number on a voluntary basis.2) Record the business's finances regularly and correctly. 3) Tax returns must be completed, calculated, and reported in accordance with applicable regulations in an honest, complete, and correct manner) Paying taxes willingly, on time, and in accordance with the law.5) Carry out consciously the law's enforcement of tax sanctions. The need for action on tax training and implementation of an integrative mentoring model of creative economic actors to increase taxpayer compliance, as an important factor for increasing tax revenue, so in achieving tax targets, it is necessary to continuously grow awareness and compliance of taxpayers to meet tax obligations in accordance with the provisions applies (Mustikasari, 2007). Creative industry actors have largely been doing bookkeeping and record keeping determining the business profits and use them to decide on a business strategy, but so far, they have not calculated correctly, but they do not agree on that sanction (Susyanti et al., 2017).

2.6.1 The Effect between Tax Knowledge and Tax Compliance

Tax knowledge, in a simple term, can be defined as the taxpayer ability to understand the tax laws and regulations (Ayuba et al., 2016). Pratama (2018) added that tax knowledge is a level of knowledge of basic tax concept that consists of tax rules and financial knowledge that needs to be understood by taxpayers in order to fulfill their tax obligations (Pratama, 2018). Gore and Wong (1998) divided tax knowledge into categories, procedural knowledge (knowing how) and declarative knowledge (knowing that). Previous research from Fallan (1999), Omagor and Mubiru, (2008), Manual and Xin (2016), Newman, Charity, and Ongayi (2018) concluded that there is a relationship between tax knowledge and tax compliance, an increase of tax knowledge level can lead to the increase of tax compliance level.

2.6.2 The Effect between Tax Understanding and Tax Compliance

Sulistiani, and Jayanto (2016) defined tax understanding as to the understanding or knowledge possessed by the taxpayer related to taxation. Satria (2017) added that tax understanding is the perception of taxpayer toward their knowledge about taxation. Tax understanding is the level of knowledge and ability of taxpayers concerning the enactment and the implementing regulations of the tax law both in content and administration. Previous research from Adiasa (2013), Agustinarsih and Isroah (2016) concluded there is a relationship between tax understanding and tax compliances. Thus, the higher tax understanding can lead to higher compliance.

2.7 Tax administration and challenges in Zambia

There is a lot of internal and external goodwill towards the support for tax policy and administration reforms in Zambia. There are yearly scheduled IMF and World Bank missions to Zambia for the purpose of supporting tax administration. For instance, at the inception of ZRA, the Department for International Development (DFID) provided support in form of infrastructure, information technology and human resource development. In 2006, with the assistance of the World Bank, Government and ZRA embarked on a tax administration modernization process where the organisational focus of tax administration was moved from tax-type to taxpayer and resulted in the creation

of specialised offices to administer taxes for large taxpayers, medium and small taxpayers. It is expected that the modernization process will improve business processes, information technology and operational infrastructure as well as harmonise tax legislation(Bwalya et al., 2009).

The Zambia Revenue Authority Annual Reports (ZRA, 2005 to 2009) point to numerous challenges in taxation. The challenges faced by the Tax Authority like any revenue authority in a developing country, ZRA is beset by a large array of challenges. Solving these has implications for the performance of the whole tax system. The common challenges are discussed below:

(a) Taxation of the informal sector : As the economy grows, the informal sector also grows. Although ZRA has in place specific taxes targeted at the informal sector many potential taxpayers still remain outside the tax net.

(b) Taxpayer compliance: Compliance among small taxpayers is low because some taxpayers still find keeping books of accounts challenging and this adversely influences the collection of taxes. To some extent, this is an inevitable consequence of the lack of funds for proper accountants in small businesses coupled with possibly low levels of tax literacy.

(c) Taxation of international transactions: Taxation of cross-border business transactions is another challenge that the tax system has to address as the economy grows. This involves difficulties associated with auditing of international transactions of multinational companies (i.e. transfer pricing), taxation of new or non-traditional goods and services and electronic commercial transactions.

(d) Tax regimes harmonization: Although the tax design will continue to be largely dictated by domestic considerations, there are challenges associated with activities that happen across the borders and in other countries. For example, increased cross-border activity means the domestic tax system can no longer be designed without regard to tax systems of other countries.

(e) Smuggling and tax evasion: Zambia's borders are huge and porous and therefore smuggling of goods across the borders continued to be a big challenge. The domestic

revenue base continues to be undermined by tax evasion tendencies such as nonissuance of VAT invoices by most traders. This situation is exacerbated by the existence of a huge cash economy, which makes it difficult to maintain an accurate audit trail.

2.8 Debates on Tax Innovations and Increasing Tax Revenue

ICTD's Mick Moore (2013) argues that we should be skeptical of claims that any specific tax innovation could lead to major increases in revenue collection in low-income countries in the short term – that is, within years rather than in decades. Tax collection has a 'sticky' nature, with total revenues collected by governments varying little from year to year. This is partly because, especially in low-income countries, the behaviour of tax agencies is governed by annual incremental collection targets set by ministries of finance. The 'sticky' nature also reflects a more structural factor. Revenue agencies are highly 'networked' organizations, dependent on active cooperation from a wide range of other stakeholders, including ministries of finance, the police, border security forces, and many others. As a result, new tax policies and administrative improvements within a revenue agency may have limited impact if not supported by corresponding changes in the network (Moore, 2013). Where rapid increases in tax revenues have occurred in recent times, they have often been coupled with social upheaval in one way or another. Looking at the evolution of tax revenues across 18 countries over the past century, Besley and Persson (2014) found that significant rises in tax have come about as a result of war (the two World Wars), and the introduction of direct withholding of income taxes which coincided with World War II.

Some developing countries have seen radical reforms of tax administration in recent decades – notably Peru in the early 1990s, and Uganda and Rwanda in the late 1990s and early 2000s. These reforms happened when state power was effectively reconstituted after near-collapse, including the breakdown of revenue collection. In these cases, rapid increases in tax revenue were possible because another characteristic of the 'sticky' nature of tax collection was removed: the political bargaining system over tax, which

had in effect collapsed with stakeholders having lost their bargaining power (Moore, 2013). So, how should we go about inducing reform to increase tax rates in developing countries? Professor Richard Bird suggests that one should go into specifics in details, focus on policy process, and be patient, very .

Internal political factors: Although tax rates, to an extent, go hand in hand with economic development, economic growth does not mechanically translate into higher taxes. Widening the tax net and increasing the tax base require governments to put effective policy in place and to be determined to ensure compliance. Having the political will to increase taxes is therefore necessary (Besley and Persson, 2014). Governments know where the potential is and where most of the gaps are; if a government wants to tax, it will . Political will is, in turn, a product of a country's political bargaining structure around tax. The process of bargaining and exchange is central to decisions about the design of tax regimes and to operational decisions about which taxpayers will be pursued by the tax authorities, how, and how far. The tax collection bargaining process involves at least four categories of actors and interests: taxpayers, tax intermediaries, governments, and revenue collection organizations (Moore, 2013). These stakeholders can all benefit from a status quo of low taxes and discretionary tax collection practices. Therefore, appreciating their role in tax bargaining processes is essential to any reform project. In every country, a great deal of theoretically tax-liable income, transactions or assets escapes the tax net, sometimes because the administrative costs of pursuing them are too high, and sometimes because political influence and corruption enable some people and companies to escape their obligations (Mulenga, 2005).

Tax regimes tend to be biased in favor of taxpayers with the greatest bargaining power, who can most easily evade or avoid taxes, and whose cooperation is most valuable in the long term (Moore, 2013). As a result of this distribution of bargaining power, governments show great reluctance to tax the personal incomes of their own rich citizens as well as the increasingly large accumulations of capital invested in real estate in low-income countries. In fact, income tax and property tax – the two best ways to tax the wealthy – are almost wholly ineffective outside taxes on the wages

of formal sector employees (Kangave et al, 2016). From an organizational and logistical perspective, there are good prospects for increasing the tax take in low-income countries by establishing more effective property tax systems, but because such taxes affect relatively wealthier people who have more political influence, they have been very difficult to effectively introduce in practice (Monkam and Moore, 2015).

Among taxpayer constituencies we also find domestic businesses and multinational companies. Their relations vis-à-vis governments, and the resulting tax losses, will be discussed in section 6 below. The other three identified tax stakeholders (the political and administrative insiders) may also benefit from a sub-optimal tax process and stand in the way of reform. Tax collectors and tax administrators can be quite powerful groups in developing countries, since their specific expertise makes them difficult to replace. They therefore have the bargaining power to resist reform and to get away with extracting revenues from inefficient or even illicit tax practices for private gain (Mascagni et al, 2014). Revenue agencies may also transfer funds informally and illegally to their political masters, and while we have no hard information on the extent to which this takes place, these flows seem to be quantitatively and politically significant in many low-income countries (Moore, 2013).

A study exploring the political economy of tax reform in Bangladesh illustrates how the bargaining process around tax favors insiders and the politically powerful. The authors found that the repeated failure to reform the country's tax system was due to significant resistance to change that cut across political, economic and administrative elites. In the current, highly ineffective tax system (with a tax share of only 9% of GDP), the economic elite is catered for by low and predictable tax rates to businesses, tax administrators enjoy extensive discretion and opportunities for corruption, and the political elite can use the system to raise funds and distribute patronage and economic rents (Hassan and Prichard, 2013). Seeing that politics is at the heart of tax systems, adopting a political economy approach to reform is necessary in order to identify the progressive reformers within governments and revenue authorities; ways in which they can be assisted without putting their domestic political support under threat; and the incentives required to persuade the more reticent to allow reform of their tax systems

(DFID 2016). Bird (2013) echoes this approach, arguing that focus should be on the process instead of the precise configuration of the reform package, and that sustainable reforms need to be developed in-house by countries themselves (Mulenga, 2005).

Many developing countries face considerable administrative constraints in revenue mobilization. These concern the dual challenges of a lack of modern infrastructure, such as IT systems and property registers, and weak capacity in tax authorities due to shortage of skilled staff. In Uganda, for example, one of the biggest challenges to revenue collection is around collecting, managing and analyzing data and information. This problem affects how the revenue authority shares and analyses the information it has, as well as how it accesses and utilises information from other government agencies. This is made even more difficult by the fact that the economy is largely cash-based, which makes it hard to track transactions. Improving capacity and resources to access and analyse information could result in increased revenue collection. In terms of capacity, the greatest challenge for tax administrations is retention of skilled staff, particularly those with scarce and valuable skills in IT, accounting, and forensic auditing (IDS, 2014). The drain of skilled personnel away from tax administration poses a serious obstacle to improving capacity and therefore to increasing tax revenue in developing countries (Mascagni et al, 2014). In Uganda, for example, there are several angles to this brain drain. First, competent professionals often move with their former bosses to other government agencies. This is partly due to better pay in other agencies, but also because in some cases contract terms (for commissioners) require that the person cannot serve for more than a certain number of years, which increases the need for building capacity, particularly of lower-level staff. Human resource decisions within the Ugandan Revenue Authority are also to blame for capacity shortages (IDS, 2014).

There is a general feeling that staff are not allowed to develop capacity within a given field because they can be moved from one position to another with little warning. Someone may undergo training in one sector, start working in the position they have been trained for, and within a year or two are moved to something totally unrelated. Finally, capacity is also drained away from the public sector as good auditors are

likely to end up working for big companies, banks or the larger professional services firms (IDS, 2014).

Another administrative challenge for revenue agencies concerns coordination with other entities. Collecting revenue efficiently and effectively involves establishing robust connections and interactions between various kinds of systems. Different units within the revenue collection apparatus need to learn to co-operate with one another and establish IT systems that interface with one another. Similarly, revenue collection units need to work effectively with banks, utility companies, property registration systems, passport authorities, tax practitioners and a wide range of other public and private sector actors. It takes time and much continuous effort to ensure that these connections work effectively (IDS, 2014). External political factors: multinational companies and other investors Shortcomings in the ability and willingness of some developing country governments to effectively tax domestic businesses and multinational companies operating in their countries can constitute a very large loss in tax revenues. Four such barriers to effective tax mobilization are 1) bilateral tax treaties and the resulting loss of right to tax multinational companies; 2) tax evasion and avoidance in international trade; 3) loss of potential tax revenues from the extractive sectors; and 4) tax exemptions and incentives given to investors.

2.9 Tax evasion and avoidance in international trade

Another major reason why tax revenue is relatively low in developing countries is that tax is evaded and avoided by multinational companies. While outright tax evasion is illegal, tax avoidance and aggressive tax planning is more of a grey area. One such tax avoidance practice is profit-shifting by multinational companies. This involves mispricing goods and services transferred within a multinational company group – amongst subsidiaries and affiliates, or between a subsidiary and the mother company – with the aim of transferring profits to low-tax jurisdictions.

2.10 Transfer pricing and profit shifting

Transfer mis-pricing results in the erosion of the tax base through the outflow of capital from high to low-tax jurisdictions, and thus in lower tax revenue (Mascagni et al, 2014). With currently available data, it is not possible to pinpoint the amount of tax that multinational groups avoid each year through shifting profits to tax havens. However, recent estimates reported by the OECD indicate that the losses from base erosion and profit shifting could be between 4% and 10% of total global corporate income tax revenue, or USD 100 to 240 billion annually (Durst, 2016).

While aggregate estimates of profit shifting are difficult to make, individual examples of such practices abound. For example, an investigation by ActionAid into the British multinational, Associated British Foods, found that by shifting over a third of its subsidiary's profit out of Zambia, the company has denied the Zambian government USD 17.7 million since 2007 (Lewis, 2013). ActionAid also found that SABMiller, one of the world's largest beer companies based in the Netherlands, deprived African governments of as much as USD 20 million per year by channeling profits to sister companies through tax havens as 'management fees', and running procurement through a subsidiary based in Mauritius (ActionAid, 2010).

Transfer pricing and profit shifting have received great attention in international policy circles in recent years, notably through the G8/G20 tax agenda. Many of the policy prescriptions focus on increasing transparency and the flow of tax-related information across countries (IDS, 2014). However, for real change to result from these efforts and for change to benefit lower income countries, two conditions need to be met. First, substantial reductions in transnational tax avoidance require sustained collective action by the governments of many countries, especially those of the OECD and the large and emerging middle- and low- income countries. However, the countries whose cooperation is most needed are those best placed to maximise their individual shares of investment and tax revenue by pursuing competitive tax policies (Moore, 2013).

Effective collective action in this sense requires all governments to stop using taxes to compete for investment, which might be easier said than done. As pointed out in a recent IDS publication, while the British Prime Minister has been promoting the G8/G20 tax reforms, the UK Treasury has continued to develop new tax incentives such as reduced corporate taxes on income attributable to intellectual innovation to attract capital from abroad (IDS, 2014). The second condition concerns lower income countries and whether or not they are likely to be able to reap the potential benefits of the international tax agenda's focus on transparency and information sharing. Two barriers exist in this regard. The first is linked to the balance of bargaining power between low-income country governments and international investors: power too heavily tilted towards the latter would reduce the potential benefits to the former. The second barrier relates to the capacity of developing country tax authorities to effectively deal with tax avoiding practices and to fully take advantage of tax-related information that is becoming available from other countries (Moore, 2013).

2.11 Tax avoidance in the extractive sectors

The biggest single cause of low tax takes in many developing countries is low taxation in their extractive sectors. The extractive sectors, especially mining activities which are more likely than oil and gas to be entirely in the hands of overseas private transnational companies, are grossly under-taxed in low-income countries. There are a range of reasons for this, the most general being that mining companies are very powerful political actors (Moore, 2013). The ways in which investments in the extractive sector are taxed vary widely across countries, with various mixes of royalties and taxes on rents and on business profits. The taxation trend has in recent decades gone from being predominantly based on royalties (which are usually based on the gross value of the product that is extracted) to various kinds of levies based on the net income that a company derives from the extraction of product. This has reduced the risk to extractive companies of being taxed on loss-making investments. However, income-based natural resource taxes are much more difficult for governments to enforce, and natural resource taxation has become increasingly vulnerable to revenue erosion. The seriousness of this vulnerability is magnified by the fact that extractive

companies typically engage heavily in transactions with other members of their multinational groups, in which the companies have substantial opportunity to engage in profit-shifting (Durst, 2016). The extent of profit-shifting taking place in the extractive sectors, and the resulting loss in government revenues, can be substantial.

One study estimated that, globally, profit shifting of various kinds reduces the income tax base of the oil and gas sector by between 12% and 35%, depending on the characteristics of the country's tax system, and that non-OECD countries generally appear to be more vulnerable to profit shifting than OECD member countries (Beer and Lopik, 2015). Some aggregate estimates suggest that, while turnover in the mining sector increased globally by a factor of 4.6 during the period 2000-2010, tax revenues earned by African governments increased only by a factor of 1.15. According to one study, a group of African governments could have collected USD 70 billion in additional tax in the years 2003-8 if they had levied the same implicit rate of tax on mining as the Australian government (Moore and Lundstøl, 2016). Another study found that profit-based corporate tax made only a very modest contribution to mining revenue in Tanzania and Zambia, and that Zambia, in one year alone, could realistically have increased its tax revenue from mining by more than USD 1 billion, which would have been more than the total net development aid to the country for that year (Lundstøl et al, 2013). If developing countries are not able to fully benefit from the international tax agenda with its focus on transparency and information sharing, can anything else be done to stop these countries from losing such sizable amount of government revenues? One suggestion, as a temporary measure, is for countries to introduce progressive royalties, based on gross product value. The rate of a progressive royalty adjusts with changes in product prices, production volumes, or both, so that the rate of the royalty will generally change in correlation with the extractive company's net income. This could help mitigate the risk involved in income-based levies until the vulnerabilities of income-based instruments have been addressed (Durst, 2016). Tax exemptions and incentives given to investors. Another major cause of the tax gap seen in many developing countries is tax exemptions. Governments from lowincome countries offer various tax holidays and exemptions that are difficult to categories and control, with the aim of attracting investors and fostering economic growth (Mascagni et al,

2014). Governments are often under strong political and other pressures to grant large-scale investment incentives and, in effect, give away tax revenues (Moore, 2013). There are several problems with how tax exemptions are generally given. First, tax incentives are often given in ways that are inefficient and not transparent. The discretionary manner in which many exemptions are given have a purpose, as they are widely used by politicians to reward political supporters and businesses willing to contribute to political party funds or private bank accounts.

In Tanzania, for example, a major driver of the spread of tax exemptions in that country was the increasing competition within the ruling political party, with the resulting search for political finance to fund that competition. Business offered political financing in return for tax exemptions (Therkildsen, 2012). Another problem with tax exemptions is that they are not economically effective. Many, if not most, tax incentives actually have little impact on investment levels. Data from investment motivation surveys shows a high redundancy ratio for tax incentives, meaning that investors would have invested regardless of the incentive (James, 2013). Research also shows that it is likely that governments could attract more private investment if they were to grant fewer tax incentives and rather use the additional revenue to address the problems that rank high in the minds of potential investors, such as the poor quality of road, port, transport, electricity and water services (IDS, 2014). Eliminating or substantially reducing tax incentives is usually seen as a low-hanging fruit in tax revenue mobilization. Since most of the companies involved are already in the tax net, additional revenue could be obtained at a relatively low administrative cost. Where such reform has been possible, for example in Mauritius, the results have been positive (Mascagni et al, 2014). From a political point of view, however, reform may not be that easy. Politicians (at least in countries where markets are politicised, like in many developing countries) like discretionary investment incentives because they facilitate political and administrative corruption. Moreover, the cost of tax incentives is usually unknown and dispersed over a long time while the political benefits, as well as the private benefits to the person entitled to make the decisions, are immediate. Finally, incentives are easier to provide than infrastructure, labour skills or other investment

climate improvements (James, 2013). If reform is difficult for political reasons, two sets of transparency measures may at least help make tax exemptions less usable as a political tool. The first type of transparency reform focuses on making the system of granting and administering investment incentives less discretionary. This is done by clearly defining criteria for granting incentives in relevant laws and/or regulations to limit discretion in the approval, verification and valuation stage of granting the incentives (Munyandi, 2011). The second way of inducing transparency into granting and administering investment incentives focuses on publicly disclosing information. Identifying, quantifying and publicizing tax expenditures—the revenue cost of preferential tax treatments—can be a powerful tool in avoiding and scaling back preferences that do not generate some offsetting social benefit (G20, 2011). There are two types of information that transparency initiative may focus on. The first type concerns public disclosure of decisions about any granted investment incentive, i.e. the public announcement of which investors benefit from such incentives. These can be put into databases and disseminated to the public (James, 2013). In this case, adverse reactions from the public would primarily work to discourage favoritism and corruption. The second type of transparency initiative focuses on analyzing and disseminating the actual revenue cost of investment incentives. By bringing the cost of investment incentives upfront, it is possible to place a budget on incentives and ensure that they are part of responsible economic policy making. In this case, transparency would primarily inhibit economic policy that would be deemed wasteful and contrary to public benefits (USAID/RCSA, 2004).

2.12 The Process of Formulating Tax Policies

The institution mandated to administer and collect tax revenue in Zambia is ZRA . The Ministry of Finance and National Planning (MoFNP) is responsible for tax policy formulation. Local councils administer and collect fees or levies. The process of tax reform started in 1992 when Government formed a Tax Policy Task Force to review tax administration and policy following a noticeable deterioration in the tax revenue collection. The main output of this reform was the creation of a quasi-independent

ZRA in 1993. Revenue administration prior to the establishment of ZRA was under the Ministry of Finance in two departments: Department of Income Tax and Department of Customs and Excise. The tax policy review process of 1992 also recommended the following: elimination of import licenses; abolishment of such 'nuisance taxes' as the education levy and stamp duties; the introduction of VAT to replace Sales tax; a simplified personal income structure (i.e. reduced tax bands), and a simplification of customs procedures.

Impact of tax reforms: The tax reform process had a noticeable positive effect on revenue collection almost immediately and by 1995, revenue collection had increased to 18 percent of GDP from 13 percent in 1993. Government reviews tax policy periodically and sometimes it draws mixed feelings in the country. For example, according to Gorter, J (2004), the reforms in 2002, were regressive as they shifted the tax burden from the rich to the poor. The policy formulation process MoFNP is the lead institution in the process of policy formation. It has created a Tax Policy Review Committee (TPRC), which consists of experts on tax policy and Measures to enhance Tax Revenue Collection.

2.13 Theories on Taxation

Models of taxpayer behaviour, including the decision whether or not to pay taxes, tend to reflect one of five theories that can be referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political legitimacy. These theories are to some extent interconnected, and some represent an evolution of the others. The latter three are particularly intertwined and could all be seen as behavioural models of tax compliance.

2.13.1 Economic Deterrence

The economic deterrence theory states that taxpayer behaviour is influenced by factors determining the benefits and cost of evasion, such as the tax rate, the probability of detection and penalties for fraud (Allingham and Sandmo, 1972). This implies that if

detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance.

Although the model has been criticised for focusing exclusively on the coercive element at the expense of the consensual side of compliance (Sandmo, 2005), there is some evidence to support the relevance of deterrence strategies to addressing non-compliance (McKerchar and Evans, 2009). For example, the fear of being detected and punished has in some contexts been found to be an effective strategy to induce truthful behaviour. The theoretical principles of economic deterrence have been widely adopted by tax administrations when developing enforcement strategies, which rely mainly on penalties and the fear of getting caught. According to the economic deterrence theory, we expect that individuals who perceive tax evasions as difficult are more likely to be tax compliant.

2.13.2 Fiscal Exchange

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens demand in a more efficient and accessible manner (Cowell and Gordon, 1988; Levi, 1988; Tilly, 1992; Moore, 2004; 1998). Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (*quid pro quo*). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government (Moore, 2004). Individuals may pay taxes because they value the goods provided by the government, and they recognize that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja, 2001). The existence of positive benefits may increase the probability that taxpayers will comply voluntarily without direct coercion (Bodea and LeBas, 2013).

Although most taxpayers cannot assess the exact value of what they receive in return for taxes paid, it can be argued that they have general impressions and attitudes concerning

their own and others' terms of trade with the government (Richupan, 1987). It is then reasonable to assume that a taxpayer's behaviour is affected by his/her satisfaction or lack of satisfaction with his/her terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust his/her terms of trade with the government.

The fiscal exchange theory has received much attention and is well established theoretically. However, empirical evidence to support the theory is ambiguous (D'Arcy, 2011: 5-6). Within the fiscal exchange framework, we expect the probability of an individual's tax compliant attitude to be positively correlated to satisfaction with the provision of public goods and services.

Non-state Actors as Service Providers

The fiscal exchange theory focuses on the relations between public provision of goods and services and taxpayer compliance. What happens when non-state actors mediate this relationship? The spectrum of such providers is broad. It can be donors and non-profit NGOs providing health services, private schools providing educational services or vigilante groups or criminal organizations offering security and protection services. Regardless of the type, the presence of such non-state service providers is likely to affect the way people perceive the fiscal exchange with the government. The role of non-state actors (e.g. donors and NGOs) in providing social services and how that in turn affects tax attitudes is explored in previous country specific and cross-country research (Fjeldstad, 2001; Sacks, 2012). Bodea and LeBas (2013) examine the effects of vigilante groups offering security services in urban Nigeria on tax compliance. However, the provision of services by vigilante groups and criminal organizations and its relation to tax compliance attitude has, to our knowledge, not been studied in a cross-country African context. The primary hypothesis is that citizens' payment to non-state actors for protecting them, their business and property reduces their likelihood of having a tax compliant attitude.

2.13.3 Social Influences

According to the social influence theory, compliance behaviour and attitudes towards the tax system is thought to be affected by the behaviour and social norms of an individual's reference group. It is reasonable to assume that human behaviour in the area of taxation

is influenced by social interactions much in the same way as other forms of behaviour (Snively, 1990). Tax behaviour and attitudes may therefore be affected by the behaviour of an individual's reference group such as relatives, neighbors and friends. Therefore, if a taxpayer knows many people in groups important to him/her who evade taxes, his/her commitment to comply will be weaker. On the other hand, social relationships may also help deter individuals from engaging in evasion for fear of the social sanctions imposed once discovered and revealed publicly. Theoretical research on herd behaviour in economic situations (Banerjee, 1992; Sah, 1991) also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection. One of the most consistent findings about taxpayer attitudes and behaviour in Western countries is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (Andreoni et al., 1998). Evidence suggests that perceptions about the honesty of others may affect compliance behaviour. In line with the social influence theory, we expect to find that individuals who perceive other people to be compliant are more likely to be tax compliant themselves.

2.13.4 Comparative Treatment

The comparative treatment model is based on equity theory and posits that addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar and Evans, 2009). Citizens may not consider their relationship with the state in a vacuum where both parties are the only actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state. Citizens may also consider how the state treats them relative to their fellow citizens. This judgment is likely to affect not only their judgment of the state, but also how they view their fellow citizens (D'Arcy, 2011: 7). If the state treats certain groups preferentially, this may color the citizen's relationship with the state and the group receiving favors. A crucial variable is then not just what a person gets from the state, but how the state treats the person relative to those who are in the person's wider national community. Within the comparative treatment theory, we posit that individuals who perceive that they, and their group (could be defined by wealth, education, age,

religion, ethnicity, etc.), are fairly treated by the government are more likely to be tax compliant.

2.13.5 Political Legitimacy

Finally, according to the political legitimacy theory, tax compliance is influenced by the extent to which citizens trust their government (Tayler, 2006; Kitchler et al., 2008; Fauvelle-Aymar, 1999). Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, just and work for the common good. Political scientists have addressed how political legitimacy and civic identification are fostered. For instance, Persson (2008) argues that African countries that upon independence emphasised building national over ethnic identity have been more successful than those that allowed ethnicity to become the main animus of politics. Based on this argument, we expect to find a higher likelihood of being tax compliant among individuals who trust the government than among those who do not.

2.13.6 Gaps in the Literature

The relevant literature that has been reviewed has shown that tax collection is central to a country's capacity to finance social services. However, the following gaps have informed this study.

There is abundant research done on external taxation and yet very few works have examined on Income tax on rent, and this possibly explains the unending challenges faced by ZRA. Therefore, this is a knowledge gap as shown by the scarcity of such frameworks from related research domains.

The second gap is methodological. The research designs used in previous research have involved the use of surveys, samples have not been very well defined, and this creates difficulty to design such studies.

The third limitation is linked to a population gap. While most of the studies have focused on non-African states apart from Tanzania and Uganda which are the most cited, studies of such a nature and topic remain un researched.

2.14 Summary of Reviewed Literature

The reviewed literature has shown that the performance of tax systems tend to face challenges. Recessions tend to highlight the dangers of relying on trade taxes and emphasised the need to broaden the tax base. The ability to collect taxes is central to a country's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods. Theories of taxation tend to focus on the behaviours of taxpayers as well as governments in providing avenues for tax collection while they provide services to citizens. Barriers to tax collection seem to reside in both the supply side and the demand side of things.

CHAPTER THREE – RESEARCH DESIGN AND METHODS

3.1 Introduction

Chapter Two reviewed the literature pertaining to taxation and especially barriers to tax collection. In Chapter Three, the researcher develops further the methodological approach, arguing that multimethod -method qualitative methods could be useful to address the realities of complex research topics such as the one being examined in this study. The main purpose of this chapter is to present the research setting, the research design, the methods justification and the weaving of the selected methods. This chapter is divided into 5 sections which form the bedrock on which the methodology is premised.

3.2 Research design matrix

This section is about the research design shown that has been adopted in this study. A research design matrix is being used to demonstrate how each research question will be handled. The matrix shows the linkage between each research question and the corresponding research objectives and how each research question will be pursued looking at the population, sampling preferred data collection and analytic techniques.

Table 3.1: Research Design Matrix

Research Question	Research Objective	Population and Sampling	Data Collection	Data Analysis
What are the current ZRA practices of Income tax on rent on rented household properties?	To determine the current ZRA practices of Income tax on rent on rented household properties	Only staff in the tax revenue section by criterion in sampling	Key informant interviews	Modified content analysis
What barriers does ZRA face in targeting tenants to increase revenue from rented household properties?	To establish the barriers ZRA faces in targeting tenants to increase revenue from rented household properties.	Only staff in the tax revenue section by criterion in sampling	Key informant interviews	Modified content analysis
What operational tax policy measures would be appropriate to increase revenue from Income tax on rent linked with rented household properties?	To describe what operational tax policy measures would be appropriate to increase revenue from Income tax on rent linked with rented household properties.	Only staff in the tax revenue section by criterion in sampling	Key informant interviews	Modified content analysis

3.3 The Research Framework and Design

Looking at the research design matrix, this shall be a qualitative research design. This is because the data collection and analytic techniques fit the subjectivist word view.

The framework that is used to present this chapter is informed by Saunders research onion assumptions and Blaikie's schema (Blaikie, 2010). The research onion model was presented by Saunders, Lewis and Thornhill (Saunders et al. (2007) in their book titled *Research Methods for Business Students*. This model aims to explain the different stages of writing a dissertation to help students create a better organised methodology. The model has the following elements:

- a) Research philosophy
- b) Research approach
- c) Research strategy
- d) Choices
- e) Time horizon
- f) Techniques and procedures

Each of these is described as to how it guided the study as described below. The researcher describes how the research onion is peeled one at a time as the research methodology chapter is being developed beginning with the outermost layer to the innermost layer:

3.3.1 Philosophy Guiding the Study

The research philosophy guiding this study is rooted in post positivism. Post positivism is a set of beliefs concerning the nature of the reality being investigated that is in form of ideas and materialist world (Blaikie, 2010; Bryman, 2012). The assumptions created by the post positivist research philosophy provide the justification for how the research will be undertaken in outlining the form of reality that the researcher desires to present (Saunders et al., 2007; Blaikie, 2010; Flick, 2011). The choice of research philosophy has been defined by the aim of the study which

is to develop a framework of measures that could be employed by ZRA with a view to increase revenue from rented properties especially homes.

Thus, the type of knowledge being investigated in the research project will be etic in nature (May 2011). In business research, the etic perspective typically represents the internal language and meanings of a defined in a given culture (Merriam, 2009) and in this study, it is the culture in the Zambia Revenue Authority Tax Revenue Unit. Regardless of how a culture's scope is defined, "an etic perspective attempts to capture participants' indigenous meanings of realworld events" (Yin, 2010: 11) and "looks at things through the eyes of members of the culture being studied" (Willis, 2007: 100) while suppressing the researcher's culture.

While the value in etic the perspective has now been acknowledged, the etic is perceived by a number of business researchers as being more relevant in the interpretation of a culture that is alien to that of the researcher and in the understanding of cultural experiences within a particular group (Saville-Troike, 1989, Garcia, 1992; Godina and Mccoy, 2000). The basis behind the thought that the etic perspective is more relevant is that it is impossible to truly comprehend and appreciate the dynamics of a particular culture unless one sets aside their culture. Therefore, understanding the research philosophy being used helps to explain the assumptions inherent in the research process and how this fits the methodology being used (Blaikie, 2010; Rubin and Rubin, 2012; Masadeh, 2012).

3.3.1.1 Ontology and This Study

The main ontological framework that informed this research process is the nominalist ontology. The nominalist ontology is ideal for this study because it avoids rigid structural frameworks that inform knowledge which is seen in the positivist research scientific methods. Nominalism adopts a more personal and flexible research structure (Feyerabend, 1975 Carson et al., 1988; 2001; Black, 2006). What is observed further in this ontology is that the social world is assumed to reside inside of people, and it is attached to an individual's cognition or feelings. It is for this

reason that Burrell and Morgan (1979) and Flood and Jackson (1991) claim that nominalism takes the view that the world has a subjective nature.

3.3.1.2 Epistemology and this Study

Given that the nominalist ontology was selected to determine the form of reality that was to be studied, the humanist epistemology was appropriate. This is the philosophical assumption that assumes that knowledge ought to be derived from everyday concepts (i.e., relying on common sense terms and typical situations) to symbols or concepts that they use situationally or on a day-to-day basis. This epistemology assumes that what we only know what is imprinted on our minds is a self-constructed and self-interpreted form of reality (Smith, 1983; Guba and Lincoln, 1989). The fact that the humanist epistemology is linked to multiple reality inherent of nominalism or relativism, there is no need for atheoretical framework or a conceptual framework to a priori guide the study. Instead, theory or conceptual framework is expected to emerge during the inquiry, and this is what this study desires to do. This study will employ both the humanist and constructivist epistemology.

3.3.2 Research approach

Saunders et al (2007) take the research approach as being the logic of the study. This study uses two logics, and these are abduction and induction.

Abduction, or inference to the best explanation as a means of going about doing research. Blaikie defines it as "the process used to produce social scientific accounts of social life by drawing on the concepts and meanings used by social actors, and the activities in which they engage" (1993:176). This is a logic that sits within the nominalist ontology and based on the post positivist epistemology. The abductive strategy is closely linked with qualitative research which is based on a philosophical viewpoint that is broadly inductivist, interpretivist, and constructionist, in which human agency interprets, understands, experiences, or produces the social lifeworld through interactions with social structures and cultures (Bryman, 2012);(Schurink, 2003); (Appelrouth & Edles, 2012).

Abduction will be used in this study as an approach to generate social scientific accounts or meanings of concepts from the social actor's perspective to derive meanings of intersubjective technical concepts and interpretation of social life (Blaikie, 1993 2000; Yu Chong Ho, 1994) around Income tax on rent. "Meaning" in this context may be of two kinds. The term may refer first to the actual existing meaning in the given concrete case of a particular social actor, or to the average or approximate meaning attributable to a given plurality of social actors; or secondly to the theoretically conceived pure type of subjective meaning attributed to the hypothetical social actor or actors in a given type of action. In no case does it refer to an objectively "correct" meaning or one which is "true" in some metaphysical sense. Induction on the other hand is an approach to qualitative research that proposes a connection between theory and research, with the former deriving from the data (Bryman & Bell, 2003, 2012). Thus, inductivist perspectives are in line with the philosophical standpoint of this study since they emphasise how humans attach meaning to structures and cultures in their lifeworld (Mapp, 2008). Induction is the logic that will be applied in pattern building during qualitative data analysis.

3.3.3 Research Strategy

Saunders' Research strategy is how the researcher intends to carry out the work (Saunders et al., 2007). The research strategy, and methods in this study are guided by a qualitative, interpretive as well as constructive phenomenological study linked with qualitative content analysis.

3.3.4 Choice

Saunders next layer is 'choice'. The choices outlined in the research onion include the mono method, the mixed method, and the multi-method (Saunders et al., 2007). As the names of these approaches suggest, the mono-method involves using one research approach for the study. The mixed methods required the use of two or more methods of research, and usually refer to the use of both a qualitative and a quantitative methodology. In this study, the researcher grounds the study within the mono method approach and selected the qualitative approach.

Qualitative research, is aimed to understand and interpret the meanings and intentions as well as constructions that underlying daily human agency, structure, and culture, rather than to

explain human behaviour by generalizing or inferring universally applicable laws (Schurink, 2003). Accordingly, qualitative methodologies are used by business researchers to explore individuals' behavioural patterns, perceptions, feelings, attitudes, and lived experiences, as well as what is at the center of their daily lives in a business lifeworld setting.

3.3.5 Time Horizon

The Time Horizon is the time framework within which the project is intended for completion (Saunders et al., 2007). As specified within the research onion, this is a cross sectional time horizon-based study, whereby the data will be collected as a 'snapshot' - data is collected at a certain point (Flick, 2011). This is used when the investigation is concerned with the study of a particular phenomenon at a specific time.

3.4 Ethics and Research

In different contexts, there are different meanings for the word harm. For example, Bryman (2008) stated that study participants may experience various types of harm through research: physical harm, harm for participants' development; loss of self-esteem, stress, and inducing subjects to conduct reprehensible actions. The nature of this research could not physically harm the participants nor perform actions that could damage them. Before the interview, the researcher will provide as much detail as possible in the form of an information pack to make the participants very clear about the research purpose. During the interviews, considerable attention will be paid to educating participants about the research purpose.

The question of harm to participants is further tackled in ethical codes by the enforcement of diligent preservation of confidentiality of individual information (Bryman, 2012) and thus the names of individuals will not be revealed in the presentation. All memos, transcripts and the actual interview documents will be kept confidential, and all references in the thesis to the names of be kept confidential.

Informed Consent

The researcher will include a participant information kit as part of these ethical requirements and will be sent out before the interviews. This package will contain study details and obtain the consent of the participant, including a consent form. Participants will be given an opt-out clause if they will reconsider participating in the study. Graziano and Raulin (2000) recommend that informed consent is a safeguard that provides participants with adequate information on the study to make informed choices regarding their participation. A clear, written agreement (the consent form) will be obtained before the interview or after the interview between the researcher and the participant. The consent will also include a clear agreement about how much time the interview would take and provide the interviewees with the information necessary for their informed decision on whether to participate (Bryman, 2012). Bryman (2012) argues that researchers can not intentionally reveal the right amount of time or any research information to avoid having a negative impact on their decisions to participate.

Invasion of Privacy

Privacy issues are related to anonymity and confidentiality concerns. Bryman (2012) claims that the study participant would not revoke the right to privacy by giving informed consent in its entirety. The nature of this research will not require personal confidential information from participants that is regarded as sensitive.

Deception

"Deception happens when researchers represent their work as something else than what it is" (Bryman, 2012), and Bryman further argues that the ethical objection against deception is based on two aspects: first, it's not good to do and secondly, it would threaten the reputation of social research and mutual trust between society and researchers. The researcher will be truthful with respect to the scope of the study and its aims. The University of Zambia's School of Humanities and Social Sciences Research Ethics Committee will review the fieldwork study for this research.

Sampling, data collection and analysis methods are dependent on the philosophy, ontology, epistemology, research approach as well choices made. Therefore, the methodological approach used in this study have been separated as follows:

3.5 Research Methodological Orientation–Phenomenological

Since theoretical perspectives impact and dictate methodological approaches, a key issue discovered from the preceding sections is the need to link one's theoretical position to methodology and research methods(Norman Denzin and Yvonna Lincoln, 2011).Moreover, the type of research questions that a study seeks to address, that is, the nature of the problem or phenomenon under investigation, often informs theoretical viewpoints and methodological orientation(Charmaz and Bryant, 2011; Ando et al., 2014).

Thus, this section provides links between content analysis and Hermeneutic phenomenological dimensions and the choice of methodology, and the methodology in turn shapes and develop the research design. As the research questions seek to gather the constructions and lived experiences of individual Actors, it has been considered that the exploratory nature of the research questions drives the use of phenomenology. The view taken in this thesis is that the phenomenology acknowledges the theoretical dimensions of gathering data from the ground (Charmaz, 2006,Chamberlain-Salaun et al., 2013).

3.5.1 Sampling Design and size in Modified Content Analysis

Choosing a suitable sample size in qualitative research is an area of conceptual debate and practical uncertainty. That sample size principles, guidelines and tools have been developed to enable researchers to set, and justify the acceptability of, their sample size is an indication that the issue constitutes an important marker of the quality of qualitative research.

This sub- section therefore aims to provide guidance about saturation and develop a practical application of processes that ‘operationalise’ and evidence saturation. The following are worth noting.

This qualitative hermeneutic phenomenological study will be conducted with participants who have knowledge about taxation. Only staff in the tax revenue section are eligible for this study and the sample size cannot be estimated beforehand until ethical approval is granted.

3.5.2 Data collection

Data will be collected using in-depth unstructured interviews. The journey toward understanding lived experience of Income tax on rent will begin with myself as the researcher, continually moving back and forth between interviewing the participants and collecting the data focusing on the assumptions of hermeneutic phenomenology. The hermeneutic phenomenology approach allows the researcher to reflect on the extracts of the lived experiences of humans (Van Manen, 2016; Ho et al., 2007). Hermeneutic phenomenology that is fundamentally based on the Gadamerian philosophy will aid the researcher to get deeper into the lived teaching experiences of individuals (Gadamer, 2004). The focus of phenomenology then will be to interview participants with a view to explore and describe how these individuals experience the specific phenomenon of Income tax on rent by gathering detailed narrative data from a small number of participants. The goal is to generate a deep understanding and the meaning of this phenomenon as much as possible from the perspective of the individual (Creswell and Creswell, 2017).

Individual face-to-face interviews have been deemed to be appropriate as the researcher desires to explore and describe the lived experiences or life worlds of participants as these relate to elucidating the openness to the lifeworld (Dahlberg et al., 2008).

3.5.3 Data Analysis

This study employed the modified content analysis which has an extension of Katherine Charmaz's Constructivist Grounded Theory because it reshapes the interaction between researcher and participants in the research process and in doing so brings to the fore the notion of the researcher as author. In this sense, the research focuses on the meanings attributed by the participants to the research phenomenon and in this case Income tax on rent. Content analysis was employed to show phenomena that were tagged as the most mentioned and least mentioned. Absolute frequencies (A.FR) and average frequencies (AV.FR) depict content analysis. A.FR

is taken as the frequency or number of times the concept or construct was mentioned by the participants in the interviews. From the A.FR, it was possible to average it to get what the researchers considered to be the average frequency (AV.FR). The AV.FR is like how much each participant mentioned the concept or construct from the overall mentions (Msunsa et al., 2022; Mwanza and Mweene, 2023).

CHAPTER FOUR- FINDINGS

4.1 Introduction

Chapter 4 is divided into four sections. The first section is the introduction. The second section describes the essence of the study. Section 3 is the general profile of respondents while the fourth section deals with the current state of ZRA practice in terms income tax on rented property. The fifth section outlines the barriers, and the sixth section is the summary of findings.

4.2 Grounding the Findings

The findings that are presented in this section are from interviews with 4 experts in the departments of Research and Corporate Strategy and Customer Experience, document review and a workshop which was organised by ZRA with Real Estate Agents. The workshop engaged real estate property agents on matters relating to rental income and property transfer tax. The researcher was invited by the director revenue after the researcher had an interview with ZRA staff. The director deemed it appropriate to invite the researcher to the workshop as a source to beef up information from the client's perspective. The invitation came two weeks later for the workshop that took place on November 4th, 2022. The workshop was attended by about 150 delegates. Stakeholders that came for the workshop included property owners, real estate agents, property managers, valuation surveyors, lawyers and accountants.

In this chapter, the findings are presented using research questions as tools to think with. It must be stated that before this study was commissioned and before ethical approval, the running theme was Income tax on rent. However, the field survey was transformed to focus on Income Tax on Rent (ITR). This was due to the fact that ZRA has made an amendment to the types of taxes. Instead of targeting the tenant, ZRA has not placed the responsibility of remitting this tax on rented property by the landlord. The change in who pays does not deviate the initial assumptions.

4.3 Demographic Profile

The sample for this study is categorised in two as follows:

Table 4.1 Respondent Profile

<i>Category</i>	<i>Number</i>
a) Staff of ZRA and	4
b) Real estate property agents	33

The ZRA staff had attained University education whereas real estate property agents had varying levels of education starting from lower secondary education to college or University education (Table 4.2). As seen in Table 4.2, out of N = 33 real estate properties just over half n = 18 had college education whereas n = 15 had secondary education.

Table 4.2 Level of Education

<i>Level of education</i>	<i>Frequency</i>	<i>Percent</i>
Secondary education	15	45.4
College education	18	55.5
Total	33	100.0

The sample mean age was 34 (± 6.1 SD). The youngest and oldest respondents were 25 and 46 years. It was evident that these agents had been in this business on average 5 years (± 4.4 SD). The longest one has been in the trade for nine years and the shortest was 2 years.

4.4 Current ZRA Practices of Tax on Rented Household Properties

This section covers research question number 1. What are the current ZRA practices of Income tax on rent on rented household properties?”

The study revealed that the quantum of ITR that was remitted by the taxpayer was based on a self-assessment estimate principle. The Taxpayer who happened to be the tenant did not remit the tax as required by law. Instead, the landlord did so on their behalf. The landlord submits an estimated chargeable tax from rental income accrued for the current period which may be a month or three months or six months as the case may be. ZRA does not assess the lease agreement to affirm as to whether the remitted quantum is commensurate. This is shown in the following excerpts. (Doc this paragraph is confusing. Under ITR the tenant was required to pay the landlord (rentals) less by 10%. This 10% is what the tenant was expected to remit to ZRA as ITR on rentals).

The norm according to this law on ITR was that the tenant was responsible for payment.

However, this was not the case as presented below.

We have been paying withholding tax to our landlord and the quantum is 10%. What we are not sure is if the amount is remitted.

Self-assessment of ITR arising from lack of standardised rates was one current practice and this is shown as follows.

In my case, I make a personal assessment of how much rent my tenant has to pay.... This depends on the quality of the house and the area. Then 10% is remitted by me to ZRA.

Estate property agent and Landlord

It was observed that authority did not assess property and not even the lease agreement to ensure that it received a commensurate quantum of ITR. In essence ITR is merely received and accounted for.

We do not have the mandate to inspect the premises as you know, it does not help since we have no law that sets standards for rented property.

Inspector of taxes

During the workshop, it was later learnt that as from January 2022, the authority changed the ITR liability which initially was placed on the tenant to the landlord. The landlord as an income earner is now mandated to remit the rental tax. (The authority changed from ITR to Rental Income Tax. Rental Income is paid on accrual basis as it is law. i.e., whether the landlord receives rental income or not, the tax should be paid at the end of a tax period.)

The inspector made this observation.

In addition to the transfer of liability from a tenant to a landlord, the tax regime reform also involved the revision of rental income tax from 10% on rental value to 4 percent for taxpayers generating less than K800, 000 in rental income and 12% for those earning K800, 000 and above. This was meant to harmonise with the corporate income taxation and Turnover tax regime.

The current manner of payment of ITR varies from person to person. Rental income tax can be declared and remitted through the following tax systems: Tax Online, Tax on App, Tax on Phone. From the table below, the commonest according to ZRA staff was Tax Online as it has the highest AV.FR being 5.

Table 4.3: Frequency of Mode of tax payment

	A.FR	AV.FR
Tax Online,	235	5
TaxOnApp,	141	3
TaxOnPhone.	47	1

We have more payments from tax Online than any other.

ZRA Assessment Officer

4.5 Barriers

The researcher now examines the second research question which is “What barriers does ZRA face in targeting tenants to increase revenue from rented household properties?”

There were several barriers that influenced tax compliance including the improbability of conducting audit, low tax knowledge by the citizenry, and the perception of equity and fairness, low citizenry tax education, lack of transparency due to weak news media, cultural factors, such as weak national identity where the citizenry are not committed to paying taxes, tax evasion, tax under declaring and poor record keeping.

Tax evasion in the form of non-registration and under-declaration

This tax is highly evaded – registration as at 2015 was at 5%. Using the Living Conditions Monitoring Survey of 2015, approximately 600,000 dwellings were being rented in 2015. Out of these, only 32,719 houses, or 5%, were registered for withholding tax on rental income. About K394 million could have been collected as rental tax revenue from individuals for 2015, if the tax policy of 10% withholding had been effectively enforced.

Under declaration was one serious barrier to ITR collection

Under-declaration of real rental values: Taxation in Zambia operates under the principle of voluntary compliance. Taxpayers are entrusted with the power to self-assess their tax liabilities and declare current amounts in their returns. - Interview

No or Poor record keeping.

No records of the number of rented properties in the country and who the landlords are. The exact number of rented properties is not known. Improved administration of taxation in the housing sector, particularly rental properties, offers a promise as one of the options to increase tax revenues especially if more taxpayers are captured under this tax net –Interview.

Tax Evasion

Tax evasion was presented as illegal non-payment or under-payment of taxes, usually by deliberately making a false declaration or no declaration to tax authorities – such as by declaring less income, profits or gains than the amounts actually earned, or by overstating deduction.

Knowledge by the citizenry and- low citizenry tax education

ZRA reports have documented low knowledge by the citizenry and- low citizenry tax education. The following excerpt shows this barrier.

Taxpayer Education and Advisory Services program by ZRA, its impact has been limited as the program is based only at the Lusaka headquarters and Kitwe Office. Outreach to other areas only happens within special arrangements (ZRA 2016). The survey on rental income taxation revealed that only one in five households were aware of Income tax on rent on rental income.

Lack of Management-Will to Enforce Compliance Levels

Administrative hurdles were observed in form of inefficient tax collection systems that made it difficult to make payment, such as few tax pay points and the resultant long queues. Additionally, most defaulters got away with non-payment because of the weak capacity in detecting evasion and poor enforcement of the tax exhibited by the tax authority. –An unpublished ZRA report

Corruption

Corruption was singled out as one of the barriers to payment of ITR. It was sited that not only does it lower the tax-GDP ratio but also causes long-term damage to the economy by increasing the size of the informal economy, distorting tax structures and corroding the tax morality of taxpayers. All of these in turn further reduce the long-term revenue generating potential of the economy. Interviews with ZRA staff showed that this scourge was rampant. It was responsible for tax evasion, non-compliance as well as under declaration.

A few times we have done inspections, we have found that tenants have evidence that they have paid tax.... In the system you do not see any trace of payment. Corruption is actually one evil we need to deal with.

ZRA Inspector 2

The picture of tax barriers is shown in Table 4.4 below. From the table below, the commonest barrier was tax evasion, and the least mentioned barrier was as shown by the AV.FR being 9 and 0.6 respectively.

Table 4.4: Frequency of Tax Omissions

	A.FR	AV.FR
Non-registration	329	7
Under-declaration	376	8
No or Poor record keeping	188	4
Tax evasion	423	9
Knowledge by the citizenry and- low citizenry tax education	127	2.7
Lack of Management Will to Enforce Compliance Levels	38	0.8
Corruption	29	0.6

Tax loss

As a consequence of these barriers, ZRA has been recording losses. In a 2018, working paper on rental taxation: curbing non-compliance and improving administration by ZRA staff, described the gravity of tax losses as stated.

The possible collection is also much higher than the K10.5 million that was mobilised from this tax in 2016. Had the K394 million been collected, it would have been sufficient to pay for the labour costs of constructing primary school infrastructure development in Lusaka Province for the whole of 2015.

Following a change in targeting tenants to landlords, the month-on-month income figures for the tax from the time it was changed, self-withholding the tax in 2023 has increased as shown in Table 4,5 below.

Table 4.5 Trending ITR from Tennant to landlord

<i>Month (2022)</i>	<i>Rental Income Tax (K'million)</i>	<i>Target(K'million)</i>
Jan	23.3	19.9
Feb	14.5	32.4
Mar	31.3	30.4
Apr	31.7	32.9
May	12.2	39.0
Jun	11.2	31.9
Jul	31.6	44.3
Aug	12.0	35.1
Sep	11.8	29.1
Oct	38.0	28.3

4.5 Operational tax policy measures would be appropriate to increase revenue.

This section handles the third research question which is “What operational tax policy measures would be appropriate to increase revenue from Income tax on rent linked with rented household properties?”

The problem of tax compliance was discussed in the workshop. Proposals covered the taxpayer side and the Authority side. Government policies were singled out as the most critical. The workshop addressed tax corruption, human resources training, law enforcement improvements in the administration system, modernization of organizational strategy, good governance, and a whistle blowing system were seen to have significant effects on personal. Taxpayer compliance. The ranking of measures to be employed is shown in the table 4.6 below.

Table 4.6 Proposal of Mitigation measures

<i>Barrier</i>	<i>Proposal of Mitigation measures</i>	<i>Ranking</i>
Tax revenue and knowledge, tax understanding,	The authority should develop effective taxpayer education strategies on the taxation of rental income and consider utilizing public private partnerships to spearhead targeted taxpayer awareness programs across all potential taxpayers especially residential property owners in medium and lowcost areas. The ultimate goal is enhancing compliance and increasing the number of taxpayers	2
Inefficiency	<p>The Authority should invest in user friendly taxpayer platforms and link them to all available payment platforms including mobile money to simplify registration, filing and payment of rental income tax especially for low and medium cost property owners.</p> <p>Create a mobile registration and payment application. The absence of robust mobile telephony solutions in tax payment hinders capturing those that may have mobile phones and not the internet.</p> <p>ZRA should ensure that a registration and payment mobile application is created and made mandatory for all landlords to sign up. Such an application will cover those landlords that do not have bank accounts but have basic mobile phones.</p>	3
Low or no synergy	The authority should collaborate with the local authorities, National Planning Authority, Ministry of lands and ZESCO and other relevant private public stakeholders to map out all rented properties across the country and build a live registry/database of real estate properties to support enforcement of rental taxation.	4
Targets	<ul style="list-style-type: none"> ▪ The authority should invest in tax field inspectors to spearhead the responsibility of enforcing registration, filling and payment of rental income tax. Increase the work scope of tax collection agents seeing that enforcement costs of the tax may be higher in certain locations than the actual amounts paid. ZRA should allocate the appointed rental income agents to defined geographic locations called blocks. ▪ ZRA should ensure that a registration and payment mobile application is created and made mandatory for all landlords to sign up. 	1

4.6 Summary of findings

The main are that the quantum of ITR that is remitted by the taxpayer was based on a selfassessment estimate principle. ZRA did not assess property and not even the lease agreement to ensure that it received a commensurate quantum of ITR. In essence ITR is merely received and accounted for. As from January 2022, the authority changed the ITR liability which initially was placed on the tenant for the landlord. The landlord as an income earner is now mandated to remit the rental tax. There are several barriers that influenced tax compliance including the improbability of conducting audit, low tax knowledge by the citizenry, and the perception of equity and fairness, low citizenry tax education, lack of transparency due to weak news media, cultural factors, such as weak national identity where the citizenry are not committed to pay taxes, tax evasion, tax under declaring, poor record keeping. Following a change in targeting tenants to landlords, the month-on-month income figures for the tax from the time it was changed from self-withholding the tax to income rented tax in 2023 has increased.

CHAPTER FIVE – DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter has five sections. It also examines and discusses each research question supporting the problem. It also outlines research implications and renders a conclusion.

5.2 Situated Findings and Discussion

The findings of this study are situated in the existing literature. There are a number of studies with similar phenomena. The problem of tax compliance is old as taxes themselves, especially in developing countries as shown in research (Besley and Persson, 2014). However, the findings have their own cultural orientation. The findings are supported by previous research that opines that there is the relationship between tax revenue and knowledge, tax understanding, and tax compliance both partially and simultaneously (Omagor and Mubiru, 2008; Newman et al., 2018; Kwok and Yip, 2018; Aladejebi, 2018). Further, there is a relationship between tax revenue and the state's tax system in terms of human resource, police adherence, laws as well as level of technological development. These seem to relate to this case study.

Just like previous research has demonstrated, revenue is affected by the improbability of audit, tax payer knowledge, and the perception of equity and fairness (Inasius, 2018), tax payer education (Kwok and Yip, 2018; Aladejebi, 2018), cultural factors, such as weak national identity (Bessley and Persson, 2014), low level of level of understanding (Adiasa, 2013; Agustiningsih and Isroah, 2016; Manual and Xin, 2016).

Research done by Susyanti (2014) could be used to argue less for instance that the lack of tax knowledge and understanding of taxpayers could be the main detention in fulfilling tax obligations. The researcher is arguing to the contrary that the authority is riddled with management matters Therefore, it is necessary to focus more on the Authority than the taxpayer.

Therefore, while there are measures looking at innovation and diversification in taxation and the system, there is a need to continually grow public awareness and compliance of taxpayers to fulfill tax obligations in accordance with applicable regulations.

A creative economy is an economic concept that prioritises information and creativity. A creative economy relies on ideas and Knowledge of Human Resources (HRD) in business activities (UNCTAD, 2019;Alexandri et al., 2019). It appears that this has not happened within ZRA. With effective systems in place like tracking of property owners, record keeping, and public education on taxation, there could be an improvement in quantum of ITR.

It is not in dispute that ITR was an obligatory contribution to the state owed by individuals or entities that are forced-based on the law, with no direct compensation and is used for the country's needs for the greatest prosperity of the people (Mardiasmo,2013; Susyanti and Dahlan, 2020). ZRA had not placed ITR in its tax reform. ZRA has not introduced innovations and has not moved to changing the behaviour of tax collection as only an administrative problem. A political perspective shows the importance of putting taxes in their proper place in their realm of public policy and political contestation.

Changing the taxpayer from the tenant to the landlord will not change the amount of tax payments to the state. Authorities that want to be responsive to truly raise revenue will have a data bank of property owners connected to several government departments for ease of tracking. Building human resource to track taxpayers has been seen to be one of the most effective strategies in tax systems especially for creative economy business actors in the field of accounting and taxation implementation (Susyanti,2014; Susyanti and Aminah, 2019). What has not been done in Zambia is to create a synergy of all parties, namely taxpayers, tax administration and the support of social, cultural, economic and political conditions. The researcher is arguing that the success of Zambia's ITR as a component of tax revenue depends on the synergy of all these parties (Subroto, 2020).

The problem of tax compliance which has been seen in this study in a developing country (Besley and Persson, 2014) is as old as taxes themselves, especially in developing countries (Bird et al., 2007; 2010). Tax compliance is affected by a poor management system. Aryati and Putritanti (2017) found that a modern tax administration system, modernization of organizational strategy, good governance, and a whistle blowing system have a significant effect on personal taxpayer compliance. Compliance is obedience in carrying out all tax regulations, both formal and material compliance. If the taxpayer fills the Tax Return honestly, properly and correctly in accordance with the provisions in the Taxation Law, the taxpayer has fulfilled material compliance (right paid).

The study was conceived out of a gap in knowledge and practice where the ability to collect taxes which is central to a country's capacity to finance social services was perceived to be low. It was not known what barriers ZRA was facing in failing to collect the targeted quantum of Income tax on rent every year. The study has now filled the gap by asserting that there were several barriers that influenced tax compliance including the improbability of conducting audit, low tax knowledge by the citizenry, and the perception of equity and fairness, low citizenry tax education, lack of transparency due to weak news media, cultural factors, such as weak national identity where the citizenry are not committed to paying taxes, tax evasion, tax under declaring and poor record keeping. There are however solutions that focus on the taxpayer and ZRA.

5.3 Limitations and strengths of this study

This study has a number of notable limitations. The study had the following limitations:

- 1) The research was conducted with a very limited number of ZRA staff. Only 4 staff were eligible for this study. The researcher had no control of staff that were selected by management. These were deemed to be appropriate for the study. While every effort was made to achieve a thick description, certain perspectives on barriers were missing from this research due to the people the researcher was given to work with. However, the extension of the study by the Commissioner to allow the researcher to

attend the workshop involving ZRA staff and real estate property agents, allowed an addition of extra source of data for this study. However, the findings cannot be generalized.

- 2) Another challenge relates to reporting findings while protecting participants' anonymity. The nature and details of the content of the interviews would make some participants easily identifiable. As such, case specific details were altered in some way, and this has limited the extent of discussion and examples given at various points. However, in spite of these limitations, the study has scored a first in bringing out what could be happening in the area of ITR.

In spite of these limitations, this study is significant for the following:

- 1) This study provides a better and broader understanding of taxation of personal income from a positivist and post positivist point of view. It offers a brief introspection into the current situation and importance of collecting tax from rented premises. This study makes a contribution to the understanding of taxation in the informal sector by focusing rented premises. This study further contributes to the literature on taxation along several dimensions.
 - (a) The research out puts are likely to add to the pool of knowledge taxation and revenue collection which knowledge, could be accessed by other researchers and academia for teaching purposes. The methodology that was be developed could be used to inform future research.
 - (b) To recapitulate, this study offers several theoretical and practical implications, thereby making contributions both to the literature of the subject of taxation and fiancé management praxis. It expands prior theorising on the theories of taxation. A primary theoretical contribution of this research lies in providing further implementation evidence in favour of the findings advanced by previous research other than Zambia. This study also adds further substance to the view that the current conceptualization of the tax system is not particularly useful in explaining the local situation. In this sense, this study, while helping disseminate

the current state of taxation and revenue collection might be of particular interest to the Zambia Revenue Authority in terms of policy revision and direction.

- 2) The thesis has a number of strengths and the notable one is its originality. The study has added to the existing knowledge gap on the subject of taxation in Zambia. The knowledge could be used for further research and teaching.
- 3) Further, the study has notable policy implications which fall under recommendations.

5.4 Recommendations

While there has been this desire to broaden the tax base, the focus for the Zambian government through ZRA should be anchored on recouping tax. Broadly the following could be done.

- 1) ZRA to consider facilitating compliance with simplified record keeping requirements. Innovating into IT will be the best way to go.
- 2) The authority should develop effective taxpayer education strategies on the taxation of rental income and consider utilizing public private partnerships to spearhead targeted taxpayer awareness programs across all potential taxpayers especially residential property owners in medium and low-cost areas. The ultimate is enhancing compliance and increasing the number of tax payers
- 3) The Authority should invest in user friendly taxpayer platforms and link them to all available payment platforms including mobile money to simplify registration, filing and payment of rental income tax especially for low and medium cost property owners.
- 4) Create a mobile registration and payment application. The absence of robust mobile telephony solutions in tax payment hinders capturing those that may have mobile phones and not the internet.
- 5) ZRA should ensure that a registration and payment mobile application is created and made mandatory for all landlords to sign up to. Such an application will cover those landlords that do not have bank accounts but have basic mobile phones.

- 6) The authority should collaborate with the local authorities, National Planning Authority, Ministry of lands, ZESCO and other relevant private public stakeholders to map out all rented properties across the country and build a live registry/database of real estate properties to support enforcement of rental taxation.
- 7) The authority should invest in tax field inspectors to spearhead the responsibility of enforcing registration, filling and payment of rental income tax. Increase the work scope of tax collection agents seeing that enforcement costs of the tax may be higher in certain locations than the actual amounts paid. ZRA should allocate the appointed rental income agents to defined geographic locations called blocks.

5.5 Conclusion

The study points to the fact that withholding tax was not being paid as expected because there were barriers on the taxpayer's side and ZRA side. There are a number of viable ways to break ground as far as reaching out to landlords is concerned now that ZRA is targeting property owners and not tenants. There is need for designing effective measures.

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