

**A STUDY OF THE FACTORS AFFECTING THE COLLECTION OF  
WITHHOLDING TAX ON RENTAL INCOME FROM THE INFORMAL SECTOR:  
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 Master of Business Administration in Management  
Strategy.**

**THE UNIVERSITY OF ZAMBIA**

**LUSAKA**

**2021**

## DECLARATION

I **Celine Chanda Lwanga** hereby declare that the materials contained in this thesis have not been previously submitted for a degree in this or any other university. I further declare that this thesis is solely based on my own research. I also declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. Any omissions made may not be by choice but by error.

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## APPROVAL

This dissertation by **Celine Chanda Lwanga** approved as a fulfillment of the requirements for the award of the degree of Masters of Business Administration in Management Strategy.

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## ABSTRACT

Taxation is the pillar of public sector finance and is therefore critical to the short-term performance and long-term growth of the economy. However, the challenges of collecting taxes in less advanced economies such as Zambia is well documented in the empirical literature, particularly in relation to taxing forms of income directly. These challenges are compounded by the large informal sectors in such countries. The World Bank estimates that 90% of adults in Zambia earn their income from the informal economy for example. This study involved empirical investigation of the factors that affect the collection of withholding tax (WHT) on rental income from the informal sector in Zambia. It involved a case study of the Zambia Revenue Authority (ZRA). It was motivated by evidence that WHT on rental income remitted to the ZRA had been falling despite countrywide exponential growth in rental properties over the past decade. The study examined the relationship between informal sector compliance with rental income tax and the tax rate, aspects of tax administration, and individual characteristics such as age, gender, Income of individual tax payer and level of education. Specifically, the relationship between the perceptions of the tax rate on rental income, administration, individual characteristics of respondents (regressors) and likelihood of potential taxpayers making full disclosures relating to their liabilities (response variable) was examined using logistic linear regression. Data was collected by self-administered questionnaire interviews from a nonprobability sample of 139 respondents. Logistic regression results showed that perceptions of the tax rate being high lowered the probability of compliance with the tax as did aggressive reminders of obligations to taxpayers by authorities. On the other hand, results suggested that taxpayer engagement by authorities, taxpayer education, as well as the development of a comprehensive database of eligible taxpayers as part of tax administration would enhance likelihood of compliance. positive coefficients implying that they increased the likelihood of compliance. However, all results were not statistically significant. From results of the study, policy recommendations are that authorities should consider revising the tax rate or creating banded rates to boost collections amongst taxpayers with different levels of rental income. The Authority to consider collecting rental income from Landlords rather than tenants. Further, engagement with taxpayers and creation of comprehensive taxpayer database should be used by authorities to improve compliance with the tax in sections of Zambia's informal sector.

**Key Words:** *Zambia, Informal Sector, Tax Rate, Tax Administration, Individual Taxpayer Characteristics*

## ACKNOWLEDGEMENTS

My thanks first go to the Almighty God for giving me the spiritual guidance and strength to complete this thesis. I thank God for giving me the opportunity to get to know such wonderful people along my way. This journey has been physically, emotionally and spiritually enlightening.

Secondly, I would like to thank my supervisor, Dr. Lubinda Haabazoka for his guidance, advice, assistance, and encouragement which made it possible for me to bring this thesis to completion. I am indebted to him for being a source of motivation, open door policy and constant support. The amount of knowledge I have gained is invaluable. I really appreciate the patience and tolerance for every question that I have asked during Master journey. I really appreciate the trust he had in my efforts.

Thirdly, I would like to express my sincere thanks to all those who have assisted me and offered their support over these years of my doctoral studies. Special thanks are given to my colleagues in the UNZA Graduate School of Business for all the time, feedback and discussions. I convey my heartfelt appreciation to all friends who encouraged me since the beginning of my studies, especially my nephew Mushota Lwanga, my brother in-law Mr. Future Mubanga and his wife and Mr. Salvator Hara.

Fourthly, I am grateful to the Tenants and Landlord in the Lusaka Province and ZRA employees for their time, views, insights and participations in this research. I am thankful for their sincere response and feedback that supported the pilot and survey questionnaire reported in this thesis. Their contributions were vital for the success of this project.

Above all, I must thank my husband, Humphrey Mulenga for his love, patience, sacrifice, inspiration, understanding, and constant help during the composition of this long study; only he knows the depth of my indebtedness. Loving appreciation is also dedicated to my family; My Sisters, Christabel, Charlotte, Constance and Caroline, My brothers; Charles Lwanga, Peter Lwanga, Dr. Francis Lwanga, Evans Lwanga and John Lwanga and their spouses for continuing to lend their invaluable support. Lastly am forever indebted to my mother in-law Mrs. Helen Mukungwa for her prayers and encouragement.

## **DEDICATION**

I dedicate this thesis to: My parents Mr. and Mrs. Romanus and Leonia Lwanga without whose endless prayers, encouragement and support during my life, I would not have been able to achieve anything today.

My love Humphrey Mulenga, a great Husband for your wholehearted love, sincere support and strong patience throughout the entire journey.

My adorable daughters Mwenya, Chanda and Mwamba and my Sons Nicolas, Kabansa and Mwangi. May this be a source of motivation for you, to go beyond fame and fortune and experience the wonders of knowledge.

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## LIST OF ACRONYMS AND ABBREVIATIONS

EFT	Electronic Fund Transfer
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
ICTs	Information's and Communications Technologies
ILO	International Labour Organization
IMF	International monetary fund
JCTR	Jesuit Centre for Theological Reflections
LCMS	Living Conditions Monitoring Survey
LTO	Large Tax Office
MIS	Management Information Systems
MMD	Movement for Multi-Party Democracy
MTO	Medium Tax Office
PAYE	Pay-As-You-Earn
RTGS	Real Time Gross Settlement
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
STO	Small Tax Office
TPINS	Tax Payers Identification Number
VAT	Value Added Tax
VAT	Value Added Tax
WB	World Bank
WHT	Withholding tax on Rental Income
ZRA	Zambia Revenue Authority

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

This study was conducted on the subject of factors that affect the collection of Withholding Tax on Rental Income from the informal sector by Zambia Revenue Authority (ZRA). In chapter one, the research topic is introduced through a detailed background to the study, statement of the research problem, outline of research objectives and research questions. The chapter also provides a scope of the study to delimit the research topic. Further justification for the study is provided through the significance of the study. The chapter is concluded with an outline of the rest of the dissertation.

#### 1.2 Context of Taxation

Taxes influence the economic decisions and behaviours of individuals and businesses in an economy as well as the capacity of governments to provide public goods and service (Todaro & Smith, 2012). Taxation is thus one of the highly researched areas of public finance and economics (Avi-Yonah & Margalioth, 2006). The relationship between taxation and variables such as economic and social development has placed the concept at the core of key economic theories as well as practical research relating to the optimal design of tax policy towards the ends of economic and social development in particular (Burgess & Stern, 1993). In other words, policy makers and researchers have ongoing concerns about how to use taxation not only for purposes of generation of revenues to support public spending plans but also to influence the level of economic activity in a country (Abuzeid, 2009).

The questions surrounding taxation policy design appear to have even greater significance in the case of developing countries that face various problems in the areas of public finance and economic development (Todaro & Smith, 2012). Myriad problems arise in most developing country contexts including “*complex and deep-rooted, systemic problems that cannot be tackled by improved tax administration alone*” (Umar & Tsubira, 2017, p. 108). As Emran & Stiglitz (2005) note, the large informal sectors in developing countries create a barrier for collection of particularly taxes on incomes of economic agents which remain largely unknown by authorities and therefore difficult to tax directly. This is a concern not only for authorities of developing countries but also of developed countries which rely on tax contributions from



their own citizens to support budgets of governments in lower income countries, particularly in the wake of the recent global financial crisis (Abuzeid, 2009; Carnahan, 2015; Dube & Casale, 2016). The question of informal sector taxation and its contribution to tax gaps in developing countries is hence of ongoing interest amongst policymakers and scholars alike (EU Directorate General for External Policies, 2014).

Zambia which is classified as a lower middle income country, is no exception to these issues and has had long standing problems in the area of domestic resource mobilization, resulting in fiscal deficits and dependence on bilateral and multilateral partners for budgetary support (Muleya, et al., 2018). To appreciate the challenges faced by the Zambian authorities, viz- viz taxation of the informal sector, it is necessary to consider the historical background of the country's economy in general since its political independence from Great Britain in 1964 (Rakner, 2003). The post-independence government of the United National Independence Party (UNIP) under Kenneth Kaunda introduced economic reforms in 1968 with the objective of putting the state in greater control of critical economic sectors in the country including the nationalization of the copper mines (Thomas, 1968). Given this landscape, Zambia's economy saw the emergence of state-owned industries created with a policy of absorbing as many of the country's adult population as possible into formal sector employment (Sardanis, 2014). Driven by the socialist inclinations of the Kenneth Kaunda led government, there was a countrywide focus on establishment of labor-intensive parastatals in each provincial capital, with mining on the Copperbelt continuing as the mainstay of the economy (Fraser & Larmer, 2010). However, challenges with deteriorating balance of payments and mounting external debt following the twin shocks of the 1973 oil crisis and depressed copper prices on the London Metal Exchange (LME) were major issues for the UNIP government to grapple with. The state-controlled economy was yet plagued by high levels of unemployment and a large informal economy, particularly in the rural areas (Todd & Shaw, 1980). These created turbulence for the political establishment that garnered support for regime change through the 1980s (Sardanis, 2014). Thus, early general elections were organized in 1991, the first multiparty polls since a constitutional amendment in the early 1970s that confirmed the country as a one-party state (Phiri, 2006; Sardanis, 2014).

In 1991, the new government under the Movement for Multi-Party Democracy (MMD) pursued economic reforms liberalizing the economy recommended by the International Monetary Fund (IMF) and World Bank (Mulungu & Ng'ombe, 2017). The economic reforms saw the collapse of the major parastatals that had absorbed much of the labor force during the period from 1968

to 1991. The privatization program saw a spike in the numbers of the unemployed and led to a rise in informal economic activity in urban centers (Gadzala, 2010). Large numbers of those laid off during this process of restructuring of the economy took up low capital economic activities such as retailing while others built or constructed properties for rental income as a source of livelihood (Fraser & Larmer, 2010). The growth of rental income on accommodation as a source of income in the informal economy particularly in the urban areas was further reinforced by a government policy to empower vulnerable citizens through sale of previously state-owned residential accommodation to sitting tenants to help cushion the impact of the difficult immediate post-privatization transition period (Sardanis, 2014). In other words, in a relatively short space of time, a large number of Zambians across the country were transformed from tenants in state-owned houses to homeowners by the policy that enabled them to acquire the properties at preferential prices. A weak social security system further implied that large numbers of those retired from failing parastatals would let out all or part of the acquired properties for rental income to sustain themselves and their families (Gadzala, 2010). Additionally, the pattern of Zambians investing in real estate as a source of post-retirement income became a feature of new economic realities (Kabaso & Phiri, 2012; Muleya, et al., 2018).

In 2011, after 20 years of rule by the MMD, Zambia ushered in a government led by the Patriotic Front (PF). Following a massive countrywide investment in public infrastructure mainly financed by borrowing, the GRZ has been looking at strategies for increasing the contributions of taxation to the treasury, including those targeting the large informal sector in the country (Muleya, et al., 2018). The informal sector is dominated by economic activities which operate outside government regulations, registration and laws (Carnahan, 2015). It has allowed a large proportion of the population to escape extreme poverty through its economic activities and has also contributed to rapid urbanisation of some semi-urban areas (Dube & Casale, 2016). Transactions within the sector involve mostly cash with low record keeping attitude on their daily profits and losses which has made it difficult for government to tax the personal income and profit of these categories of businessmen and women, even though their income contributes to the nation's gross domestic product (Carnahan, 2015).

In the wake of macroeconomic instabilities that occurred in Zambia during 2015, the focus of tax policy has clearly shifted towards the much-needed consolidation of public revenues and expenditures in the medium term (Ministry of Finance, 2015). The 2016 National Budget outlines the path that Government wanted to take, at least in the short term, to achieve this. At

the centre of this shift has been the Zambia Revenue Authority (ZRA) whose task, among other things, is to improve the tax revenue to GDP ratio to 20.1% by 2018 (Ministry of Finance, 2015).

The country's tax collection authority has been challenged to enforce the tax laws more effectively in carrying out its directive (Kabaso & Phiri, 2012). The tax system in Zambia comprises income taxes, consumption taxes and trade taxes (Anuradha & Ayee, 2002; Kabaso & Phiri, 2012; Nalishebo & Halwampa, 2014). These taxes are collected by the Zambia Revenue Authority (ZRA) which is mandated to collect taxes on behalf of the Government of the Republic of Zambia (GRZ) (Fraser & Larmer, 2010). Taxes administered by the Authority include Domestic Taxes: (Pay as you earn, Turnover Tax, Property Transfer Tax, Withholding Tax, Individual Tax, Medical Levy) and Trade Taxes which include (Customs Duty, Excise, Import VAT, Carbon Emission and Motor Vehicle Licensing Fee) and Domestic VAT. Zambia Revenue Authority charges different tax rates for all the tax types (Muleya, et al., 2018).

Withholding Tax was first introduced in Zambia on Interest, Management and Consultancy Fees, Royalties and Public Entertainment Fees in 1971 (Muleya, et al., 2018). The process of tax reforms 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 (Carnahan, 2015). The main outcome of this reform was the creation of a quasi-independent Zambia Revenue Authority in 1993. The Ministry of Finance is responsible for tax policy formulation. Given the background described, political will to implement the collection of the tax on rental income has not always been strong (Muleya, et al., 2018; Mulungu & Ng'ombe, 2017). Withholding tax has over the years been extended to Dividends, Rent, Commissions, Payments to non – resident contractors, branch profits and winnings from gaming, lotteries and betting (Bwalya, et al., 2014)

The appeal to focus on withholding tax on rental income came from an observed growth in rented dwellings **3**. The 2010 and 2015 Living Conditions Monitoring Surveys (LCMS) show that the total number of rented housing units increased from 20% in 2010 to 24% of total housing in 2015 as shown in Table

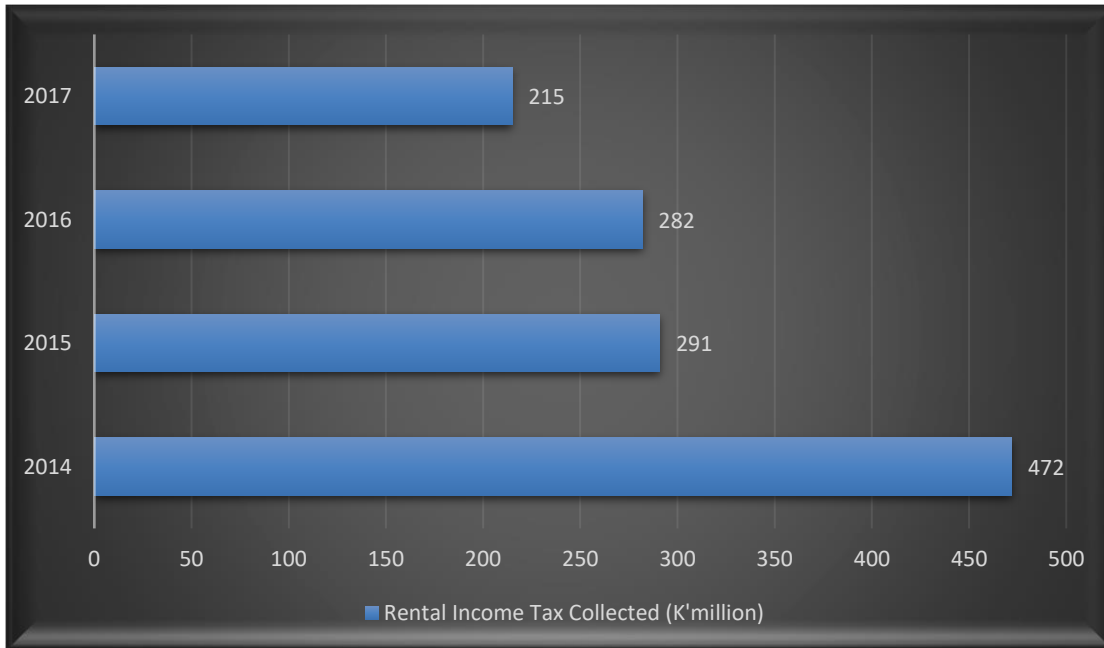
**Table 1: Constructed from the Living Conditions Monitoring Surveys**

Basic Occupation	Owner Occupied		Rented Housing		Other Housing		Total Housing Units (000)	
	2010	2015	2010	2015	2010	2015	2010	2015
Province								
Central	86%	84%	13%	15%	1%	0%	250	238
Copperbelt	64%	62%	35%	37%	1%	1%	369	410
Eastern	95%	92%	5%	8%	0%	0%	342	323
Luapula	92%	89%	7%	11%	1%	0%	191	198
Lusaka	46%	41%	54%	57%	0%	2%	366	494
Muchinga	0%	88%	0%	12%	0%	0%	0%	129
Northern	92%	91%	8%	9%	0%	0%	318	202
North-Western	90%	93%	10%	7%	0%	0%	138	170
Southern	83%	80%	16%	19%	1%	1%	311	293
Western	96%	94%	4%	5%	0%	1%	205	158
<b>Total Zambia</b>	<b>80%</b>	<b>76%</b>	<b>20%</b>	<b>24%</b>	<b>0%</b>	<b>0%</b>	<b>2,491</b>	<b>2,615</b>

Source: Constructed from the Living Conditions Monitoring Surveys 2010 and 2015

### 1.3 Statement of the Problem

Economies of developing countries are characterized by a large sector of thriving informal sector whose participants are often referred to as “the hard to tax”. Informal sector earnings include rental income which is a key source of livelihood for large proportions of citizens in the country, including those who leave formal employment due to retirement or other reasons. The Zambian government has come up with several measures aimed at making it easy for this group of taxpayers to comply with tax regulations. One such measure is the enforcement of withholding tax on rental income. In 2015, the ZRA changed the procedure of collection of withholding tax on rental income from landlords to tenants, resulting in a significant decline in collections from K472 million in 2014 to only K291 million, K282 million and K215 in 2015, 2016 and 2017 respectively (Muleya, et al., 2018). Figure 1 below shows the recent trends;



**Figure 1: ZRA Rental Income Tax Collections (2014-2017)**

Source: ZRA Database

The figure above shows an increasingly declining trend in collections of withholding tax on rental income by the authority. In order to achieve greater collections in this and other classes of tax, ZRA has embarked on several programmes strategically aimed at increasing voluntary tax compliance and optimise revenue collection (Bwalya, et al., 2014). One such programme was the 2015 awareness campaign directed towards the withholding tax on rental incomes aimed at improving the collection of revenue under this tax type (Muleya, et al., 2018).

The appeal of rental income as a source of tax has come from the observed growth in the number of rented dwellings owing to the housing construction boom in the last few years. According to the 2015 Living Conditions Monitoring Survey (LCMS), the number of people living in rented dwellings increased by 74.5% from 360,000 in 2010 to 628,346 in 2015, an addition of approximately 50,000 new dwellings per year in this period. Most additions were in Lusaka and other urban areas, in the medium and high cost type of houses. This increase in the rented housing units presents opportunities for expansion of the tax base. The large gap observed between potential and actual rental income tax collections obtained from individuals justifies the need for a study on factors that affect the collection of withholding tax on rental income.

#### **1.4 Aim of the Study**

To investigate the factors affecting the collection of WHT on rental income from the informal sector by Zambia Revenue Authority.

#### **1.4 Research Objectives**

Specifically, the study aimed at achieving the following objectives;

1. To investigate how the tax rate, affect collection of Withholding tax on rental income.
2. To establish characteristics of individual taxpayers that affect collection of withholding tax on rental income.
3. To investigate how aspects of tax administration affect collection of withholding tax on rental income.

#### **1.5 Research Questions**

1. How does tax rate affect collection of Withholding tax on rental income from the informal sector?
2. What characteristics of individual taxpayers affect the collection of withholding tax on rental income?
3. How does the tax administration affect collection of withholding tax of rental income?

#### **1.6 Scope of the Study**

In this study, it is argued that the cash transaction nature of rental payments in Zambia entails that the transactions can easily slip away from official monitoring mechanisms for tax purposes and become part of the informal or underground economy. Thus, the study focused on unravelling the factors that affect the collection of this tax type between 2015 and 2020. Geographically, the study was based in Lusaka province in Zambia. The informal sector was defined in terms of individual tenants and landlords whose cash transactions in rental income may not be captured by tax authorities.

#### **1.7 Significance of the Study**

The findings of this study can be utilized by planners and other researchers during taxation plan for increasing government revenue. Moreover, the Zambia Revenue Authority can utilize the study on enhancement of WHT collection by identifying the factors for tax effectiveness.

Policy makers can use the study findings on making the optimal model for effective collection of WHT on rental income. ZRA Management can use the findings of the study for improving timely proper collection of WHT on rental income specifically on property value. Citizen (landlords) of Zambia can use the study findings to know the importance of paying the WHT on rental income on timely basis. In addition to that they will recognize the contribution it makes to government revenue.

The study also avails relevant authorities with the findings and information that will be used to help them come up with decisions or measures that will lead to the improvement of tax collection in the informal sector in Zambia. Furthermore, this study serves as a basis for future research and study in the area by researchers. This is because as the social order changes and dynamics vary. Lastly, this study is a useful source of reference to Government in general and to Zambia Revenue Authority and the Ministry of Finance especially, in policymaking decisions concerning taxing of the informal sector with particular interest on withholding tax on rental income.

### **1.8 Outline of the Thesis**

Chapter 1 has highlighted the Research background, statement of the research problem, research aim, objectives of the research, research question development, and scope of the research.

Chapter 2 reviews related to literature about the research and is categorized into sections. The first part presents the introduction of this chapter. Then the second part defines the related terms about the research such as property rating, assessment value, tenement, hypothetical tenant, valuation list, ratable value, property tax etc. The third part touches on the theories/models of property taxation and the stakeholders involved. The fourth part highlighted the process with special emphasis on property tax collection procedure. The fifth part is examining the issues associated with property tax collection; the last aspect looks at the perceptions of tax payers on property taxation in its present circumstances based on review of literatures and also factors that militates against property tax. The last part is the conclusion of this chapter.

Chapter 3 shades light on the conceptual framework used in attaining the stated aim and objectives of the research. The chapter explains how the research questions were empirically determined and examined through relevant methodological approaches adopted in the research. Furthermore, the research design, type and sources of data were also examined and

accomplishing the research objectives. In essence, attention is also given to the research populations.

Chapter 4 articulates the methodology of the study and the study design. It covers the background of study, with the structure of the respondent and the organization that collects the tax. Information is collected from the respondents in an attempt to describe and interpret some data regarding the issues on why rental income tax revenue is decreasing. Qualitative data collection and analysis is employed.

Chapter 5 presents and analyses of quantitative data. Information is collected from the taxpayers and the data is to be documented and analyze with regards to the reason WTH tax revenue generation is not increasing.

Chapter 6 provides the conclusions and recommendations of the study. An attempt was made in this chapter to draw inferences from the data analysis and elucidate the findings using a format that is constructive and beneficial for policy implementations. It presents the findings in relation to the research objectives. This is followed by the strengths and limitations of the study and potential areas for future research. The limitations or problems encountered in the process of data collection and research contribution to knowledge were also highlighted and explained. The chapter concludes with some closing statements highlighting the contribution the research has made to knowledge.

### **1.9 Summery of the Chapter**

This chapter has examined in detail the introduction of the study and other issues discussed include background of the research, statement of the research problem, research aim, research objectives, research questions, the scope of the research, research contribution to knowledge, research limitation. In the next chapter is the literature review, which reviewed various literatures with the aim of having a clear focus of the research. Issues to be discussed include: Introduction, concepts of WHT, rationale for WHT, WHT reform, taxpayers' expectations on WHT and other related areas. The study discusses the various policy and administrative issues that must be carefully considered as prerequisites for successful rental income tax reform. A comprehensive analysis, beginning with the theoretical underpinnings and the experiences of developed and developing countries, including countries in the Sub-Saharan Africa region, is relayed. Thereafter, the paper delves into descriptive analyses of the experience of Zambia in relation to the rental income taxation, giving an account of its history, compliance levels, revenues realized, as well as challenges faced. The report goes on to communicate the findings



of the primary data collection in relation to the perceptions, attitudes and behaviors of taxpayers coupled with their knowledge and compliance to rental income tax in Zambia. Finally, the study gives conclusions and recommendations from best practices that can be employed to improve administration and collections from this tax type in Zambia.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

Chapter one introduced our research topic. It introduced the need to understand the factors that affect the collection of withholding tax on rental income from the informal sector. It also helped us to understand how informal sector taxation affects government revenue. This Chapter looks at the concepts of informal sector taxation focusing on withholding tax on rental income. It will look at the performance of rental income against other taxes. It also discuss the literature describing the effects of informal sector taxation on revenue collection. This chapter begins by giving a brief discussion and overview of concepts such as withholding tax collections in Zambia. The chapter finally looks at the literature on the effects of informal sector taxation and other factors.

#### 2.2 Overview of Informal Sector

##### 2.2.1 Definition and Characteristics of Informal Sector in Zambia

The concept of the informal sector refers to the part of an economy involving wealth creation and exchange that is not taxed and is not monitored by authorities in a country (Kabaso & Phiri, 2012). Definitions of the concept of informal sector by Feige (1989) and Smith (1994) emphasize the fact that activities in this sector are not covered by national income accounting due to their characteristics of being unregistered or officially undetected. On the other hand, Hart (1973) points to the largely unregulated nature of economic activity in the sector which creates challenges for official measurements of the wealth it creates for taxation purposes.

The key characteristics of informal sector include: (i) low entry costs, and general ease of entry, (ii) unregulated and competitive markets, (iii) reliance on indigenous resources, (iv) family ownership of enterprises, (v) small scale of operation and diverse, (vi) labour intensive and simple technology, and (vii) skills acquired outside formal schooling system.) (viii) often mobile in operations, poor record keeping, (ix) predominantly cash-based transactions, (x) low levels of illiteracy and unable to afford accountants, (xi) no culture of tax compliance as different rules, values and beliefs apply, huge in developing countries and (xiii) challenges in compliance and monitoring. These characteristics of the informal sector have been endorsed by academic literature on informal sector (Munjeyi, et al., 2017).

Developing countries such as Zambia face problems mobilizing resources to finance their budgets and almost persistently rely on external donor support to meet significant proportions of their national budgets (Abuzeid, 2009). Such countries for example also tend to have informal sectors that are significantly large relative to the formally organised and therefore normally heavily taxed sectors of their economies (Shah & Whalley, 1991; Emran & Stiglitz, 2005). The challenge of generating tax revenues from the informal economy has therefore been highlighted by past studies with the focus of researchers being on the design of tax policies to increase tax collection from the informal or black economies of poor countries (Emran & Stiglitz, 2005).

Zambia's economy provides an interesting quiet essential developing country case study of various economic dilemmas that policy makers in poor countries invariably face. These problems include those in the area of taxation where a narrow formal economy focused tax base entails a heavy tax burden on a small proportion of the economy (Burgess & Stern, 1993). This is amongst the factors that stifle the growth of the formal sector and the economy as a whole (Mulungu & Ng'ombe, 2017). One of the strategies that scholars and policy makers have identified for broadening the tax base in developing countries such as Zambia involves optimization of tax policy and the tax structure to target and include the large informal or shadow economy in the tax net especially through indirect taxation (Shah & Whalley, 1991).

In attempts to increase domestic revenue mobilization for their national budgets, the informal sector is an obvious focus of attention as it forms a significant and growing proportion of the economy in many developing countries, yet contributes little in the form of taxes (Anuradha & Ayee, 2002). The tax inflow from the informal sector relative to its sheer size can be said to be woefully insufficient in Zambia's case. This is a position that has been confirmed by official statements from Zambia's tax authorities and past empirical research (Kabaso & Phiri, 2012). There are many informal sector participants that either deliberately evade tax payment or are not captured by the Zambia Revenue Authority (ZRA). The informal sector in Zambia has been described as very fluid with no concrete regulatory policy in place to monitor activities of the sector despite accounting for a large proportion of economic activity in the country (Nalishebo & Halwampa, 2014). In recent years, the Zambian government has embarked on a massive debt financed countrywide infrastructure development drive that has increased the need for innovative domestic resource mobilization to help meet debt repayment obligations. Strategies adopted to broaden the tax base in Zambia have included the introduction of a presumptive tax (Munjeyi, et al., 2017). This background amplifies the need for policymakers to have deeper

understanding of the factors that lower the contribution of withholding tax on rental income to the country's tax base.

## **2.2.2 Theoretical Perspectives**

### **2.2.2.1 The Dualist School**

This school was popularized by the International Labour Organization in the 1970s, and subscribes to the notion that the informal sector is comprised of marginal activities distinct from and not related to the formal sector that provide income for the poor and a safety-net in times of crisis (Sethuraman, 1981). The informal sector exists as an avenue for the lower class and the poor to be able to seek out a living. The informal sector acts as a buffer for those workers lay-off in times of economic recession. While this theory captures key characteristics of the informal sector and provides a plausible explanation for its existence in Zambia, it ignores the possibility that high economic value activity may also be found in the informal economy as well as the fact that the sector is not a transient feature of the economy but has attributes of permanence in most developing countries (Emran & Stiglitz, 2005). On the other hand, it would then be suggested that the more or less permanent feature of the large informal economies in developing countries such as Zambia entails a greater urgency for implementation of strategies to capture the sector in the tax net so that it makes a fair contribution to the national budget and eases the free rider problems currently faced.

### **2.2.2.2 The Structuralist School**

Championed by Caroline Moser (1978) and Alexandro Portes (1989), in the late 1970s and 1980s, the structuralists suggest that the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to lessen input and labour costs and, thereby increasing competitiveness of large capitalist firms. A personal evaluation of the extent to which this theory applies to the Zambian economy suggests that it is largely valid as many aspects of formal economic activity appear to be intertwined with those from the informal sector. An example of this feature can be argued to the practice of casualization of labour in the Zambian labour market where formally registered corporations employ low skilled labour on a non-contractual basis in order to minimize their labour costs (Kabaso & Phiri, 2012).

### **2.2.2.3 The Illegalist School**

Popularized by both neo-classical and neo-liberal economists, the illegalist school of thought subscribes to the view that informal entrepreneurs deliberately seek to avoid regulations and taxation and, in some cases, to deal in illegal goods and services (WIEGO). This school is associated with the notion that the informal economy is an underground or black economy. According to this school of thought, informal entrepreneurs decide to operate illegally or even criminally in order to avoid taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney, 2004).

## **2.3 Relevant Taxation Concepts**

### **2.3.1 Withholding Tax**

Withholding Tax is a "financial burden laid upon individuals or property owners to support the government, a payment exacted by statutory authority. WHT is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government, whether under the name of toll, tribute, tallage, gabel, import, duty, custom, excise, subsidy, aid, supply, or other name (Fullerton, 2008).

### **2.3.2 Property tax**

Property tax/millage tax is an ad valorem tax levy on the value of property that the owner of the property is required to pay to a government in which the property is situated. There are three general categories of property: land, improvements to land (immovable man-made things, e.g. buildings) and personal property (movable things). Real estate is the combination of land and improvements to land (Johnsson, 2009).

(Chourdury Richard 1993) explained that property tax is the one assessed on capital/wealth/property of the individuals and the tax is imposed on the wealth/asset in the form of land, buildings, gold, credit instrument, cash etc. which are different types of property/capital. Also Richard Musgrave, Peggy Musgrave (1989) defined property tax as taxes imposed on pieces property imposed (payable by the owner) and thus be of the impersonal type. Or property tax is the tax imposed on the combined property holdings of a person, or in his net worth, thus being in the nature of a person tax.

Harvey S. Rosen says that property tax is taxes that is imposed on capital with same types of capital taxed at rates above the average, others below. Hence, Property Tax plays a key role in Local Public Finance where it accounts for about 75% of Local Governments' Revenues. Also an individual's Property Tax liability is the product of the tax rate and the property's assessed

value, the value the jurisdiction assigns to the property. Additionally, he classified this property tax into three types;

**Annual capital**/Annual tax on net wealth refers to the tax where it is a regular annual charge on the assessed value of net wealth of the Tax payer, also a tax assessed on wealth but a once for all charge.

Mponguliana R.G. stated that, Property would include both immovable and movable property like buildings, furniture etc. similarly, it would include both tangible properties like buildings which can be visibly seen and intangible property like copyrights, shares, patent right etc. which cannot be visibly seen.

Income Tax Act 2004 explains that gains or profits from any right granted to any other person for use or occupation of any property is chargeable to income tax e.g. rent from National Housing Corporation or NSSF buildings for commercial renting business. Gains or profits for use or occupation of any property include any royalty, rent, premium or like consideration received for the use or occupation of property e.g. rent from property owned by any person. In both cases this rent is taxable.

### **2.3.3 Importance of WHT tax payment**

Property tax is the major means of Government revenue in many countries, in which charged on property. The property value normally appreciates as time goes on, in that respect the property tax is directly related to the value of property. Government revenue expected to increase with time due to property value increase. Tax contribution is related to the ability to pay by property tax payers basing on income obtained from such property. This increasingly indicated that the property tax payer's ability to provide such contribution to the Government revenue is increasing (Slemrod & Bakija, 2001).

Taxation on property is supported by both benefit and ability to pay deliberations. There is much evidence that is found within the tax literature. It is argued that the property tax burden needs to be distributed according to the benefits that the individuals gain from the government expenditures. Property tax payment depends on ability to pay and willingness of the taxpayer whereas enforcement mechanism by the government also impact tax collection. In most of the developed world property tax payment is connected to the trust and willingness of tax payers. This reduces the chance of property tax evasion. Such kind of tax payers believes on return of

property tax provided through the enjoyment of public goods, which does not necessarily relate to the amount of property tax contributed (UN-Habitat, 2011).

#### **2.3.4 Property tax evasion**

The room for property tax evasion is one of the increasing issues in developing countries. This is a result of poor recording of the property and missing information on rental income obtained in such property by the owner. Absence of proper system to detect income obtained from property increase the room for property tax evasion. The individuals who evade from paying property tax in most case is due to unawareness and misuse of revenue from property tax. This gives room for much revenue loss by most of developing countries. Property tax awareness will stimulate the moral of property tax payment and reduce the room of property tax evasion. The government through each council should have a database of all property available with their value. However poor valuation of the property is one of the factors that perpetuate property tax evasion (Davis, 1983).

#### **2.3.5 Requirements for a property tax system**

The requirement for property taxation is highly linked to the principles associated to provide standard guide on property tax payment. Literature on property tax still indicates that property tax is different from other taxes in terms of methods of assessment (annual value, unit or area based, value based), varied basis of taxation (land only, land and improvements, improvements only), appeals approach, tax collection and enforcement, and administration procedures as a whole (ibid 2001). In that respect the administration of property tax involves providing benefit to the government and property tax payers. However, the benefit of paying property tax to the side of taxpayer need to be critically identified related to the knowledge and awareness on the use of revenue from property tax to the taxpayers.

As grouped in Kayuza study on perception of taxpayers, property tax is connected to the standards which are linked to the traditional principles of taxation which include: Fairness based on benefits received, property taxes should reflect the benefits received from government expenditures. Fairness based on ability to pay, property tax levels should be related to individual's ability to pay in terms of both horizontal and vertical equity (Pound T 2007). Thus property owners with similar value properties should pay similar levels of taxes, whereas taxpayers with high value properties should pay relatively higher taxes. Neutrality: property tax ought to not distort economic behaviour of individuals. For instance the tax

should not affect decisions about where to live and work, and also the type of improvements to make to one's property. Accountability: property taxes need to be created in ways that are easily understandable. Clear tax structures provide room for policy makers and tax authorities to be held accountable. Ease of administration: property tax systems need to be simple such that it is easy to administer the tax and cheap to collect (Slack, 2001). The standards to the large extent reflects real situation in practice of property tax system, people are comfortable when they see that the government cares for them when they can access social services (water, electricity, health care) and when they live in clean environment.

Also when people are aware of taxes and see what it does through the government, they become more compliant. This is evidenced by the situation in developed countries where people are aware of taxes and they are happy to pay tax whenever they fall due something that makes it easier for the tax authorities to administer. All these standards are relevant to property taxation because they are supported by the finding in this study.

### **2.3.6 Property tax administration system**

There are many factors that support a country's ability to collect enough tax revenue from domestic sources. It is important for a country to have an efficient tax administration system. In Zambia the policy is that the tenant should withhold the tax, this therefore means that the Authority must have a system where they are able to locate all the 600,000 tenants. It also means that different taxpayer registration must be done everytime there is a new tenant even though the property is the same. ZIPAR(2018).

### **2.3.7 Principles of taxation**

The property tax composition is based on efficiency and equity criteria. It has been indicated that proper property tax system should allow property taxes to be raised in a way that treat individuals fairly. It lessens interference in economic decisions, and that does not impose undue costs on taxpayers or administrators. Property tax should satisfy the condition accessible for taxation (Alm, 1999).

Taking property taxes as an example, factors that lead to a functional tax structure are so many and it is not easy for a tax system to achieve all of them at a go. As such it is quite common for instance to find property tax system that scores high on efficiency standards but the reverse with respect to fairness. The British property tax system is helpful as it records high revenue collection levels (Vlassenko, 2001) but there are equity weaknesses inherent in the system (Plimmer, et al, 2000).



## **2.3.8 Property taxation in Zambia**

### **2.3.8.1 The Tax Base**

Unlike in other countries where property tax base may primarily include land and buildings and to a lesser extent other assets, the tax base in Zambia cover buildings (or improvements) only. Thus the tax is centered on the capital value of buildings.

According to the Urban Authorities (Rating) Act, “*rateable property* is defined to cover all buildings found within the taxing jurisdiction, which are in actual occupation collectively with the improvements on, in or under any such building. Whereas improvements are described as the whole or any part of a building structure of whatever materials constructed, which is capable of beneficial use or occupation and which is of sufficiently permanent nature as normally to pass with land on disposition”.

However the level of exemptions provided for under the law governing property tax, contribute to the reduction of the size of the tax base of any rating authority in Zambia.

### **2.3.8.2 Valuation**

The basis of property tax is the market value of a building or where the market value cannot be ascertained, the replacement cost of the building as determined by a qualified valuer. Besides, the rating legislation provides for self-assessment. In harmony with Section 8 (4) of the UARA, 1983 the rating authority where it deems vital or expedient may require the owner of the rateable property to furnish the authority with the value of the property. But this legal provision is practically dormant. According to the rating law, evaluation of rateable properties is to be undertaken for preparation of a valuation roll after a jurisdiction has been proclaimed a rateable area by the Minister responsible for Local Government. A valuation surveyor is selected to survey the properties, estimate the rateable values and to prepare the valuation roll. As pointed out earlier, the rateable value of the property to be determined is the market value or the replacement cost as the case may be. Section 22 (1) of the Urban Authorities (Rating) Act of 1983 stipulates that:....the rateable value of premises shall be the market value of premises or where the market value cannot be ascertained the replacement cost of the buildings, structures and other developments comprised in the premises after deducting the amount which it would cost at the time of valuation to reinstate the premises to a condition in which they would be as serviceable as they were when new.

Provided that rateable worth shall not be less than 75 per cent of the replacement cost. In agreement with subsection (2) of section 22 of the rating act;

- i. “replacement cost” means, in relation to buildings, structures, and other development, the amount which it would cost, at the time when the premises are being valued to provide all buildings, structures and other development as they were when new if the premises consisted of an undeveloped site;
- ii. “development” means any kind of work or improvements carried out on or in land and includes in particular foundations, excavations, drainage systems, and pathways, aprons and other prepared surfaces; and
- iii. references to buildings and structures include references to machinery which is attached to and forms an integral part of any building or structure.

Experience shows more reliance on the replacement cost approach for rating valuation in Zambia. Although the most reliable valuation method in estimating the market value of the property is the sales comparison approach, this has proved difficult in the Zambian situation. The use of the sales comparison approach is restricted by a number of factors such that valuers have resorted to the use of cost approach as the most appropriate. While reliability of the sales comparison approach depends heavily on the availability of property transactions data, the property market in Zambia is not active enough to generate sufficient sales data. Also in the absence of a centralised data bank the scanty data available is not readily accessible as it tends to be confined to the individual valuation firms (Mwasumbi, 2001). Completion of the valuation exercise is followed by the preparation of a valuation roll. The estimated rateable values are recorded in the valuation roll. According to Section 8 (2) of the rating act, a roll shall show in respect of each hereditament:

- a) the region and situation of the property valued;
- b) the name and address of the owner therefrom;
- c) the name of the leaseholder or, where an upgrade stands on parcels belonging to more than one leaseholder.
- d) a brief depiction of the hereditament and enhancement included therein;
- e) the area of land containing the hereditament;
- f) the rateable value of the hereditament.

Section 8 (3) further provides for preparation of a new roll every five years or such longer period as the Minister may approve. The legislation makes it obligatory for the rating authority to publish the roll and invite the public to review it. Section 11 of the rating act needs the rating authority to publish in the Gazette and in at least one newspaper circulating in the area of the rating authority signifying that the roll or supplementary roll is open for public inspection at the offices of the rating authority.

### **2.3.8.3 Principal-Agent theory**

Agency theory explains social relations involving a delegation of authority (by a principal to an agent), and starts from the observation that the relationship generally results in problems of control. The most essential problem stems from difficulties in motivating an individual or organization to act on behalf of another. Moreover the problem of motivation is a result of difficulties associated with the inability of the principal to observe and control the actions of the agent. Milgrom and Roberts (1992) declare that: “Principal-agent problems are situations in which one party (the principal or the property tax payer) relies on another (the agent or the authority amassing property tax) to do work or provide services on his or her behalf. When agent’s actions cannot be easily monitored and their reports easily verified, the agent may have greater chance to pursue their interests rather than the principal’s. Then, to provide incentives for the agents to behave in the principal’s interests, it is necessary to arrange for them to bear some responsibility for the outcomes of their actions and therefore to bear more risk than would otherwise be desirable (Alm, 1999).

### **2.4. Principals of Good Tax System**

These are still regarded as characteristics of a good tax system. However, there have been significant developments in economic theory and policy since Adam Smith wrote his book “The Wealth of Nations “. Activities and functions of Government have enormously increased.

Now, the Governments are expected to maintain economic stability at full employment level, they are to reduce inequalities in the income distribution, and they are also to perform the functions of a Welfare State. Above all, they are to promote economic growth and development, especially in the developing countries, not only through encouraging private enterprise but to undertake the task of production in some strategic industries. Thus, in order to devise a good tax system, these objectives and functions of Government’s economic policy

must be kept in view. It may be noted that Adam Smith was basically concerned with how the wealth of nations or, in other words, production capacity of the economy can be increased and he thought that private enterprise working on the basis of free market mechanism would ensure efficient use of resources and, if left unfettered would bring about rapid economic growth.

His ideas about public finance were influenced by his economic philosophy of virtues of free private enterprise. In proposing the above mentioned canons of taxation, he was guided only by the sole objective that Government should be able to raise sufficient revenue to discharge its limited functions of providing for defence, maintaining law and order, and, public utility services.

Both the objectives and functions of modern Governments have increased necessitating large resources. Therefore, the modern economists have added other principles or characteristics which taxation system of a country must satisfy if the objectives of modern Governments are to be achieved. In what follows we shall spell out in detail the principles and characteristics of a good tax system starting with the explanation of Smithian canons of taxation.

#### **2.4.1. Principle or Canon of Equality:**

The first canon or principle of a good tax system emphasised by Adam Smith is of equality. According to the canon of equality, every person should pay to the Government according to his ability to pay, that is in proportion of the income or revenue he enjoys under the protection of the State. Thus under the tax system based on equality principle the richer persons in the society will pay more than the poor. On the basis of this canon of equality or ability to pay Adam Smith argued that taxes should be proportional to income, that is, everybody should pay the same rate or percentage of his income as tax.

However, modern economists interpret equality or ability to pay differently from Adam Smith. Based on the assumption of diminishing marginal utility of money income, they argue that ability to pay principle calls for progressive income tax, that is, the rate of tax increases as income rises. Now, in most of the countries, progressive system of income and other direct taxes have been adopted to ensure equality in the tax system. It may, however, be mentioned here that there are two aspects of ability to pay principle. First is the concept of horizontal equity. According to the concept of horizontal equity, those who are equal, that is, similarly situated persons ought to be treated equally. This implies that those who have same income should pay the same amount of tax and there should be no discrimination between them.

Second is the concept of vertical equity. The concept of vertical equity is concerned with how people with different abilities to pay should be treated for the purposes of division of tax burden. In other words, what various tax rates should be levied on people with different levels of income, A good tax system must be such as will ensure the horizontal as well as vertical equity.

#### **2.4.3 Canon of Certainty:**

Another important principle of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person. A successful function of an economy requires that the people, especially business class, must be certain about the sum of tax that they have to pay on their income from work or investment.

The tax system should be such that sum of tax should not be arbitrarily fixed by the income tax authorities. While taking a decision about the amount of work effort that a person should put in or how much investment should he undertake under risky circumstances, he must know with certainty the definite amount of the tax payable by him on his income. If the sum of tax payable by him is subject to much discretion and arbitrariness of the tax assessment authority, this will weaken his incentive to work and invest more.

Moreover, lack of certainty in the tax system, as pointed out by Smith, encourages corruption in the tax administration. Therefore in a good tax system, "individuals should be secure against unpredictable taxes levied on their wages or other incomes. The law should be clear and specific; tax collectors should have little discretion about how much to assess tax payers, for this is a very great power and subject to abuse."

In the opinion of the present author the Indian tax system violates this canon of certainty as under the Indian income tax law a lot of discretionary powers have been given to the income tax officers, which have been abused with impunity. As a result, there is a lot of harassment of the tax payers and corruption is rampant in the income tax department.

#### **2.4.4 Canon of Convenience:**

According to the third canon of Adam Smith, the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to

the contributor. If land revenue is collected at the time of harvest, it will be convenient since at this time farmers reap their crop and obtain income.

In recent years efforts have made to make the Indian income tax convenient to the tax payers by providing for its payments in installments as advance payments at various times during the year. Further, income tax in India is levied on the basis of income received rather than income accrued during a year. This also makes the income tax system convenient. However, there is a lot of harassment of the tax payers as they are asked to come to the income tax office several times during a year for clarifications of their income tax returns.

#### **2.4.5 Canon of Economy:**

The Government has to spend money on collecting taxes levied by it- Since collection costs of taxes add nothing to the national product, they should be minimized as far as possible. If the collection costs of a tax are more than the total revenue yielded by it, it is not worthwhile to levy it. More complicated a tax system, more elaborate administrative machinery will be employed to collect it and consequently collection costs will be relatively larger. Therefore, even for achieving economy in the tax collection, the taxes should be as simple as possible and tax laws should not be subject to different interpretations.

#### **2.5 Critique of the Literature**

Empirical research on taxation of the informal sector abounds with many scholars focusing on specific country cases for contextual purposes (Anuradha & Ayee, 2002). As noted in the background to the study, the taxation challenge for the informal sector in developing countries is not a new subject in the empirical literature. Past studies in this area have focused on tax policy design for developing countries such as Zambia to capture the informal sector in their tax base. Shah & Whalley (1991) explore the tax incidence in developing countries and argue that tax restructuring options must be based on a proper evaluation of the tax incidence in a specific developing country context considering factors such as the black or informal economy. In other words, this study is one of the earliest empirical studies to focus on the impact of the stage of development of an economy as well as its relevant unique characteristics in the design and discussion of tax issues. However, it did not focus on a detailed identification and evaluation of the factors that explain either the incidence of tax or the difficulties in taxing the informal economy in developing countries.

Anuradha & Ayee (2002) found, based on the informal transportation sector in Ghana, that there are tangible possibilities for tax authorities to generate tax revenues from the informal sector. This study however focused only on the informal transportation sector in Ghana and did not provide policy makers with a comprehensive account of the challenges they were likely to encounter in trying to tax the informal sector. Emran & Stiglitz (2005) contributed to the empirical research on taxation for the large informal sector in developing countries by focusing on the welfare effects of recommendations for developing countries to implement discriminatory indirect tax reforms (Trade taxes and Value Added Tax). Their study finds that recommendations to reduce trade taxes and increase VAT in developing countries may have adverse effects due to the presence of the 'large untaxed' informal sectors in these countries. In other words, this study provided justification for a more considered approach to tax policy design for developing countries as a result of the challenges inherent in taxing their large informal economies. Studies based on the Zambian case include Kabaso & Phiri (2012) as well as Nalishebo & Halwampa (2014). The former found that efforts to tax the approximately 4 million Zambians engaged in informal sector activity would neither be efficient nor equitable in the short to medium term beyond measures to strengthen administration of VAT and direct taxes other than Pay-As-You-Earn (PAYE). The latter concentrated on the problem of tax evasion and evaluates recent tax reforms in Zambia that have failed to prevent a trend of unsatisfactory tax collection performance by the ZRA. By and large therefore, no empirical research has been conducted in Zambia to explore the factors for informal sector taxation expansively and clearly. Further past studies have largely been qualitative in their approach to investigating the challenges of informal sector taxation (Kabaso & Phiri, 2012). The studies have mostly also comprised of desk research (Dube & Casale, 2016).

## **2.6 Chapter Summary**

This chapter has reviewed the literature relevant to the study on taxation and the informal sector. The chapter has provided characteristics and theoretical perspectives on the informal sector which raise issues relating to compliance with taxes such as those on rental income. The chapter has also explored literature on taxation in general and taxation on rental income in particular. Literature reviewed has exposed a limited number of empirical research work on

questions relating to compliance and administration challenges viz-a-viz taxes such as those on rental income in the context of the informal sector.

### **CHAPTER THREE**

#### **THEORITICAL AND CONCEPTUAL FRAMEWORK**



### **3.1 Introduction**

Chapter two discussed the literature relevant to the study on taxation and the informal sector. The chapter has provided characteristics and theoretical perspectives on the informal sector which raise issues relating to compliance with taxes such as those on rental income. The chapter also gives a discussion of the literature of the various factors which affect informal sector taxation.

This chapter looks at the theories used in the study of factors affecting the collection of tax in the informal sector. Therefore, this chapter gives a detailed discussion of the models used in analyzing the factors affecting the collection of taxes in particular withholding tax on rental income.

### **3.2 Theoretical Framework**

There are many theories which have been written in respect of the factors affecting the collection of taxes in the informal sector. Although most of them put across adequate reasons in order to explain what actually affect the collection of taxes, it can still be argued that there are many factors that can affect the collection of taxes in the informal sector. The theories discussed below are the main theories which explain the factors affecting collection of taxes in the informal sector.

#### **3.1.2. Benefit Theory**

According to this theory, the state should levy taxes on individuals according to the benefit conferred on them (Nightingale, 2002). The more benefits a person stems from the activities of the state, the even more should they pay to the government. This principle has been subjected to serious criticism on the following grounds:

**Firstly**, If the state maintains a certain link between the benefits bestowed and the benefits derived. It will be against the fundamental principle of the tax. A tax, as defined, is a compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit (Burgess & Stern, 1993). There is an indirect *quid pro quo* in the case of a tax. **Secondly**, most of the expenditure suffered by the state is for the general benefit of its citizens, it is not possible to estimate the benefit appreciated by a particular individual every year. **Thirdly**, if applied in practice, the principle implies that the poor will have to pay the heaviest taxes, because they benefit more from the services of the state.

#### **3.1.3 The Cost of Service Theory**

Some economists believed if the state charges actual cost of the service provided from the people, it will satisfy the idea of equity or justice in taxation. The cost-of-service principle can

no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, e.g., postal services, railway services, supply of electricity, etc. But most of the expenditure suffered by the state cannot be fixed for each individual because it cannot be exactly determined. For example, how can we measure the cost of service of the police, armed forces, judiciary, etc., to different persons? Dalton has also rejected this theory on the ground that there is no *quid pro qua* in a tax (Kaplow, 2011).

### **3.1.4 Ability to Pay Theory:**

The most popular and commonly understood principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in agreement with their ability to pay (Anuradha & Ayee, 2002). It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual (Kaplow, 2011). For example, if the taxable capacity of a person A is larger than the person B, the former should be asked to pay more taxes than the latter. It seems that if the taxes are charged on this principle as stated above, then justice can be accomplished. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay theory. The economists are not united as to what should be the exact measure of a person's ability or faculty to pay. The main viewpoints enhanced in this connection are as follows:

**(a) Ownership of Property:** Some economists are of the view that ownership of the property is a very good basis of measuring one's ability to pay. This opinion is out rightly rejected on the ground that if a person earns a large income but does not spend on buying any property, he will then evade taxation. On the other hand, another person earning income buys property, he will be exposed to taxation. Is this not illogical and unjustifiable that a person, earning large income is spared from taxes and another person with small income is taxed?

### **(b) Tax on the Basis of Expenditure:**

It is also stressed by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and *vice versa*. The viewpoint is illogical and unfair in every respect. A person having a large family to care for has to spend more than a person having a small family. If

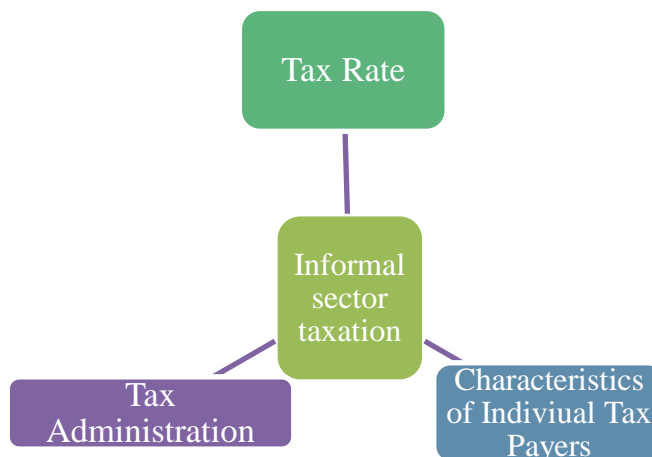
we make expenditure. as the test of one's ability to pay, the previous person who is already burdened with many dependents will have to' pay more taxes than the later who has a small family.

**(c) Income as the Basis:**

Most of the economists are of the view that income should be the basis of measuring a man's ability to pay. It looks very just and fair that if the income of a person is greater than that of another, the previous should be asked to pay more towards the support of the government than the later. That is why in the modern tax system of the countries of the world, income has been recognized as the best test for measuring the ability to pay of a person.

**3.2 Conceptual Framework**

The previous section discussed the various theories used in studying the factors affecting collection of taxes. Over time many scholars have used the models discussed above to show which factors affect informal sector taxation. In this section, we described the conceptual framework of the study. Figure 3.1 outlines the conceptual framework of the study.



**Source: Researcher (2021)**

**Figure 1: Conceptual Framework**

The figure above shows that the informal sector taxation as observed from similar studies is affected by factors of informal sector businesses such as the tax rate, administration, and characteristics of individual Tax Payers. These factors contribute to the establishment of bottlenecks that limit the tax contributions of the informal sector. The proposed study postulates that these constitute the challenges that need to be overcome.

### **3.2.1 Tax Rate**

Local government authorities in Zambia can levy two types of rates as provided for in the Urban Authorities (Rating) Act of 1983. A general rate is levied over the whole area of the council's jurisdiction and paid by any person covering an immovable property situated within the area of jurisdiction. Where as a superior rate is imposed and levied only in specified area of the jurisdiction of the council where a specified project approved by the council has been undertaken and has benefited the owners of the rateable property in the area. The special rate however can only be levied with the consent of the Minister responsible for local government affairs.

The property tax rates are not fixed in the rating legislation but are set by rating authorities in accordance with Section 20 of the Rating Act, as well as Section 15 of the LGFA of 1982. The local government authority sets a tax rate chargeable as a percentage of the assessed value of the property.

Likewise, rates based on value of rateable property, local authorities are also empowered to levy *flat rates* in areas where properties are yet to be valued, be it in planned or unplanned areas. Under Section 13 of the LGFA, 1982 local authorities are authorized to make by-laws imposing rates. Flat rate property tax is thus charged on buildings and rates are specified in by-laws made by a responsible rating authority. The flat rates vary depending on the size, use and in some cases location of the rateable properties.

### **3.2.2 WHT Administration**

Theoretically, good WHT administration, which comprises of good management policies and achievements and experience of the collectors, should improve their collection of withholding taxes on rental income (Storey, 1994; Bates, 1997; Scott and Irwin, 2009). Empirically, the overall results reveal that tax administration is positively associated with good collection (see Bates, 1997; Cassar, 2004; Delmar and Sjoberg, 2004; Hettihewa, 2008; Robb and Robinson, 2009; Bell and Vos, 2009). In contrast, some researchers assert that more awareness programmes you make to the tax payers will bring benefits good collection, especially for the well-informed business operation and individuals . Educated tax payers tend to have high levels of information freedom and exercise prudence in decision-making related to tax payment.

In addition, previous empirical works reveal no (Coleman and Cohn, 2000) or a negative (Scherr et al., 1993) relationship between the managerial experience of the tax collectors and

tax payers ability to pay tax. Cassar (2004) finds a negative relationship, but the result does not strongly indicate a significant relationship. He states that tax collectors with greater experience tend to be risk and control averse.

Ability-to-pay taxation is a progressive taxation principle that maintains that taxes should be levied according to a taxpayer's ability to pay. This progressive taxation approach places an increased tax burden on individuals, partnerships, companies, corporations, trusts, and certain estates with higher incomes. Previous findings confirm that individual tax payers are less likely to pay withholding on income earned from their property.

Previous studies (Smallbone et al., 2003; Fairlie and Robb, 2007; Robb and Fairlie, 2007; Ram and Jones, 2008) also highlighted that individual Taxpers face additional barriers to tax payment, especially at start-up informal level. They prefer to maintain their low profile on withholding tax payments on rental incomes earned from their propaerties. This finding complements the findings of Hussain and Matlay (2007) who found that two-thirds of the individual tax payers on rental income abstain to pay WHT in the income earned because they can not relate the impacts to the activities at community level.

Therefore, based on the above arguments and literature, this research assumes that there is an association between community impacts and individual tax payer willingness to pay tax.

### **3.2 .3 Characteristics of individual tax payers**

The final section consisted of demographic variables including age, gender, individual income, education background, and some background information on the respondent's tax history. These variables became independent variables in further analysis so that an association between these demographic variables and tax knowledge and tax compliance could be analysed.

#### **3.2.3.1 Individual income**

Ability-to-pay taxation is a progressive taxation principle that maintains that taxes should be levied according to a taxpayer's ability to pay. This progressive taxation approach places an increased tax burden on individuals, partnerships, companies, corporations, trusts, and certain estates with higher incomes. Previous findings confirm that individual tax payers are less likely to pay withholding on income earned from their property. Previous studies (Smallbone et al., 2003; Fairlie and Robb, 2007; Robb and Fairlie, 2007; Ram and Jones, 2008) also highlighted that individual Taxpers face additional barriers to tax payment, especially at start-up informal level. They prefer to maintain their low profile on

withholding tax payments on rental incomes earned from their properties. This finding complements the findings of Hussain and Matlay (2007) who found that two-thirds of the individual tax payers on rental income shain to pay WHT in the income earned because they can not relate the impacts to the activities at community level.

Therefore, based on the above arguments and literature, this research assumes that there is an association between community impacts and individual tax payer willingness to pay tax. The current study also expects the mediating challenges of ZRA on collection of withholding tax on rental income in relationship to challenges of collecting tax in the informal sector.

### **3.3 Variables and Hypotheses**

The forgoing review of theoretical and empirical literature, led to the development of the following hypotheses:

**Hypothesis 1:** The higher perceptions of the WHT income rate on rental income, the lower the probability of compliance.

**Hypothesis 2:** There is a positive association between good WHT administration and high tax collections on rental income.

**Hypothesis 3:** Taxpayer demographic and socio-economic factors affect their compliance behaviour in relation to Withholding Tax on rental income i.e., gender, employment status, age, and highest level of formal education attained.

### **3.4 Chapter Summary**

Chapter three started by identifying the various theories used in the study of factors involved in the collection of taxes from the informal sector. It then discussed these theories in detail providing the ideas behind theories, the strengths and shortcomings of each one of them. Later hypothesis was stated and a conceptual model giving the relationship between Informal sector taxation and rate, administration, education, individual income was developed. The next chapter elaborates on the research methodology and method employed to test hypotheses and indirectly answer the research questions. Research design, data collection and analysis are explained. The findings and the discussion of the analysis results are presented in the subsequent chapters.

## **CHAPTER FOUR**

### **METHODOLOGY**

#### **4.1 Introduction**

In chapter three of the thesis we discussed the theoretical and conceptual framework of the factors affecting the collection of taxes from the informal sector. The chapter discussed the main theories and models used in analyzing the various factors that affect this sector. It also stated the hypothesis and discussed the conceptual framework or the relationship between Informal sector taxation and the rate, administration and characteristics of individual tax payers. Chapter four discusses the methodology of the thesis. This Chapter presents the methodology which the study used to carry out the research. It is divided into the following sections, the research design and instruments for data collection, target population, sampling technique, sample size and sampling procedures and the research instruments. The last section describes data collection procedure, analysis and limitation of the study.

#### **4.1 Research Design**

This research used a case study design. The study was founded on a positivist view of the world and the phenomena of interest as well as all processes involved in investigating the subject matter. The worldview referred to as positivism is anchored in the belief that things as they are can be measured and analysed objectively or scientifically in order to establish reliable information or truth (Creswell, 2003). This also provides the justification for a descriptive quantitative approach to act as a basis for perception of the factors affecting collection of withholding tax on rental income ontologically. This philosophy has the advantage of allowing the researcher to accurately observe phenomena without interfering with the subjects of the study. However, human behaviour and attitudes may not provide objective reality thus limiting the reliability of the study (Giese & Cote, 2002).

## 4.2 Study Area

This study was conducted in Lusaka Province, in Chalala, Salama Park and Chambavalley. These areas have seen a significant growth in rental dwellings. Most property in these areas are rented.

**Table 2 Philosophical Underpinnings of the Study**

RESEARCH QUESTIONS	OBJECTIVES	SAMPLING AND DATA COLLECTION	DATA COLLECTION METHODS	DATA ANALYSIS
1) How does the tax rate affect collection of Withholding tax on rental income?	1). To establish how the tax rate affect collection of Withholding tax on rental income.	Landlords and Tenants selected by convenience sampling in Lusaka City	In-depth Interviews Self-administered questionnaire with 5-point Likert style questions	Univariate and Bivariate data analysis
2) What characteristics of individual taxpayers affect withholding tax collection on rental income?;	2) To establish how tax administration affect withholding tax collections	Landlords and Tenants selected by convenience sampling in Lusaka City	In-depth Interviews Self-administered questionnaire with 5-point Likert style questions	Qualitative Content Analysis
3). How does tax administration affect withholding tax collection?;	3.)To establish how individual characteristics affect the collection of withholding tax on rental income e.g, gender, age, income,education background and employment status	Lusaka based eligible taxpayers of withholding tax on rental income	Self-administered questionnaire	Qualitative Content Analysis

## 4.3 Target Population

The study targeted tenants and Landlords in Lusaka District and also Zambia Revenue Authority senior managers.

## 4.4 Sampling Technique

This study used convenience sampling and purposive sampling. Purposive sampling was selected as the technique allows the researcher to use his or her own judgement to choose members of the population to participate in the study. Convenience sampling is a type of non - probability sampling in which people are sampled simply because they are convenient sources of data for researchers. This technique was used in selecting respondents who where available.



#### 4.5 Sample size and sampling procedure

The survey was carried out between September 2019 and March 2020. Living Conditions Monitoring Survey (LCMS), estimated the total number or population of rented properties in Zambia as a whole to be around 600,000 (Muleya, et al., 2018). Based on population distribution statistics, the majority of rented properties are in the Lusaka and Copperbelt provinces, with the two provinces accounting for over 45% of total number of people in Zambia. The large population densities in these areas contribute to a shortage of residential accommodation and high levels of demand for rental accommodation paid for in cash as part of the large volumes of transactions that occur in Zambia's informal economy annually (International Monetary Fund, 2004). This creates a lucrative informal market for rented accommodation. In spite of this available data, the researcher had no access to a sampling frame, particularly in relation to rented properties for which transactions were not captured by the authorities as is typical of the underground economy. Nevertheless, the population was partitioned in terms of research subjects who could best identify as ZRA officials, individual rented property-owners or tenants. Given a population of 600,000, a proportion of 90% of the population engaged in the informal economy and confidence interval of 95% for parameter estimates, a margin of error of 5%, the sample size was calculated as follows;

$$n' = \frac{[z^2 \cdot \hat{p}\hat{q}]}{\varepsilon^2} = \frac{[1.96^2 * 0.9 * 0.1]}{0.05^2} = 139$$

Based on challenges with response rates in these types of surveys, a sample size of 139 was instead targeted to ensure the level of accuracy in the study would still be high however, only 115 responded.

Key informant interviews, through semi structured questionnaires, were conducted with experts from ZRA. The aim of the exercise was to boost the understanding of rental income collection.

Bryman and Bell (2007:143) asserted that there are a number of weaknesses of using questionnaires rather than interviews which include tendency to closed questions, as open questions are more difficult and time consuming, to complete so respondents might be unwilling to answer them. In addition, as the researcher is unable to clarify the questions since

most of the questions are close-ended, follow up procedures for non-responses are necessary. It is for these reasons that self-administered questionnaires distributed by the researcher as the preferred method of collecting data for the study.

In further supporting the data collection procedure, according to Spicer and Lundstedt (1976), the strength in using questionnaires is that they evoke honest responses and also produces a valid indirect measure of behavior. They also argue that responses obtained are directly related to the individual's own propensity to commit tax evasion by ensuring the respondents of complete confidentiality. Elffers *et. al.* (1992) added that self-reporting (where taxpayers are asked to self-disclose their compliance behavior) is the most popular method in tax evasion studies and still a dominant strategy in research in this field.

#### **4.6 Data Collection Procedures**

There were three procedures that was employed to collect data.

##### **4.6.1 Primary Data**

Primary data was collected through interviews by the use of semi structured interview schedules prepared for key informants as these facilitated follow up questions to obtain deeper insight on certain issues that were raised by respondents during the direct interviews.

The survey questionnaire collected responses from a total of 115 households based in Lusaka. The sampling frame for the survey participants was drawn from the 2010 Census of Population and Housing as conducted by the Central Statistical Office (CSO).

##### **4.6.2 Secondary data**

The data was obtained from ZRA's TaxOnline system to inform the trends in payment of the rental income tax and was segregated in terms of individual and company accounts to help understand the background and determine taxpayer compliance. This information was complemented with that from Section 8 of the 2015 LCMS, to help understand the factors that drive rental incomes in Zambia. The internet was also a useful tool in giving the researcher an overview of the study. Data on collection of withholding tax on rental income was obtained from a review of the Annual reports from ZRA and other reports published by the institution which gave a clue to the different management strategies employed by the institution in its quest to improve the collection of withholding tax on rental income. Furthermore, reports from the Ministry of Finance and International Labor Organisation were useful in determining the Zambian Government's vision of the expected revenues.

### **4.6.3 Observation**

The researcher used observation to confirm the development that has occurred in Lusaka District. Areas observed were Chalala, Salama Park and Chambavalley.

## **4.7 Data Collection Instruments**

There were two instruments that were used to collect data. These are questionnaires and structured interviews. The questionnaire was used to address question one and three while question two was addressed using interviews. Hypothesis testing was also done on the independent and dependent variables on the data collected using these instruments.

### **4.7.1 Questionnaire**

Questionnaires were employed in this study. The questionnaire consisted of a series of questions for the purpose of gathering information from respondents. This instrument was used because large amounts of data could be collected from a large number of people in a short period of time and its results can be quickly and easily quantified by either a researcher or through the use of a software package. Apart from this, a questionnaire is also practical and saves time. These questionnaires were distributed to landlords and tenants and some were sent via email to those that preferred that mode. Participants were given 3 weeks in which to respond. After 3 weeks the questionnaires were collected from the respondents. The data was both qualitative and quantitative. Nonetheless, this data is mainly qualitative as the use of questionnaires was employed.

### **4.7.2 Interview Schedule**

Interview guides were used to collect information from the ZRA officials on the administration of the tax. This enabled the researcher to probe for more details in cases of inadequate information given. As a result, a point of saturation was achieved where the researcher got no new information from any additional respondents interviewed. These two reasons convinced the researcher of the sufficiency of the sample selected. This instrument was used to collect data on question three on administration.

## **4.8 Data analysis instruments and procedures**

Data analysis is the process of interpreting the meaning of the data that has been collected, organized and displayed in forms of tables and graphs or other representations. The data in this study was analyzed according to its nature and in relation to the research questions. Content

analysis was used to analyze qualitative data (non-numerical). The demographic characteristics were analyzed using descriptive statistics of frequencies and percentages for gender, age, income and level of education. To aid with analysis, manual techniques were employed alongside statistical techniques. Manual analysis involves organizing and labeling data by hand. According to Taylor-Powell, (2004), manual analysis is typically one of the ideal methods for analyzing qualitative data. This method was used because it allowed the researcher to categorize data accordingly. Statistical package for social sciences (SPSS) was also used to quantify data. Further, statistical data was handled using the Microsoft Excel spreadsheets to derive tables and figures.

#### **4.9 Operationalization of Study Variables in the Questionnaire**

The study variables as represented in the conceptual framework for the study and objectives were considered in relation to tax compliance and tax administration with some common elements between them. In relation to compliance related tax challenges, the study focused on aspects such as the tax rate, ease of access to mechanisms for meeting the obligation, taxpayer knowledge (education), profile and sources of income as well as perceptions of applications/benefits arising from use of tax funds. From the perspective of research subject characteristics, variables such as age, gender, employment status, respondent category (i.e. tenant, landlord or ZRA official), level of rental income and educational background were considered as core factors that could explain behaviour relating to compliance or otherwise with tax laws on rental income.

On the other hand, tax administration related challenges for the levels of tax collected from the informal sector were viewed in terms of the appropriateness of the collection mechanisms in place, existence or lack thereof of a comprehensive taxpayer database, capacity to enforce the tax in terms of ZRA resources, effectiveness of taxpayer education mechanisms and efficacy of collection mechanisms.

##### **4.9.1 Data analysis technique**

As noted in earlier sections of this chapter, primary data was collected for this study using self-administered questionnaire interviews. The questionnaires predominantly contained close-ended questions that were intended to capture respondent experiences and attitudes towards various aspects of operation of the system for taxation of rental income in Zambia. The questions were structured in such a manner as to collect Likert Type Data and Likert Scale to

facilitate descriptions of the variables in the study. Data was analyzed according to the three key themes relating to respondent attributes, matters relevant to compliance in the area of rental income as well as the system for administration of the tax. The data was analyzed using measures of central tendency such as modes and medians to detect the most likely values of variables. Frequencies of observations were also used to describe the differences in occurrence of the data. To perform hypothesis tests, associations were explored between various categorical variables, chi square tests were conducted. Data was also analyzed using Logistic regression. Logistic regression is a statistical model that in its elementary form uses a logistic function to model a binary dependent variable, although many more complex extensions exist. In regression analysis, logistic regression is estimating the parameters of a logistic model (a form of binary regression).

#### **4.10 Methodology limitations**

The approach applied in this study has a number of limitations. Firstly, the use of a sample limited to the Lusaka may have prevented the sample from being truly representative of the population, thus creating a potential threat to external validity and increasing sampling error. However, the large sample selected for the study was intended to enhance its representativeness of the population from which it was drawn. Secondly, the use of self-administered questionnaires with close ended questions may have created problems such as interviewer bias as study subjects would to questions based on what they perceive to be expected by those collecting data.

Secondly, the compliance measure is a judgment-based measure using hypothetical situations. As tax evasion is a sensitive issue, respondents may not feel comfortable answering the questions without any control or direct contact. Actual behavior of the subjects may vary from the responses given. Acknowledging this constraint, however, it is believed that this is the most suitable way to predict taxpayers' compliance behavior, as direct questions might lead respondents to answer the questions dishonestly and could be potentially embarrassing for respondents.

Thirdly, it was difficult to obtain latest statistics since the household at LCC is only updated once in 5 years.

Finally, since this study used an electronic questionnaire on one occasion, it is possible that different results might be obtained if a different medium of communication was used, such as

interviews. However, as the objective of this study is to obtain a national response, therefore, this kind of communication is believed to be the most viable method (in terms of time and money as respondents were able to answer from their phones) in order to reach wider coverage compared with interviews and experiments especially with the Covid-19 pandemic.

#### **4.11 Ethical Issues**

The quality of research output is closely associated with the extent to which the process of research is conducted in a manner that reflects respect for ethical principles that are promoted for this same purpose (Homan, 1991; Panda & Gupta, 2014). The said principles promote respect for the rights of human subjects in the study, maximum benefit for subjects and users of research output and avoidance of maleficence in whatever form to research subjects actualized through adherence to guidelines relating to informed consent, confidentiality and anonymity as well as integrity in the design, implementation and publication of results of a study (Israel, 2014). Specifically, the study applied the following strategies to ensure the highest ethical standards were followed to the letter;

- 1) **Pretest of the data collection instrument:** This was applied after the design of the questionnaire to ensure that questions are formulated in a manner that does not offend respondents and is clear to understand.
- 2) **Ethical clearance form for data collection from the university:** The ethical issues attendant in the study were presented for evaluation by research supervisors so that an ethical clearance form given the university standards for ethical research could be obtained.
- 3) **Informed Consent Form:** Respondents were requested to indicate their agreement to take part after being presented with information on its objectives and their expected role in the study. The objectives of the study were explained to them in written form to ensure they are comfortable in taking part.
- 4) **Confidentiality and Anonymity:** Respondents were assured, given the sensitive nature of the subject of tax compliance, that their individual identities and private data would not be publicized without prior written consent. Also, data would be presented in such a way that it would not be possible to link specific respondents to particular responses.

#### **4.12 Summary of the Chapter**

This chapter describes the research design and methodology of this study, including the data collection process, sampling frame and sampling procedures as well as the development of the

questionnaires. The chapter offers justification for the research methods that were applied to meet the objectives of the study. It also describes the manner in which the data for the study was collected from research subjects. Further, the chapter describes how ethical issues that arose during the conduct of the study as well as how they were addressed.

## **CHAPTER FIVE DATA**

### **PRESENTATION AND ANALYSIS**

#### **5.1 Introduction**

Chapter four discussed the methodology used in this study. It identified the independent and dependent variables and identified models used in our analysis. This chapter focuses on the analysis and presentation of data gathered from the field research. The researcher used the circulated questionnaires and interview results as the source of data referred to in this analysis.

Data was analyzed using Statistical Package for the Social Sciences (SPSS) version 26 and Microsoft Office Excel. Analysis of raw data was presented in tables, line and bar graphs as well as pie charts. In this report, the researcher gathered information relating to the challenges faced by the Zambia Revenue Authority in taxing the informal sector a case of withholding tax on rental income. Specific objectives of the study were; a) To establish how the tax rate affect collection of Withholding tax on rental income; b)To establish how tax administration affect withholding tax collections; c ) To establish how individual traits affect withholding tax collection on rental income.

## 5.2 Response Rate

The questionnaire response rate for the individual respondents was high at 87%, while all 100% of the interviewees managed to meet with researcher. This was as a result of follow up on respondents to ensure that they participate in completing the questionnaires. The researcher had to be flexible in ensuring that the interviews are at the convenience of the interviewees. The response rates are presented on the table below.

**Table 3 Respondents**

	Sample size	Respondents	Percentage
Questionnaires	101	115	87%
Interviews	11	11	100%

Source: Researcher (2021)

### 5.1.1 Respondent Gender

**Table 4 - Gender Distribution of Respondents**

Gender of the Respondent					
		Frequency	Percent	Percent	Cumulative Percent
	Male	63	62.4	62.4	62.4



	Female	38	37.6	37.6	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

Table 4 shows data analyzing study subjects based on their gender. The sample was dominated with 62.4% of study participants being male. In contrast only 37.6% of study participants were female. While this pattern may neither be representative of the Zambian population nor of gender involvement in informal economic activity, it provided a reasonably large number of respondents of either sex to support the drawing of inferences about gender and rental income tax compliance. In absolute terms, 38 respondents were female as opposed to 63 males.

### 5.1.2 Respondent Age

*Table 5 - Age Distribution of Respondents*

Age of the Respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30	27	26.7	26.7	26.7
	31-40	42	41.6	41.6	68.3
	41-50	22	21.8	21.8	90.1
	Above 50	7	6.9	6.9	97.0
	5	3	3.0	3.0	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

Table 5.3 shows the distribution of study participants according to age groups. The distribution shows a high concentration of respondents in the age bracket from 31 to 40 years (41.6%), followed by those that were aged 21 to 30 at the time of this study. The lowest proportion of study subjects comprised those above 50 when this study was conducted. The distribution observed suggests relevance of the subject matter to a wide range of age groups.

### 5.1.3 Number of Properties Owned

*Table 6 - Properties Owned by respondents*

How many properties do you have?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-1	57	56.4	56.4	56.4

	2-4	34	33.7	33.7	90.1
	5-9	10	9.9	9.9	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

The data in Table 5.4 shows the distribution of numbers of owned properties amongst respondents. As can be noted, the largest proportion of study participants (56.4%), reported having one or no owned properties. This was followed by 33.7% of study respondents who reported owning exactly two to four. Lastly on 9.9% respondents had five to nine houses.

#### 5.1.4 Education

*Table 7- Highest Qualification at time of study*

What is your highest level of education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	7	6.9	6.9	6.9
	Diploma	21	20.8	20.8	27.7
	Degree	56	55.4	55.4	83.2
	Masters	17	16.8	16.8	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

Table 5.5 analyzes research subjects based on their highest qualification at the time of this study. Given the relatively technical nature of the study on taxation of rental income, the distribution of respondents can be considered literate in relation to the English language that was used for data collection purposes. The largest ratio of respondents was in the category of those with first university degrees (55.4%). However, other categories were too far behind with college certificate holders (6.9%), Diploma holders (20.8%) as well as those with grade 12 certificates or lower (20.0%) being recorded. Respondents with post graduate degrees were 16.8%.

#### 5.1.5 Status: Withholding Tax on Rental Income

*Table 8 - Respondents Status in Context of Status*

<b>In providing information for this study, how best should you be described?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Tenant	50	49.5	49.5	49.5
	Landlord	44	43.6	43.6	93.1
	ZRA Official	7	6.9	6.9	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

As indicated earlier, for the purpose of this study 3 categories of respondents were considered important as informed study participants on the research subject. Study participants were asked to indicate which of the 3 categories they felt would most be appropriate in describing them for purposes of the study. These categories were tenants, landlords or ZRA officials.

Table 5.6 shows the data that was collected in this regard. Respondents who identified as tenants were in the largest category of the sample (49.5%). This was followed by those who wished to be identified as ZRA officials 43.6%. Study participants who were identified as landlords were the lowest ratio of respondents at (6.9%).

### **5.1.6 Sources of Information about Taxation on Rental Income**

Table 5.7 shows data on sources of information on rental income taxation accessed by study participants. The results show the sources of information in order of frequency. Radio had the highest frequency score with 29.7% or 30 out of 101 respondents indicating they obtained information about taxation on rental income from this source. This was followed by Television(26.7%), Newspapers (15.8%), Social Media (6.9%) etc.

**Table 9: Sources of Tax Information**

<b>How did you know about taxation?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Radio	30	29.7	29.7	29.7
	TV	27	26.7	26.7	56.4
	Newspapers	16	15.8	15.8	72.3
	Social media	7	6.9	6.9	79.2

	Friend/Family	20	19.8	19.8	99.0
	Other(specify)	1	1.0	1.0	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

The table above shows that ZRA has used Radio and TV to reach out to most of the population with information about rental income taxation.

### 5.1.7 Employment Status

*Table 10 - Respondent Employment Status*

What is your current primary employment status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retired	4	4.0	4.0	4.0
	Full time employment	73	72.3	72.3	76.2
	Business owner	12	11.9	11.9	88.1
	Unemployed/Searching	12	11.9	11.9	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

Table 5.8 provides an analysis of study subjects based on employment status. In the context of the present study, this dimension of the profiles of respondents was important as it was deemed to influence decisions to engage in informal sector economic activity such as investing in residential property for the purpose of earning rental income outside officially reported income. It can be argued that these activities interface with the formal sector and remain undetected due to the cash nature of transactions.

Data in table 5.8 shows that the largest proportion of respondents were in fulltime employment (72.3%), followed by those who reported being unemployed but searching for work (11.9%) and those who were business owners (11.9%). The lowest proportion of study participants were in the category of the retired (4.0%).

### 5.1.8 Cross tabulation of status against how much they charge/pay

*Table 11: Relationship between tax paid and employment status*

<b>In providing information for this study, how best should you be described? * How much do you charge/pay as gross monthly rental Crosstabulation</b>							
Count							
		How much do you charge/pay as gross monthly rental					Total
		K0- K2000	K2000- K3000	K3000- K4000	Above K5000	5	
In providing information for this study, how best should you be described?	Tenant	15	17	13	1	4	50
	Landlord	14	11	12	5	2	44
	ZRA	2	1	4	0	0	7
	Official						
Total		31	29	29	6	6	101

Source: Researcher (2021)

As noted, majority of the tenants prefer to pay up to K3000.

#### 5.1.9 Cross tabulation of status against sources

Table 11 shows the analysis of study participants based on what they considered the best description of their sources of income. As the data indicates, the largest ration, 45 study participants, indicated that they were solely dependent on current employment/non-rental business as their source of income. Only 4 study participants indicated being solely dependent on rental income as their source of livelihood. As evident from the data in the table, 36 study participants described their income as being derived from a variety of sources including rental income. In contrast, 16 study participants indicated being reliant on a variety of sources excluding rental income.

**Table 12: Income Sources and Respondent Designation in Study**

<b>In providing information for this study, how best should you be described? * How best would you describe your sources of income? Crosstabulation</b>					
Count					
		How best would you describe your sources of income?			Total
		Solely dependent on current employment/non-rental business	Solely dependent on rental income	Derived from a variety of sources including rental income	

In providing information for this study, how best should you be described?	Tenant	32	0	5	13	50
	Landlord	8	4	29	3	44
	ZRA Official	5	0	2	0	7
Total		45	4	36	16	101

Source: Researcher (2021)

The pattern suggests that rental income was not the main source of income for the majority of study participants. Nevertheless, rental accommodation being a necessity for the average household entailed that respondents could still be expected to be reasonably knowledgeable about the concept of rental income.

## 5.2 Section B (Tax Compliance)

### 5.2.1 Part 1 Probability of Being Audited

*Table 13: Probability of Audit and Compliance Behaviour*

In providing information for this study, how best should you be described? * Would you fully disclose what you collect as rentals? Crosstabulation				
Count				
		Would you fully disclose what you collect as rentals?		Total
		Yes	No	
In providing information for this study, how best should you be described?	Tenant	40	10	50
	Landlord	38	6	44
	ZRA Official	6	1	7

Total	84	17	101
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Source: Researcher (2021)

The cross tab above shows that 84 respondents would fully disclose what they collect/pay and 40 of these are tenants.

### 5.2.2 Part 2 Perception on Government Spending

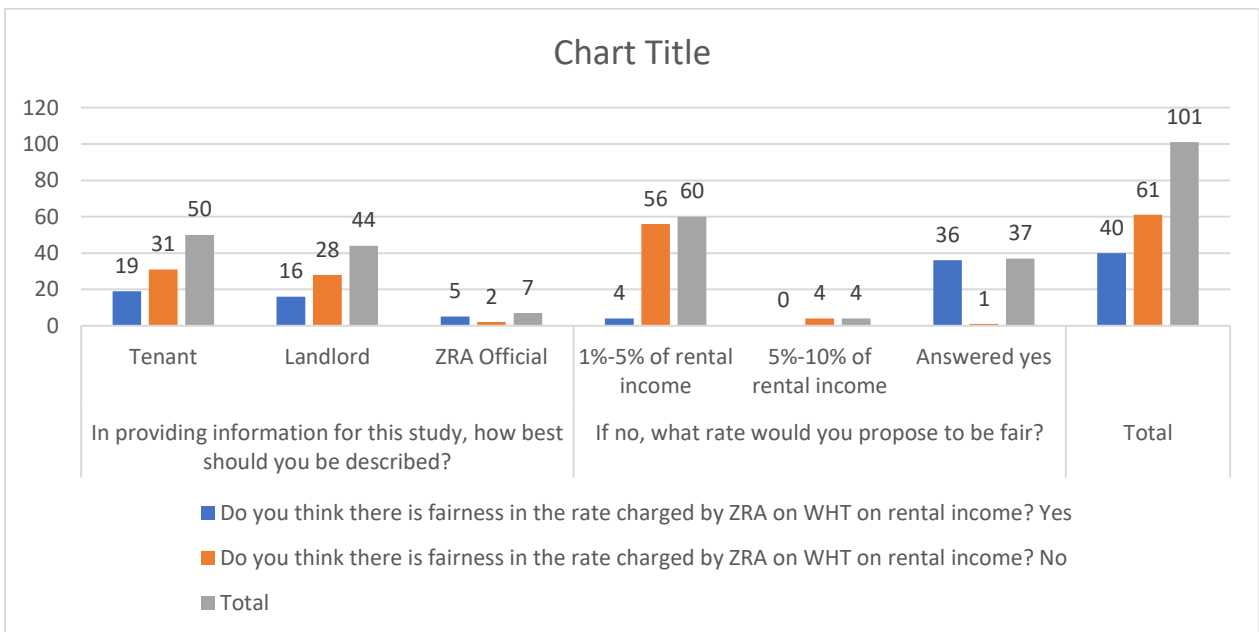
**Table 14: Government Spending and Taxpayer Compliance**

Do you think you are benefiting from social services such as roads, hospitals, schools, security etc? * Would your perception of government spending encourage you to pay taxes? Crosstabulation				
		Would your perception of government spending encourage you to pay taxes?		Total
		Yes	No	
Do you think you are benefiting from social services such as roads, hospitals, schools, security etc?	Yes	35	44	79
	No	4	18	22
Total		39	62	101

Source: Researcher (2021)

The table above shows that 79 respondents answered yes to benefitting from goods of which 44 never thought government spending would encourage them to pay withholding tax.

### 5.2.3 Part 3 Perception on Equity and Fairness



**Figure 2: Respondent Classes and Perceptions of WHT on Rental Income**

Source: Researcher (2021)

Majority of the respondents said there is no fairness in the amount charged by ZRA staggering at 61 and majority of these where tenants at 31. This signifies that the 10% of rental income collected by ZRA is not met. The bar table also shows that 56 respondents proposed to pay a tax rate of 1%-5% which they thought it would be a fair rate. How the tax rate affects taxpayer compliance behavior is an ongoing debate in relevant literature. As part of this study's assessment of compliance related challenges in the collection of tax on rental income due to the informal pattern of transactions, participants were asked to indicate whether they felt that the tax rate was too high.

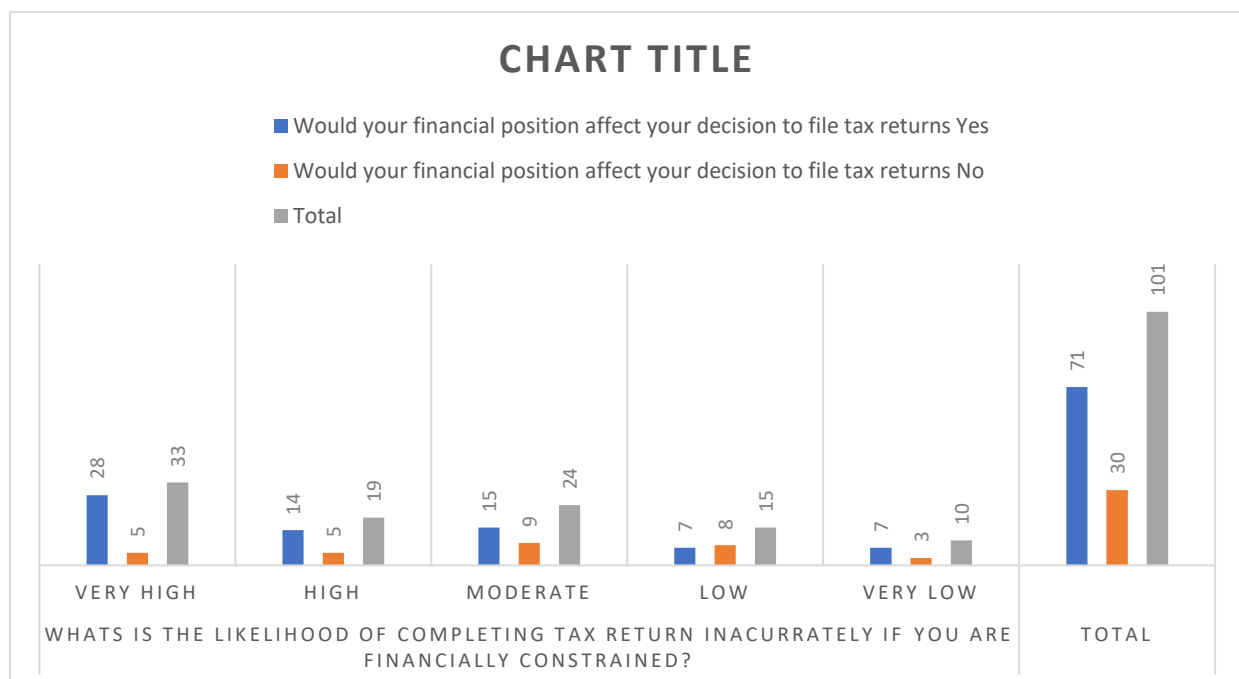


Figure 3: Financial Position and Compliance Behavior

Source: Researcher (2021)

Majority of the people said their financial position would affect their tax returns staggering at 71, of this 28 where highly likely to default to a large extent.



**Table 15: Impact of ZRA Reminders on Taxpayer behaviour**

What is the likelihood that you would not respond to a reminder from ZRA					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	15	14.9	14.9	14.9
	High	17	16.8	16.8	31.7
	Moderate	26	25.7	25.7	57.4
	Low	17	16.8	16.8	74.3
	Very Low	26	25.7	25.7	100.0
	Total	101	100.0	100.0	

Source: Researcher

Majority of the respondents said they would not respond to the ZRA reminder.

**Table 16 - Proposals on Fair WHT on Rental Income**

Crosstabulation of what rate would you propose to be fair against Overall compliance levels with the tax on rental income would increase if taxpayers considered the rate as being fair							
		Overall compliance levels with the tax on rental income would increase if taxpayers considered the rate as being fair					Total
		Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	
What tax rate do you propose	1%-5% of rental income	5	1	12	26	16	60
	5%-10% of rental income	0	0	0	4	0	4
	Answered yes	2	3	5	19	8	37
Total		7	4	17	49	24	101

Source: Researcher (2021)

Majority of the respondents agreed that the fair rate should lie between 1% -5%. This postulates that lowering the tax rate would encourage people to be more compliant and ZRA would collect enough even for spending on public goods.

#### **5.2.4 Tax administration**

It can be inferred from results in table below that the majority of respondents agree that truly ZRA does not have a proper mechanism for convenience of the tax payers. This is an administration issue.

**Table 17 - Perceptions of Convenience of ZRA System**

<b>Do you think the current mechanism by ZRA for collection of the tax on rental income is convenient for all eligible tax payers</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	20.8	20.8	20.8
	Disagree	35	34.7	34.7	55.4
	Not Sure	29	28.7	28.7	84.2
	Agree	13	12.9	12.9	97.0
	Strongly Agree	3	3.0	3.0	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

**Table 18 - Perceptions on Collection Model**

<b>Do you think it would be more appropriate for ZRA to collect tax on rental income from tenants rather than landlords?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	31	30.7	30.7	30.7
	Disagree	38	37.6	37.6	68.3
	Not Sure	13	12.9	12.9	81.2
	Agree	15	14.9	14.9	96.0
	Strongly Agree	4	4.0	4.0	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

From the above table, the respondents did not think its more appropriate for ZRA to collect tax on rentals from tenants.

**Table 19: ZRA Taxpayer Registration**

<b>Do you think ZRA has a comprehensive database of eligible taxpayers for withholding tax on rental income to enhance its collection levels?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	32	31.7	31.7	31.7

	Disagree	38	37.6	37.6	69.3
	Not Sure	19	18.8	18.8	88.1
	Agree	12	11.9	11.9	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

In the table above, the respondents agreed that ZRA did not have a comprehensive data base for tax collection on rental income. This can be argued to augment the culture of cash transactions that are unrecorded or can be classed as part of the underground or informal economy in Zambia.

**Table 20 - Challenges in Compliance**

<b>What challenges do you face in complying with payment of withholding tax on rental income?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low enforcement	13	12.9	12.9	12.9
	Lack of sensitization	31	30.7	30.7	43.6
	Mode of payment	38	37.6	37.6	81.2
	No challenge	19	18.8	18.8	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

The table suggest that respondents face a lot of challenges when they to pay tax because of the mode of payment and no proper sensitization.

**Table 21 - Perceptions of Accessibility of ZRA services**

<b>Do you think ZRA services are accessible enough to enhance collection of WHT on rental income</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	17	16.8	16.8	16.8
	No	84	83.2	83.2	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

84 out of 101 respondents do not think ZRA services are accessible enough to enhance collection of withholding tax on rental income.

### 5.3 WHT on Rental Income Compliance as Full Disclosure

The table below shows the results obtained to the question of whether respondents would make full disclosures on the amount of rentals collected/paid. The data was used to operationalize compliance behaviour in the logistic regression models that follow. An overwhelming majority of respondents (83.2%) agreed that they would.

**Table 22: Responses on Full Disclosure behaviour**

Would you fully disclose what you collect/pay as rentals?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	84	83.2	83.2	83.2
	No	17	16.8	16.8	100.0
	Total	101	100.0	100.0	

Source: Researcher (2021)

### 5.4 Logistic Regression Models and Related Hypothesis Tests

#### 5.4.1 WHT on Rental Income -Institutional and Tax Administration Factors

Logistic regression was used to estimate an empirical model to evaluate the possible impact of tax administration and authority institutional factors on compliance behavior operationalized as full disclosures on the amount of rentals collected/paid. The model adopted fairness of the tax rate, taxpayer education by ZRA, intensity of efforts to enforce the law, whether reminders are sent to taxpayers, and whether there was a comprehensive database of taxpayers. The results show that the less fair the tax rate is perceived, the less likely compliance with the WHT on rental income. Education, intensity of enforcement efforts, and the development of a taxpayer database, would positively affect probability of compliance. However, the p-values for all regressor coefficients show that the results were not statistically significant. The overall model was also not statistically significant.

**Table 23 - Empirical Logistic Regression Model**

Logistic regression		Number of obs	=	101		
		LR chi2(5)	=	8.66		
		Prob > chi2	=	0.1234		
Log likelihood = -41.443506		Pseudo R2	=	0.0946		
-----						
collectren~s	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
-----+-----						
fairnesswht	-.1390511	.5937665	-0.23	0.815	-1.302812	1.02471
reminderzra	-.5025815	.6830319	-0.74	0.462	-1.841299	.8361365
taxeduc	.189144	.3396413	0.56	0.578	-.4765408	.8548287
zralandten~s	.4561728	.4800506	0.95	0.342	-.4847091	1.397055
database	.4566448	.3534248	1.29	0.196	-.236055	1.149345
_cons	.3591055	1.808099	0.20	0.843	-3.184703	3.902914
-----						

Source: Researcher (2021)

#### 5.4.2 WHT on Rental Income -Taxpayers Factors

Table 5.22 shows the Logistic regression model to assess the impact of taxpayer related factors on the probability of compliance with the WHT on rental income. The regressors assumed where gender (1=male, 2=female), education, age, and employment status.

The results show that all regressors had positive coefficients implying that they increased the likelihood of compliance. However, the results were not statistically significant.

**Table 24 - Empirical Logistic regression Model**

Logistic regression		Number of obs	=	101
Log likelihood = -43.110674		LR chi2(4)	=	5.33
		Prob > chi2	=	0.2554
		Pseudo R2	=	0.0582

collectren~s	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
education	.1459395	.3875773	0.38	0.707	-.6136981 .905577
gender	.6067849	.5992956	1.01	0.311	-.5678128 1.781383
age	.6724769	.3349179	2.01	0.045	.0160499 1.328904
employment	.4527822	.4496124	1.01	0.314	-.4284419 1.334006
_cons	-2.029654	1.995349	-1.02	0.309	-5.940467 1.881158

Source: Researcher (2021)

### Hypothesis testing

**H01: Tax education** do not influence compliance with rental income tax policy in Zambia. The first hypothesis of this study was: landlord’s awareness do not influence compliance with rental income tax policy in Zambia Revenue Authority. To test this, spearman correlation analysis was done between the overall landlords’ awareness and their compliance to rental income tax. The results are shown on Table 3.5.

**Table 25: Spearman correlation on awareness and compliance**

		Level of Compliance
Land Load Overall	Correlation Coefficient	0.233 *
Awareness	Sig. (2-tailed)	0.047
	N	68

\*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicated that there was a positive correlation between landlords awareness and compliance  $r_s = 0.233$ ,  $P < 0.05$ . We reject the null hypothesis and conclude that landlord’s awareness influence compliance with rental income tax policy in Zambia . Landlords with negative perceptions on the rental income tax policy are more likely not to comply. This concurs with findings by Kirchler (2007) that although tax payer arewness vary from one individual to another, their awreness of the tax system and Revenue Authority highly affects their level of compliance. In Ghana, Carroll (2011) also found out that despite the fact that more than half of the Land surveyed were aware that they have to pay taxes, more than 50 per cent did not enjoy’ the benefits of paying it.

**H02: The Tax payers Income** does not influence landlords’ compliance to the rental income tax policy in Zambia. The second hypothesis of this study was: The level of Knowledge on taxation does not influence landlords’ compliance to the rental income tax policy in Zambia. This was tested by correlating the level of landlords’ knowledge on rental income tax policy and their level of compliance. The results are presented on **Table 5.24**

		Level of Compliance
Landlords level of knowledge on rental income tax	Correlation Coefficient	0.233 *
	Sig. (2-tailed)	0.047
	N	68

\*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicate that there was a positive correlation between landlords level of knowledge on the rental income tax policy and their level of compliance with the policy,  $r_s = 0.421$ ,  $P < 0.05$ . This implies that landlords who were more knowledgeable on the policy showed higher levels of compliance therefore it can be concluded that knowledge influences compliance. Therefore we reject the null hypothesis and conclude that the level of knowledge on taxation influences landlords’ compliance to the rental income tax policy in ZRA. This is in agreement with Pope and Abdul-Jabbar, (2008) who found out that, the size and ability to fulfill tax obligations make it hard for small businesses to comply since most have limited access to resources and inadequate expertise to comply with diverse and complicated regulations. Palil (2010), states that, in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers’ compliance behaviour.

**H03: Tax administration** with rental income tax policy does not influence landlords compliance to the rental income tax policy in Zambia

The third hypothesis of the study was: Cost of complying with rental income tax policy does not influence landlords’ compliance in Zambia. This hypothesis was tested by correlating the landlords perceived cost of compliance with their level of compliance to rental income tax policy. The test results are presented on Table 7.

**Table 26: Spearman Correlation between perceived cost and compliance**

		Level of Compliance
--	--	---------------------

Cost of compliance	Correlation Coefficient	0.233 *
	Sig. (2-tailed)	0.047
	N	68

\*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicated that there was a positive correlation between landlords' perceived costs of compliance and their level of compliance with the rental income tax policy,  $r_s = 0.226$ ,  $P < 0.05$ . This means that landlords who perceived compliance as a costly undertaking showed higher levels on noncompliance. Thus we reject the null hypothesis and conclude that the perceived cost of complying with rental income tax policy influences landlords' compliance with the rental income tax policy. Chipeta (2010) while studying on the ethics of tax evasion also identified tax rates as one of the causes of tax evasion, the study pointed out that a higher tax rate increased taxpayers' burden and reduced their disposable income therefore, the probability of evading tax was higher. This is also in line with economic theories on taxation which hold that, taxpayers are amoral utility maximizers. They are influenced by economic motives such as profit maximization; therefore, they analyze alternative compliance paths.

### 5.4.3 Summary of Hypothesis

The current study also expects the mediating challenges of ZRA on the factors that affect collection of withholding tax on rental income in the informal sector. The above discussion suggests the following hypotheses:

#### *Panel 1 Summary of Hypotheses*

Hypothesis	Description
H1.1	There is an association between WHT collection and tax rate .
H1.2	There is an association between income and with holding tax collection.
H1.3	There is an association between tax administration and withholding tax collection.

### 5.5 Chapter Summary

The main purpose of this research is to investigate the challenges faced by ZRA in taxing the informal sector a case of withholding tax on rental income. A survey through questionnaires



was to be conducted as well as structured interviews. Data gathered was analyzed using a Statistical Package for the Social Sciences (SPSS) version 26 and Microsoft Excel 2016. The results of data analysis revealed that the mechanism for withholding rental income collecting must to be restructured and they is need for awareness of the population to know exactly why they should pay withholding tax on rental income.

## CHAPTER SIX

### CONCLUSION AND RECOMMENDATION

#### 6.1 Introduction

Preceding chapters sought to lay a basis upon which the researcher could draw conclusions and recommendations. This final chapter briefly presents the conclusions of the study. It also offers the actionable recommendations arising from the study as well as directions for future research.

#### 6.2 Conclusions

Taxation is an imposition of compulsory contributions by the tax authorities/ government, to finance the cost of its operations and provision of services to its citizens. Government raises revenue through imposition of tax to its citizens on incomes in direct taxes or expenditure in form of indirect taxes to: empower government to redistribute wealth or resources to its citizens; stabilize the economy; set and defines the economy and encourage optimal economic growth. The data analyzed showed that despite having people who are on full time employment and fairly educated, people who understand the law and government operation despite this, their tax compliance to remitting withholding tax on rental income was low, this is was, attributed to low sensitization in terms of administration by the collecting body ZRA.

Zambia revenue authority charges 10% on rental income as withholding tax. According to the data, perception on equity and fairness by the respondents to the amount charged by ZRA was, not taken kindly. A lot of respondents answered that they were no fairness with the tax rate that ZRA charges on withholding tax on rental income. A fair rate may lie between 1% -5% of their rental income as remittance to withholding tax on their rentals. The study concludes that perceptions that the rate may be too high could be a factor in reluctance of eligible tax payers to be transparent with authorities as to how much rental income they generate, pushing the bulk of related transactions into the cash or black economy sector. In other words, the predictions of the Laffer Curve may be supported by the findings of this study.

The property tax administration system is highly connected to the function that is expecting to offer on the public good provision. The municipal authority, apart from other sources depends on property tax revenue for meeting its responsibilities. The property tax administration system is charged with various functions of property tax administration. However, efficiency in performing such functions is largely influenced by facilitation from the municipal authority. The data analysis showed that the tax administration system needs to be looked at. The

respondents thought that the current mechanism by ZRA for collection of the tax on rental income was highly inconvenient. The respondents also thought it was not appropriate for ZRA to collect tax from tenants rather than landlords. They also thought ZRA did not have a comprehensive database of eligible taxpayers for withholding tax on rental income to enhance its collections. The common responses that respondents gave to ZRA to enhance was among a few, to reduce the tax rate, to partner with the council or the ministry of lands to collect tax and they also stressed on the issue of sensitization by ZRA. The respondents also had challenges complying with payment of withholding tax on rental income among a few due to mode of payments, saying they don't know how to exactly pay. Others said they would pay if ZRA followed them at their door step. Several respondents said they have never received a visit from a ZRA official and again several respondents also ZRA services were not accessible enough even for them to return tax on withholding tax on rental income.

Finally, it is, concluded that the authority may have to understand potential taxpayer characteristics better if it wishes to strengthen performance in collection of WHT on rental income in Zambia. The profiles could help inform intensity of efforts on the part of the authority to engage with potential taxpayers in the informal sector.

## **6.3 Recommendations**

### **6.3.1 Policy Recommendations**

After a detailed analysis on the factors affecting the collection of withholding tax on rental income from the informal sector by Zambia Revenue Authority, the following recommendations can be put forth:

Firstly, The Ministry of finance being a regulatory body regarding tax collection should look at its policies to restructure tax rates to arrive at an optimal rate or set of rates that will encourage compliance and increase collections. The policy that withholding tax should be collected from tenants instead of landlords should be looked at for optimal collection of tax that will see a plight in public goods, GDP, and balance of payments.

Secondly, regarding enforcement and sensitization problems, ZRA needs to employ more staff that can be on the ground to educate people. The people employed they should be a compliance team to also be on the ground enforcing the law. This will see ZRA to realize more tax collected. A comprehensive database of eligible taxpayers should be developed to enhance engagement between the authorities and taxpayers. This could be done in concert with other state agencies such as municipal authorities and line ministries such as the Ministry of Lands as well as the Ministry of Local Government.

Finally, arising from the results of this study in relation to possible characteristics of potential taxpayers, Zambia's tax authorities should do more to understand taxpayer profiles in order to inform and optimise engagement strategies.

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## APPENDIX

### I. COVER LETTER/DATA COLLECTION REQUEST

To Whom It May Concern:

Dear Respondent,

**RE: “A STUDY OF THE CHALLENGES FACED BY ZRA IN TAXING THE INFORMAL SECTOR CASE FOR (A CASE OF WITHHOLDING TAX ON RENTAL INCOME)”**

Recognizing that the challenges faced by Zambia Revenue Authority in taxing the informal, we are eager to learn about your own experiences. In particular, we are conducting a survey on the challenges of collecting withholding tax on rental income in Lusaka district with the support of the University of Zambia Business School. The purpose of the study is to investigate the challenges faced by the revenue tax in collecting rental income.

Your co-operation is critical to the success of the study; therefore, we would be very grateful if you could complete the questionnaire. Please note that **there is no “right” or “wrong” answer** to any of these questions. If you have any comments about the financing determinants that you would like to include, please do so in the space provided at the end of the survey.

This research is **STRICTLY CONFIDENTIAL** and is being carried out for academic purposes only. Your enterprise and your name will not be identified as all questionnaires will be coded upon receipt; so that no links are possible between the data and the identity of the enterprise or yourself. The findings of this research project will be reported in the thesis that will be submitted to the University of Zambia Business School, as required for the Masters degree in business administration.

In return for your cooperation, a summary of the findings will be provided to you after the study is finalized (upon request). In addition, we will be delighted to discuss our findings with you if this could be beneficial to your organization.

We thank you for your time and co-operation.

Yours sincerely,  
Celine Lwanga Mulenga  
Master’s degree Researcher  
University of Zambia Business School  
Lusaka

Dr. Lubinda Haabazoka  
University of Zambia Business School  
Lusaka

Email: .....

II. DATA COLLECTION

**GENERAL INSTRUCTION**

SECTION A- PERSONAL BACKGROUND

1. Gender

Female

Male

2. Age

<input type="checkbox"/>	41 - 45
<input type="checkbox"/>	46 - 50
<input type="checkbox"/>	51 - 55
<input type="checkbox"/>	56 and above

<input type="checkbox"/>	20 - 25
<input type="checkbox"/>	26 - 30
<input type="checkbox"/>	31 - 35
<input type="checkbox"/>	36 - 40

3. How many properties you have?

No. of properties	Below 1
<input type="checkbox"/>	Over 2
<input type="checkbox"/>	Over 5
<input type="checkbox"/>	Over 10
<input type="checkbox"/>	

4. Highest level of education

<input type="checkbox"/>	Certificate
<input type="checkbox"/>	Degree
<input type="checkbox"/>	Masters
<input type="checkbox"/>	PhD
<input type="checkbox"/>	Other (specify) _____

5. In providing information for this study, how best should you be described?

Tenant

Landlord

ZRA Official

6. How did you learn about taxation?

Radio     Newspaper    Other: \_\_\_\_\_

7. What is your current primary employment status?

Retired     Full time employment    Business owner  
 Unemployed/Searching  
Other

8. Gross monthly Rental income group (K)

\_\_\_\_\_

9. How best would you describe your sources of income?

Solely dependent on current employment/non-rental business

Solely dependent on rental income

Derived from a variety of sources including rental income

Derived from a variety of sources excluding rental income

10. Are you registered for taxes?

No     Yes

If Yes, what tax types? \_\_\_\_\_

**SECTION B (TAX COMPLIANCE – HYPOTHETICAL QUESTIONS)**

In this section, you are given various situations in which related with tax compliance. For each situation, please answer honestly.

**PART B 1 -PROBABILITY OF BEING AUDITED**

i) Would fully disclose what you collect as Rentals?

**YES** \_\_\_\_\_ **NO** \_\_\_\_\_

ii) What would be the reason for underreporting your rental income?

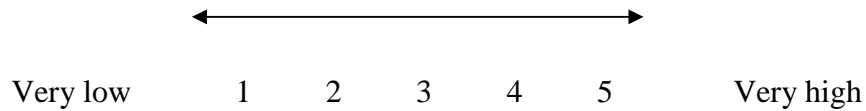


**PART B 5 - FINANCIAL CONSTRAINT**

i) Would your financial position affect your decision to file tax returns?

YES \_\_\_\_\_ NO \_\_\_\_\_

ii) What is the likelihood of completing tax return inaccurately if you are financially constrained?



**PART B 6 - THE ROLE OF THE ZRA**

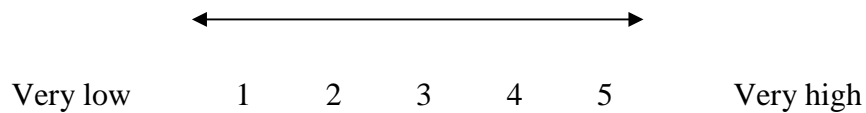
i) Are you aware that taxes have due dates?

YES \_\_\_\_\_ NO \_\_\_\_\_

ii) Have you ever received a reminder from ZRA?

YES \_\_\_\_\_ NO \_\_\_\_\_

iii) What is the likelihood that you would not respond to a reminder from ZRA



**PART B 7 – ATTITUDE TOWARDS THE TAX RATE**

Indicate the extent to which you agree with the statements below;

i) Your compliance or non-compliance with the tax on rental income is affected by tax rate being too high

- Strongly Disagree
- Disagree
- Not Sure
- Agree
- Strongly Agree



- ii) Overall compliance levels with the tax on rental income would increase if taxpayers considered the rate as being fair

Strongly Disagree   
Disagree   
Not Sure   
Agree   
Strongly Agree

### SECTION C – TAXPAYER EDUCATION

- i) Do you think ZRA have put in enough effort to educate you as a taxpayer on your duties in relation to withholding tax on rental income.

Strongly Disagree   
Disagree   
Not Sure   
Agree   
Strongly Agree

- ii) Do you think ZRA has put in enough effort to reach out to Lands and Tenants on withholding tax on rental income.

Strongly Disagree   
Disagree   
Not Sure   
Agree   
Strongly Agree

- iii) Do you think greater taxpayer education would improve compliance levels on withholding tax on rental income.

YES \_\_\_\_\_ NO \_\_\_\_\_

### SECTION D – TAX ADMINISTRATION

- i) Do you think the current mechanisms by ZRA for collection of the tax on rental income is convenient for all eligible tax payers

Strongly Disagree   
Disagree   
Not Sure   
Agree   
Strongly Agree

- ii) The current mechanisms for collection of the tax on rental income is not convenient for eligible tax payers relying solely on rental income

- Strongly Disagree
- Disagree
- Not Sure
- Agree
- Strongly Agree

iii) Do you think it would be more appropriate for ZRA to collect tax on rental income from tenants rather than landlords?

- Strongly Disagree
- Disagree
- Not Sure
- Agree
- Strongly Agree

iv) Do you think ZRA has a comprehensive database of eligible taxpayers for withholding tax on rental income to enhance its collection levels?

- Strongly Disagree
- Disagree
- Not Sure
- Agree
- Strongly Agree

v) How can ZRA enhance the collection of withholding tax on rental income. Give suggestions.

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vi) What challenges do you face in complying with payment of withholding tax on rental income?

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vii) Has any officer from ZRA visited you?  
**YES**\_\_\_\_\_ **NO**\_\_\_\_\_

**Vii) Do you think ZRA services are accessible in order to enhance collection of withholding tax on rental income?**  
**YES**\_\_\_\_\_ **NO**\_\_\_\_\_

-----End of Questionnaire-----