TAX COMPLIANCE OF SMALL AND MEDIUM ENTERPRISES THROUGH THE SELF-ASSESSMENT SYSTEM: ISSUES AND CHALLENGES

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ABSTRACT

The study examined tax compliance of small and medium enterprises (SME) in a developing country. This study reviewed literature on tax compliance and tax systems. The study explored a scholarly review of the main factors affecting small and medium enterprises to compliance through the Self-assessment system (SAS). All relevant data being combined into information was revealed in this study ascertaining all the components which need to be clarified about self-assessment and its implications on tax compliance. The conclusions of the study showed that in developing countries, SAS needs to take note of the many factors that cause noncompliance other than tax knowledge. A relationship between taxpayer and tax collector is also influenced by economic and psychological factors.

Keywords: Self-Assessment, Compliance, Small Enterprises, Medium Enterprises.

INTRODUCTION

SMEs in developing countries are the backbone of indigenous investments. The factors affecting their growth among others are perceived to be the economic environment which has ripple effects in contaminating tax compliance. In developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance according to Friedman (2015). The economic development is one of the factors to be focused on in order to maximize compliance revenue from the growing informal sector (Masarirambi, 2013).

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise according to James & Alley (2014). Tax Compliance can be referred to as the process in which tax returns required to be submitted to the tax authorities are filed at the appropriate time with the accurate tax liability as required under the tax laws and regulations of a country (Friedman, 2011).

METHODOLGY

The study adopted a desktop research methodology by exploring a scholarly review of the main factors affecting small and medium enterprises to compliance through the self-assessment system (SAS). Literature was obtained from journal articles, textbooks and company records.

FACTORS LEADING TO NON-COMPLIANCE BY SME'S

Non-compliance is also perceived as the failure of a taxpayer to report correctly the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time according to (Baldry, 2011). According to Masarirambi (2013), developing countries continue to face challenges of tax evasion and noncompliance in the informal sector with the SAS. However, Association of Southeast Asian Nations (2015) had an opinion that noncompliance of taxpayers can be a product of the decisions of rule makers as of the actions of the tax payers (Fagbemi, Uadile & Noah, 2010). Friedman (2011) backed up Kidder with the observation that sometimes compliance and non-compliance is a product of decisions of political, legal and administrative actors and of the behaviour of tax payers. The study aims at getting an understanding on the factors that affects SME compliance and the role SAS play in effecting the attitude of taxpayers (Becker, 2010).

SOCIO-ECONOMIC CHALLENGES

Scholars like Silvani & Baer (2011) take a notion on the contribution of the fiscal and monetary policies of a country to its contribution to the tax noncompliance of taxpayers. Monetary policy has to do with the controlling of liquidity in the economy. The level of circulation of money in the economy determines the willingness of a taxpayer to compliance that is to pay the liability due.

It can be perceived that the monetary economic challenges that are clearly evident in Zimbabwe are one of the reasons the SMEs fail to comply. According to Baldry (2011), the exchange of goods and services with little rates of money exchange is one of the major factors holding back SME compliance. Economic challenges have resulted in the shrinking of the tax base in Zimbabwe. It was substantiated that an excess of challenges, namely liquidity crunch, sanctions, fall of prices of commodities in global markets and poor performance of agriculture has caused this economic meltdown. Formal companies have scaled down operations and others have closed shop.

Masarirambi (2013) disagreed with the view point that economic challenges are a factor which causes noncompliance arguing that the social relationship between countries is the one that instils an attitude of taxpayers' perception to comply. He further indicated that the state of the political environment contributes to the attitude of tax payers. Baldry (2011) also gave a negative sentiment about economic challenges as a factor which causes taxpayers noncompliance saying that the perfect information of how other SMEs are being treated in neighbouring countries has the attitude for the level of compliance. The SAS hence is used as a tool to put the effect in conception. Alm (2013) concluded that attitudes represent the positive and negative evaluations that an individual holds of objects and it is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with a positive attitude towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive therefore perception and attitude towards the tax system will have a great impact on the compliance levels.

In a research conducted in Kenya about the perception of taxpayers towards the self-assessment system, the following conclusions were arrived at; the taxpayers viewed the self-assessment system as difficult because of their inability to understand tax laws, for example, rates of tax, filing and paying dates. They also had a feeling that they are not paying a fair share of tax, negative peer attitude and a belief that their neighbours are not reporting and paying tax honestly. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes.

In a study conducted by Alm (2013), the attitude issues from the various studies rotate around the tax fairness and improper use of revenue collected by government. Corruption at its best can reduce the level of compliance by taxpayers Masarirambi (2013). Dubin & Wilde (2014) contributed to a variation similar to Masarirambi (2013) supporting that various questions regarding factors and instruments of the corrupt and practices remain unanswered within the tax administration that is Zimra. As well as corruption within those charged with political governance of the public funds have hindrances to tax compliance. He factored out that the motives of corruption within the tax administration are low pay as well as professional and personal interest among others. In Zimbabwe, taxpayers have a negative attitude towards the tax system because they feel that the revenue collected is being misused since there are a lot of corruption cases.

Hendy (2013) positively embraced the fact that social factors arise from interaction among taxpayers and the community we live in people come from different cultures and beliefs, social values and as a result these factors play a pivotal role in influencing the decision taken by a tax payer. It is of course observed that the revenue authority is struggling to collect taxes because of social economic challenges the taxpayers operate in. According to Alm (2013), compliance behaviour and attitudes towards the tax system may therefore be affected by the behaviour of an individual's reference group such as relatives, neighbours and friends. Therefore, if a taxpayer knows that many people evade taxes, his/her commitment to comply will be weaker. On the other hand, he however said that social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered and revealed publicly. Revenue collection through self-assessment depends on the ability of tax payer's accurate and minimal abuse of the system.

Tax Fines and Penalties

It is supported by Osman (2011) that taxpayers make calculations of the monetary consequences of different compliant alternatives such as whether or not to evade tax, the probability of detection and consequences thereof and they choose the alternative which maximizes their expectation after tax return. Hendy (2013) argues that costs associated with consultation of tax consultants and tax lawyers are cheaper than payment of non-compliance fines and penalties.

He further explained that the costs of non-compliance are higher than the cost of compliance. Hendy (2013) went on to say that effective corporations at all times view tax noncompliance consequences such as tax fines interests and penalties as avoidable expenditures to their industries and for that reason they put in place arrangements to make sure that they act in accordance with the tax requirement of the nation. In line with Bajwa's view, the submission of late tax returns to Zimra will result in the companies being fined with a penalty of $30 per day they are not submitted. It can be perceived that this fine is a material cost and failure to submit tax liability on time also attracts interest in addition to the principal amount and this increases the costs incurred in a business, thereby reducing profitability, hence making taxpayers to comply.

Certain researchers professed that higher fines simply make evading taxes more dangerous for taxpayers and should deter from evasion. Researcher even suggests that an increase of penalties can have undesirable effect to tax payers and result in more tax compliance. Therefore, higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion. According to Kicher (2013), taxpayers always work hard to increase their benefit through consideration of the threat that they may be discovered and be reprimanded due to non-compliance activities pertaining to tax requirements. Alm (2013) in his study concluded that the impact of fines and penalties to non-compliance is virtually zero. Some were also neutral and they assert that fines were only a means which is used by revenue authority to punish taxpayers but it is not a way to foster compliance or non- compliance.

Lewis, Webley & Furnham (2013) contributed to a variation similar to the one above where he found no support for the deterring effects of fines since it was weak. It was suggested that policies like fines and penalties which are based on deterrence are effective only in combination with frequent audits. In a system of self-assessment, few audits are performed since this system is based on trustworthiness of the taxpayers and in third world countries with sluggish economies, trustworthiness of taxpayers is difficult to get. According to Kidder & Craig (2011), taxpayers always work hard to increase their benefit through thorough consideration of the threat that they may be discovered and be reprimanded due to non-compliance activities pertaining to tax requirements. Therefore, it was concluded that the greater the chances of being discovered due to noncompliance activities or being reviewed would embolden taxpayers to improve their compliance levels. As a result, the study aims at getting an understanding on the impact of tax penalties on SME compliance and the role SAS play in effecting the attitude of taxpayers (Watson, 2013).

THE IMPTACT OF HE SAS ON INCOME TAX COLLECTION OF SMES SELF-ASSESSMENT AND REVENUE COLLECTION

Self-assessment system is an assessment procedure based on the assumption that all information provided by the tax payer is correct and need not be checked by the revenue officers according to (Kasipillai, 2010). Based on Inland Revenues Board, self-assessment is a tool for revenue collection based on trust. One was of the view that the SAS creates a partnership between tax payer and the authority where the authority's job is to check, for control purposes, on errors on completion of the return. On revenue collection scholars like Osman (2011) believe that this system simplifies tax collection and increases the compliance levels though some scholars as Dziro (2016); Aryeetey & Ahene (2014) believe otherwise. The study wishes to understand whether SAS is a revenue collecting tool or an evading tool for the SMEs.

An active self-assessment system requires certain conditions to be fully met which are stressed out by Mulugeta (2016) as the tax knowledge of the taxpayers, simplicity of the tax system, effective enforcement of the tax laws and penalties, good services to tax payers, simple filling procedures.

Osman (2011) believes that the most important aspect that needs to be considered for self- assessment to be effective is something which is of social moral being honesty. In addition to Osman (2011) had to stress an open point that, the individual knows the income they make and the payment due to the authority hence, the payment of the full liability heavily relies on the faithfulness of the taxpayer and the tax payer's awareness of the consequences of nontax compliance this is. Mulugeta (2016) points out the effectiveness of a tax penalty policy and audits conducted and simplicity in SAS Requirements in under privileging the tax payer of time and other resources as a major determinant of SAS.

Based on the opportunity of being given the task to calculate the tax liability, the tax payer may use the self-assessment system to manipulate their tax returns leading to tax noncompliance/evasion (Hasseldine & Li, 2014). Richardson (2016) emphasized that the self-assessment system is also involved in noncompliance behaviour and the likely contributing factor to the tax gap.

The tax gap represents the difference between the amount which was to be collected if there was one hundred percent (100%) compliance and the actual amount collected (James & Alley, 2014). In a research conducted by International Monetary Fund (2013), in the United Kingdom (developed country) 14% results from the tax gap of income tax from SMEs and 30% from value added tax (VAT). Developed countries are still fighting to reduce the tax gap through the SAS. The enormous amount recovered in audits conducted by ZIMRA shows the percentage that the SMEs contribute to the tax gap through the abuse of SAS (Beesoon & Hemavadi, 2016).

Tax Compliance

Tax compliance is a major problem for many tax authorities and it is not any easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise (James & Alley, 2014). Tax compliance is further defined as the ability and willingness of taxpayers to comply with tax laws that is to declare the correct income in each year and pay the right amount of taxes.

Alm (2013) is of the suggestion that tax compliance is the reporting of actual income and also claimed that compliance behaviour is influenced by ignorance in a situation whereby taxpayers would enjoy tax savings due to underreporting income in the short run without considering the mount to be paid in the long run for the undeclared income at a penalty rate which will be higher than the amount they would have paid if they declared the correct income at the correct time.

Tax noncompliance is referred to as evasion by authors like Namusonge, Biraori & Kipicoech (2014). Kicher (2013) defines tax noncompliance as failure to comply with laws and the reporting of incorrect income. Tax payers vary in terms of the opportunities available to them in overstating expenses and the understating of income (Baldry, 2011). Lumumba & Migwi (2010) are of the opinion that some tax payer’s noncompliance is based on the lack of knowledge on tax matters which is involuntary tax noncompliance.

Self-assessment system heavily relies on the attitude of the taxpayer. It faces a wider risk of noncompliance by taxpayers. Tax payer attitude towards tax through SAS and its contribution to the tax gap is one of the main aims of this study as it correlates with the compliance of the tax payers and their perception of reporting the true liability due.

Tax compliance in relation to a tax system is also determined by Economic factors, psychological factors, tax fairness, equity, tax morale and social norms. These will determine the attitude of the tax payers and their compliance with a tax system.

Economic Factors

Nyamwanza et al. (2014) elucidates that the taxpayer compliance literatures is a comprehensive and emerging body of knowledge and incorporates numerous disciplines including economics and psychological factors. Mukasa (2014) is of the view that the tax payers are unprincipled economic evaders who would evaluate the likely costs and benefits of evasion behaviour compared to those of compliance. Some economic theories suggest that tax payers calculate the opportunity cost of evading tax (Kidder & Craig, 2011).

A study conducted by Masarirambi (2013) proved that there was no severe action that brought about noncompliance. Penalties are charged and no other legal action is taken after that. However, penalties never stop the formation of other companies and SMEs with tax debts to compare the costs of company formation to payment of the existing company's taxation debt., On the other hand the Zimbabwe tax authority issued an amnesty to forgive the tax payer debts in order to strengthen the tax payer and tax authority relationship which according to the research conducted by Dziro (2016) on the Zimbabwe amnesty of 2009-2014 was a total failure. As to why they did not comply (Dziro, 2016) blasted the SAS and the lack of knowledge and on the other had stated that the economic factors contributed. Penalties are working as a measure of noncompliance rather than to fulfil their specific purpose. Scholars like Chifamba (2015) state that penalties to SMEs are ineffective.

Nyamwanza et al. (2014) reinforces the idea of tax audits basing on the SMEs tax evasion by swiftly relocating without informing the tax authorities during audit blitz. Witte & Woodbury (2013) noted that tax audits were more insignificant among SMEs. These authors are opposed up by Richardson (2016) who stated that tax payers significantly underreported gross income and that the amplified probability of audit increased both reported income and tax liability. Authors like Slemrod & Blumenthal (2011); Alm (2013) and Torgler (2012) agree that high tax audits lead to improved compliance and have a direct effect on tax collections of reported amount, additional penalties and taxes. However, the effect of the fear of an increased probability of being audited varies with the level of income with the effect being more marked in the case of high income earners and particularly where there was an opportunity to evade tax (Hendy, 2013). Audits are effective in recovering income on those who are audited. However, the problem should not be corrected by recovering unreported income but increasing voluntary compliance at the beginning (Alm, 2013).

Feld & Frey (2010) reiterated that the level of income earned in relation to the obligations to be satisfied by the taxpayer is a factor that affects participation. Some are of the view that there is a positive correlation between the taxpayer's burdens to such an extent that a taxpayer with a high liability will have difficulties in disclosing their true income and manipulates their data and these affairs result in more penalties and interest which will have a probability of being not paid. SMEs may find it difficult to disclose their true income resulting in noncompliance which is made successful through the abuse of SAS.

Lumumba & Migwi (2010) conducted a research examining taxpayers' attitude behaviour among SMEs in Botswana, the research was a survey, data was collected and analysed. The findings revealed that taxpayer's attitudes did affect their compliance behaviour and recommendations were to educate SMEs on issues relating to tax.

Yahaya (2014) implemented a similar research in Ghana; the results indicated that taxpayers were concerned with the amounts of taxes they pay. Similarly, Sapiei & Kasipallai, 2012) conducted a research in Nigeria which proved that among others, the effects of financial condition and risk preference significantly moderated the influences of tax payers, therefore they recommended that SMEs be levied lower percentage of tax to allow business development and better chances of survival in a competitive market and reduce widening the tax gap.

Psychology Factors

This considers the impact of taxpayer attitudes on compliance behaviour. Various researches made psychological factors as one of the major factors to determine tax compliance behavior (Jayawarden, 2015). The underlying challenge is that of behaviour which may represent a diversity of attitudes and that tax mentality appears to be an important construct with more than one dimension. The perception of political government accountability is categorized roughly as social norms, public spending moral tax and fairness on tax system (Kicher, 2013). Taxpayers with higher fiscal knowledge had a higher tax ethic than did those with lower fiscal knowledge. This was backed up by Lewis, Webley & Furnham (2012) who asserted that low fiscal knowledge correlated with negative attitudes towards taxation and that attitudes like these can be improved by better tax knowledge.

Kicher (2013) emphasized how social factors arise from interaction among taxpayers, the community in which they come from and social values, culture and beliefs shared, these factors go on to shape the decision made by the taxpayer. Honesty is a strong personal value and experimental researches reveal that personalities evade tax compliance (Lumumba & Migwi, 2010). Interaction between tax payers is non-avoidable and with the perfect information in the market SMEs share ideas and ways to noncompliance, leading to the ignorance of penalties.

Mukasa (2014) stated that the failure of the government to meet the taxpayer's expectations causes a repulsive behaviour towards compliance. The relationship between compliance and complexity has been studied by various methods including surveys experiments and case studies and with mixed findings on the contribution it has on the attitude of the taxpayer (Mckerchar & Evans, 2010). Baldry (2011) concluded that if the complexity of the tax laws, were reduced to an understandable level, this would encourage compliance and accurate computation of one's tax liability. Public sector transparency is one of the major factors that have affected the compliance of Zimbabwean SMEs in the period 2011-2014.

Tax Knowledge

Clearly the level of education has something to do with compliance and it is evident in the works of Prince & Anayduba (2014) who found a positive relationship between education and noncompliance which was in total agreement with other authors like Witt and Woodbury (2013), etc. Tax knowledge on its own is a critical element in achieving voluntary compliance especially in determining the liability due in a SAS environment (Kasipillai, 2010). Various researches have been conducted by Kicher (2013) rectifying that the possession of knowledge increased compliance levels. Knowledge about awareness of offenses, rebates, penalties rights, fines correlated in with the taxpayers' behaviour in Palil & Mustapha's (2010) research.

Income Level

Other contributing factors to noncompliance are the level of income on which authors like Dubin & Wilde (2014) have concluded to be the root for the cause of taking advantage of the self-assessment system as a tool as a means of evasion. Besides tax complexity the psychology theory also explains other factors affecting compliance being tax fairness, responsibility, burden, compliance costs, tax policies are also eradicated by authors like Beck & Levine (2015) to contributing to noncompliance.

Tax Fairness and Equity, Tax Morale and Social Norms

Perceived fairness determines tax compliance according to Friedman (2011). The most justifiable prerequisite for fairness and equity is to treat equal people in equal circumstances in an equal way. Prior scholars like Junainah (2013) states that tax fairness could either be vertical or horizontal. Saad (2012) points out that vertical tax fairness is when taxpayers are being treated with different rates based on their different business activities. Mukasa (2014) denotes that horizontal tax fairness treats taxpayers the same either they are small or large which is the one being applied here in Zimbabwe by the tax authority.

Mukasa (2014) found that tax fairness improves compliance and not only does it have a positive hindrance on economic growth but past researches show that they also increase the revenue collected and reduce the tax gap. One is of the view that a fair tax system is one which citizens contribute to government expenditure based on their ability to pay. This has never been considered in Zimbabwe in relation to efforts on maximizing compliance and growth of SMEs.

Economists state that there is a correlation between tax fairness and evasion. Beck & Levine (2015) say the justification behind the whole system of tax is consistent with two of the major theories of tax namely; The Ability-to-Pay Principle and The Equal Distribution Principle. It was postulated that these two principles stress out equality and fairness.

Hendy (2013) noted that tax laws should emphasis on tax payer responsibilities because they need to understand the relevant laws before they would be able to comply effectively, thus Beck & Levine (2015) states that the SMEs need to understand their responsibility in order for them to eliminate the negative attitude towards tax and reduce the risk of evasion. As this is in conjunction with knowledge it also focuses on the simplicity of the tax legislation. Economists assert that self-assessment transfers the burden of tax calculation to tax payers hence the tax payers need to be educated on the requirements of the tax legislation. The major disadvantage to revenue improvement by self-assessment system in the period of 2011-2014 is that the large share of taxpayers is that of the informal sector and the large sector of that informal sector are non-knowledgeable and have attitudes towards tax fuelled by political and economic factors in Zimbabwe (Masarirambi, 2013).

Alm (2013) posits that most small scale flourishing businesses have unrestricted scope of evading tax based on their insight regarding costs associated with compliance and the economic benefits of going undetected. Tax morale is the attitudes of a group of population on a particular subject, in this case tax compliance (Richardson, 2016). Tax morale is the motivation of a tax payer to comply. Studies have shown that trust is negatively related to tax evasion, low trust in the tax authorities, those charged with governance is correlated with higher levels of tax evasion. Tax morale is high in countries which are associated with high control of corruption and low size bureaucracy (Baldry, 2011). Speculations of corruption and failure to control, may have led to noncompliance during the period of 2011-2014.

Official Administration Assessment System as an Alternative Measure that can be used to Improve on SME Tax Compliance

The tax administration is the department of the government responsible for the management of tax obligations specified by the tax law (Baldry, 2011). He asserted that the primary task is to ensure that the right amount of tax is paid by the right taxpayer at the right time, providing the government with the needed revenue to deliver goods and services as planned. He further said that an administration that does so at a reasonable, minimal cost to the government is efficient. In addition, for reasons beyond the scope of this paper, tax administrations are expected to impose minimal costs on taxpayers and maintain a business friendly and even-handed environment.

Facilitating Voluntary Compliance

Official Administration Assessment proactively facilitate compliance by simplifying processes, providing information, education and support to taxpayers and directing their limited compliance monitoring and enforcement resources to the areas of greatest risk to revenues (Fisher, Wartrick & Maret, 2012). The Official Administration Assessment adopts a compliance risk management approach that recognizes a variety of compliance behaviour and an opportunity to foster a cooperative relationship with taxpayers. It is further mentioned that Official Administration Assessment is structured to systematically identify, assess, rank and treat tax compliance risks by segmenting taxpayers into compliance groups and developing different responses to the factors that influence compliance in each group (OECD, 2014). The IMF (2013) urged tax administrations to be thoughtful in how they deploy their limited resources rather than focusing on enforcing compliance throughout the compliance risk range.

Monitoring Compliance

According to economists, Official Administration Assessment utilizes information systems to monitor taxpayer accounts and an audit strategy to detect non-compliance. However, with self-assessment, few audits are performed because the system is based on trust and honesty. According to Richardson (2016), in Official Administration, a highly visible audit program is essential to ensuring that taxpayers understand and are exposed to the consequences of non-compliance. Farik (2011) asserts that an audit which is performed by revenue authorities' focuses on the areas of greatest risk to revenues and also facilitates voluntary compliance by reducing the intrusion of the tax administration into the affairs of compliant taxpayers. However, the administrative system as a means of revenue collection was considered to be resource intensive although it tended to be ineffective (Nyamwanza et al., 2014). Tyler (2012) also gave a negative sentiment asserting that many jurisdictions regarded the Official Administration Assessment as costly, inefficient and complex to administer since it imposes much burden on tax administrators.

Enforcing Compliance

According to Kirk & Miller (2011), tax administrations traditionally have relied on alternatives to legal remedies to enforce taxpayer compliance, which has been described as a classic enforcement mentality which was built upon the fundamental assumption that a ruthless and efficient investigation and enforcement capability will produce compliance through the mechanism of deterrence. However, through the Official Administration, the full thoroughness of the legal system is brought to bear on taxpayers who do not comply, thereby establishing some level of uniformity in the application of the law and a perception of fairness among taxpayers (Khalizatul, 2012).

Digital Tax Assessment System as an Alternative Measure that can be used to Improve on SME Tax Compliance

The digital age is rapidly transforming the relationship between tax authorities and taxpayers (Kassim, 2013). Driven by a desire for more revenue, greater efficiency and improved compliance in an atmosphere of shrinking resources, tax authorities are increasingly relying on digital tax data gathering and analysis using digital platforms to facilitate real-time or near real-time collection and assessment of taxpayer data (Liu & Ye, 2013).

According to economists, this move towards tax digitization is allowing tax authorities to collect tax data in real time or near real time; they can then use the information to respond quickly and in more targeted ways to perceived compliance risks. According to some researchers, when taxpayers file their taxes online, they will be creating a permanent electronic record for use in the future. Instead, they can pull up their information on computer and get to work right away. HM Revenue and Customs (2016) also supported Digital Tax System saying that it brings more accuracy and online filing takes much of the guesswork out of the tax return process and many programs even do the calculations. According to other economists, Digital tax System makes the filing process faster and the last thing most taxpayers want to do is spend days and weeks sifting through papers to file their return. When tax payers file their taxes online, that will speed up the process, which will save them a lot of time and frustration. He went on to say that filing your taxes online ensures you will get your refund money as soon as possible.

Core Tax System

According to some, the core tax system is the central system of record in a tax administration and the primary enabler for automation and straight through processing. He further asserts that it provides technology support, at varying levels, to all functions of the tax administration, processing of registration filings and issuing taxpayer identification numbers validating and processing returns and payments received through different channels, maintaining the taxpayer's accounts, providing tools to identify and pursue delinquent taxpayers, automating appeal tracking and providing taxpayer service staff with access to taxpayer information to enable a better level of service to taxpayers, among others.

Easy Registration

According to Nyamwanza et al. (2014), registration is the process, by which the tax administration collects basic taxpayer identifying information, such as names, addresses and legal entity types. He further asserts that this information allows the tax administration to know who its taxpayers are, where they are located and whether they are active or inactive. According to Kidder & Craig (2011), modern tax administrations also collect compliance information, such as business activity types or estimated turnover, to plan future compliance activities. During registration, most tax administrations get a registration certificate and provide the new taxpayer with information on his or her filing and payment obligations. Hendy (2013) asserts that the basic registration functionality of a tax IT system includes the storing and maintenance of taxpayer identifying information, the automatic issuance of TINs (identification number) and taxpayer certificates and the automatic determination of taxpayer filing requirements. He also said that effective registration with tax digital tax systems uses unique TINs to facilitate exchange of information between government agencies to ease the detection of noncompliance.

Digital Tax integrates registration across taxes to allow for a single view of the taxpayer during audit or collections, centralizes the registration database to allow for effective non-compliance monitoring, provides a single facility to the taxpayer to register for all taxes to simplify compliance and interfaces with the e-tax system allowing new taxpayers to register online. Richardson (2016) asserts that a single centralized taxpayer registration database also enables proper planning, allowing the tax administration to rationalize staffing and resources based on the size and geographic location of the active taxpayer population and many of these tasks would be impossible without IT. Richardson went on to give an example that a digital tax system can automatically verify that a newly issued TIN is in fact unique while the same verification would be nearly impossible manually if the taxpayer population is large.

Farik (2011) argued saying that digital tax system is in some cases allowing taxpayer information to be cross-referenced and shared among governments and agencies. He said businesses with dated systems or those that are not able to adapt quickly may face increased risk, unexpected costs and compliance challenges to which they are not prepared to respond. According to EY (2017), some countries are leading the digital revolution, others are forming a second wave and still others are years away from embracing digitization. In Zimbabwe we are forming a second wave because the current system is already using the e-filing system.

CHALLENGES THAT CAN BE FACED THROUGH THE IMPLEMENTATION OF OFFICIAL ASSESSMENT AND DIGITAL TAX SYSTEM

Complexity of the System

Masarirambi (2013) explained that the improvement in the degree of tax compliance problem is an outcome of devising a complex tax system that taxpayers are not able to operate and interpret. This problem becomes clearer under circumstances where the nation makes use of a self- assessment structure. Kicher (2013) added that the modern tax business systems can be quite burdensome especially on small to medium enterprises. Guest (2012) also explained that the three main elements of the tax burden are, the process of the tax implementation amongst the taxpayers, in addition they also explained that competent costs that are incurred as a result of compliance known as compliance costs which have arose due to the payments of taxes and in conclusion there are expenditures associated with operating a particular tax system, which can be referred to as costs of complying with tax laws.

Certain researchers also asserted that consistent tax laws which are stable in enactment and performance will result in the tax system being less complex and it will encourage tax compliance. According to economists, simplicity of the tax system is very important in determining tax compliance. He also added that a simple tax system will enhance compliance for the reason that taxpayers come from different backgrounds with different level if tax knowledge. In order to enhance compliance, tax authorities are supposed to contemplate on introducing a modest but then again satisfactory tax return.

Taxpayers Knowledge of the System

It is very essential that taxpayers are equipped with tax knowledge which enables them to adhere to tax legislation. The tax knowledge is necessary for the purposes of enhancing compliance level and will also assist record keeping in business and also in creating a conducive business which enables the business operators who are compliant to operate freely. It was suggested that business operators could increase their compliance rate if they obtain the relevant tax knowledge and tax education. They also emphasized that the only way to have tax compliance improved among businesses and individuals is through enhancement of tax education and tax implementation among the businesses. Kicher (2013) concluded that the reason why tax compliance rate is low in Africa is due to the lack of adequate tax education and that if it is improved, the compliance rate would also be improved.

Palil & Mustapha (2010) explained that the tax knowledge has a positive impact on compliance. Kassim (2013) also posited that provision of relevant knowledge to taxpayers would result in them meeting their tax obligations as and when due. Some advocated that one of the way in which compliance could be attained would be through the tax authorities conducting public addresses. According to Palil & Mustapha (2010), tax compliance can be enhanced through provision of education to taxpayers making them aware of their social responsibilities thereby influencing them to comply. He further explained that tax compliance is influenced by public co-operation and there are many merits associated in helping taxpayers to meet their tax liability, through making significant improvements to the information provided or providing more tax knowledge to them through, for example TV Campaigns. This equips the taxpayers to become more responsible citizens and can result in an increase in tax revenue which is better than to use the money on enforcement activities.

Tax knowledge has a significant and positive relationship with tax compliance. This means that a high level of tax knowledge will increase voluntary compliance. This result also suggests that tax knowledge and awareness play an important role among taxpayers and affects their level of compliance. Tax knowledge is an effective tool to induce tax payers to be more compliant. Some researchers also mentioned that if taxpayers are equipped with the relevant tax knowledge this will increase their willingness to comply. He concluded that tax compliance can be improved through provision of the relevant tax education and it will reduce the tax inclination to evade taxes. Palil & Mustapha (2010) discovered that tax knowledge affects tax compliance positively, but however the level of tax knowledge significantly among respondents. Therefore, taking more measures to provide tax knowledge to a greater part of the society assists in the prevention of thetax evasion and results in the promotion of voluntary tax compliance. Conversely, poorer tax knowledge is associated with negative attitude towards taxation and increases tendency to evade tax. Tax knowledge usually relates to the taxpayers' ability to comprehend and comply or not with tax laws.

According to certain economists, tax knowledge can be divided into two elements which are the general degree of fiscal knowledge and the specific degree of fiscal knowledge in relation to opportunities of tax evasion. They also emphasized that through the enhancement of the general tax knowledge, attitudes of the taxpayers are improved and this results in creation of a positive attitude towards tax which results in enhancing tax compliance. Making the taxpayers aware of the ways in which they can manipulate tax legislation will have an adverse effect on tax compliance because it helps in increasing the level of non-compliance. Some explained that tax knowledge in general has a significant impact on complying with the tax legislation and this brings about a positive association between tax knowledge and tax compliance.

Economists discovered that adherence to tax policies was higher in groups with people who are well equipped with tax knowledge and knowledge on taxation has a greater impact on tax compliance. Therefore, he concluded that as a result of adequate tax knowledge, knowledgeable tax payers are the ones who file their tax returns on time rather than the uneducated taxpayers. According to some researchers, tax knowledge has a positive effect on tax compliance. He also stated the importance of having a high level of tax awareness as it would also result in a high level tax compliance rate and vice versa. Therefore, general tax knowledge is very essential as a basis of understanding tax law and regulations to comply with them. The study wishes to understand the taxpayer's knowledge of the tax system as a challenge of the implementation of other alternatives to improve tax compliance of SMEs through SAS.

Tax Payers Understanding Of the Tax Laws

Richardson (2016) explained that it is very important for people to understand tax law, because it shapes their disposition to comply. He also explained that generally, the law is viewed as complex, this results in taxpayers becoming unwilling to try and comprehend the tax legislation. Many people find it difficult to comprehend the messages contained in the tax laws, their better level of comprehension depends on the knowledge that a person has pertaining to the area of tax knowledge (Saad, 2012).

He also explained that people with a high level of qualifications in general are able to interpret the tax legislation in a better way and this influences tax knowledge positively. He further explained that the result of being unable to comprehend tax law eventually leads to non-compliance among taxpayers. Therefore, he concluded that taxation authorities should endeavour to simplify tax laws through rewriting tax legislations into language that can be easily understood by taxpayers. Complexity of the tax legislation poses a challenge through the creation of uncertainty in interpreting tax legislation resulting in high tax compliance level.

It was concluded that the level of tax compliance can be affected when taxpayers are unaware of the number of non-compliance acts to be detected by the relevant tax authorities in carrying out their tax audits. Due to lack of adequate tax knowledge, most business operators and other tax payers make use of tax consultants and lawyers in preparing their tax returns.

This results in high compliance costs which may deter taxpayers from complying. Therefore, equipping taxpayers with tax knowledge will reduce the non-compliance level and result in more taxpayers being compliant. Inadequate tax knowledge and the uncertainty of tax laws results in taxpayers applying wrong tax provisions in preparation of their returns. Some mentioned that if taxpayers are equipped with the relevant tax knowledge this will increase their willingness to comply. He concluded that tax compliance can be improved through provision of the relevant tax education and it will reduce the tax inclination to evade taxes. The study wishes to assess the understanding of tax laws as a challenge of the implementation of other alternatives to improve tax compliance of SMEs through SAS.

ROLE OF THE SAS ON COMPLIANCE LEVELS

Modern tax administrations seek to optimize tax collections while minimizing administration costs and taxpayer compliance costs. Experience shows that voluntary compliance is best achieved through a system of self-assessment. Many tax administrations have introduced self-assessment principles in the income tax law but the legal authority is not being consistently applied. They continue to rely heavily on “desk” auditing a majority of tax returns, while risk management practices remain largely underdeveloped and/or underutilized

CONCLUSION

The self-assessment system requires constant education of taxpayers, as there are always new emerging laws and revision of tax legislation. Other factors that affect SMEs in compliance are the speculations of corruption within those charged with governance on the use of tax monies, the lack of transparency on public sector funds raises a negative attitude towards tax Hendy (2013). Other issues that affect SMEs on complying through SAS are complexity of the tax legislation and as previously stated the economic environment is a probable cause for tax evasion. The complexity of tax legislation has caused SMEs to fail in the application of exemptions and other benefits such as capital allowances, wear and tear and allowable deductions. The control on corruption within TCWG can instil a positive view on SMEs. A tax incentive grant to SMEs encourages a positive attitude towards tax and encourages SME growth. Public funds transparency is also to be considered. The SMEs wish to have their own tax base other than that of the big firms and are in view that hindrances to compliance are caused by the high marginal tax rate for small companies with a small area to apportion the compliance costs. The Seeking of professional help also increases tax compliance among taxpayers.

RECOMMENDATIONS

The following recommendations are suggested to ZIMRA and the Small and Medium Enterprises on possible ways to channel SMEs into compliance and a strong relationship between taxpayer and tax collector.

Moderate Way to Calculate Tax Liability, Submit and File Returns (Digital Tax System)

ZIMRA should implement a user friendly platform to calculate tax and provide help electronically which submits and files returns such as an e-filling service. This helps the taxpayer to get help even off work hours creating an over the internet relationship. An e-filling service improves compliance as documents a filled and filed on line.

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