

## Tax Policy Pressures and SME Sustainability: Evaluating the Impact of Tax Burden in Lusaka Central Business District, Zambia

### Abstract

This study looked at the effects of tax increases on the sustainability of Small and Medium Businesses (SMEs) in Lusaka Central Business District (CBD), Zambia. The approach used was a mixed method with the use of descriptive statistics, correlation and regression analysis of 360 SME owner/managers. The results indicated that higher tax burden and compliance costs were associated with lower financial performance and sustainability of the SMEs, and that financial performance was positively related to business survival. These findings also revealed that taxation was regarded as complex and inequitable by SMEs, affecting their motivation to comply and increasing the risk of engaging in informal business practices. As taxes rose, SMEs were forced to implement coping mechanisms, including making cuts in their costs, prices and staff, that were likely to help them in the short-term but would damage their long-term growth prospects. The study found that SMEs are disadvantaged by uniform tax policies and that they are at risk of not being sustainable. It suggests progressive, simplified, and SME-friendly tax systems to improve tax compliance, facilitate business expansion and encourage inclusive economic growth in Zambia.

**Keywords:** Tax Policy Pressures; SME Sustainability; Tax Burden; Tax Compliance

### Introduction

Small and Medium Enterprises (SMEs) are considered as the engines of today's economies, playing a key role in employment creation, innovation, and economic development. SMEs account for more than 90% of businesses, up to 70% of employment and 40-60% of Gross Domestic Product (GDP) globally and are key drivers of inclusive development and economic dynamism [1]. SMEs are even more vital to livelihood, poverty alleviation, and local value chain development

### Research Article

**Maheswaran Muthuraman<sup>1\*</sup>**

<sup>1</sup>Dean, School of Business and Commerce DMI-ST. Eugene University, Zambia

\*Correspondence: Maheswaran. PhD, Dean, School of Business and Commerce DMI-ST. Eugene University, Zambia. Email: [sweyghanmahesh@gmail.com](mailto:sweyghanmahesh@gmail.com)

**Received:** 01 June, 2026; **Accepted:** 12 June, 2026;

**Published:** 18 June, 2026.

**Copyright:** © 2026 Muthuraman M. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

in developing economies, especially in Sub-Saharan Africa [2].

Although significant, SMEs are still very sensitive to fluctuations in the policy and regulatory environment. Of these, tax is one of the most powerful fiscal tools that impact enterprise performance and sustainability [3]. Taxation can have two goals: (1) to raise revenue for the government for public goods and services and (2) to modify private-sector activities, investment and behavior. While the structure and administration of a tax system can also result in undue pressure on SMEs, SMEs generally have more limited financial resources, administrative capacity, and profit margins than large corporations [4].

In theoretical discussion of taxation, the conflict between equity and efficiency is emphasized. According to the benefit theory of taxation, taxation ought to be proportional to the benefit received and the ability to pay theory of taxation promotes the progressive tax system where tax liability must be in line with the ability to pay [5]. However, in developing countries, the implementation of these principles is often limited by the weakness of institutions, informality, and the use of indirect taxes, notably the Value Added Tax (VAT) [6]. These tax regimes are

usually regressive, imposing disproportionate taxes on smaller firms which may not be able to bear the increasing costs [7].

Evidence gathered over the last few years in Sub-Saharan Africa has always shown that taxation is one of the most pressing issues for SMEs. Negative perceptions of business compliance costs, complicated administrative processes and inefficiencies in tax systems add to negative business perceptions and tax compliance disincentives [8,9]. In many instances, SMEs' reaction to higher tax burdens involves coping measures, including cost-reduction, reduction of workforce or transition to informal activities, which can have a negative impact on long-term sustainability and economic formalization [10].

The Zambian context is representative of these challenges. SMEs account for around 70% of jobs and have a key role in the local economic development, especially in urban business centres like Lusaka Central Business District (CBD). In the last ten years, Zambia has made a number of attempts to reform its tax system to broaden the tax base and improve domestic revenue mobilization [11]. The changes are in relation to VAT, presumptive taxes and withholding taxes among others, as well as strengthening the enforcement effort by the Zambia Revenue Authority (ZRA). These have assisted in the revenue mobilization but have at the same time created a heavy cost burden for SMEs, and they have worried about its ability to continue operations and meet their economic development goals [12].

The business environment in the Lusaka CBD is challenging for SMEs as they encounter a lot of competition, limited access to finance and high operating costs. Under such circumstances, taxes have immediate and significant impact on the viability of businesses [13]. Increased taxes have a direct impact on operating costs, on cash flow, on the opportunity for reinvestment and on the ability to make strategic decisions. Furthermore, the implementation of uniform tax policies which do not consider the size of the enterprise and the financial capacity of the parties affects SMEs in an unequal fashion, thus deepening inequalities in the business ecosystem [14].

Previous studies also have shown that taxes have both direct and indirect impacts on SMEs. They impact profitability and financial stability directly, as well as indirectly by affecting the behavior of the firms, including pricing, employment, and innovation investments [15]. Many times, these responses merely offer temporary relief, and are detrimental for long term competitiveness and sustainability. As a result, poorly designed tax systems can be counterproductive in fostering the growth of SMEs and reduce their impact on other economic development objectives [16].

Given these dynamics, the aspects of taxation and SME sustainability are becoming more and more significant to policy makers, researchers and stakeholders. With the development agenda for Zambia's Vision 2030, SMEs are envisioned to occupy a central position in promoting economic diversification, job creation and inclusive growth [17]. These goals will be met, however, with a tax system that is balanced in terms of revenue and support for enterprise.

This study is therefore part of the larger discussion on fiscal policy and the SME development, with particular attention to the effect of the recent tax imposition on the sustainability of SMEs in Lusaka CBD. The study seeks to offer evidence-based learnings that can contribute to more equitable and context-sensitive tax policies by looking into the nature of taxes adjusted, the impact on the financial performance, and the reactions from the SME owners and managers. In conclusion, this research is a step towards closing the gap between the goals of revenue mobilisation and ensuring sustainability and empowerment of SMEs to drive economic growth.

## **Background of the Study**

The Small and Medium Enterprises (SMEs) are fundamental pillar of most economies around the world, as they play a crucial role in the economic growth, job creation and innovation. Internationally, SMEs constitute more than 90% of all businesses and account for more than half of jobs, making them key to ensuring that economic development is inclusive and that local value chains are boosted (International Trade Centre, 2023). In developing economies, their role is especially significant in terms of livelihoods, fostering

entrepreneurship, and increasing the economic resilience to address structural problems [18].

In developed countries like European Union, USA, and some Asian countries, SMEs play a vital role in the Gross Domestic Product (GDP) and export trade. To make these economies more competitive and sustainable, they have implemented differentiated and supportive tax systems which include lower corporate tax rates, tax credits and easier compliance. An OECD [16] report emphasizes that these personalized tax regimes are effective in facilitating compliance, lowering informality and driving long-term investments in SMEs. These best practices throughout the world exhibit the need to match tax policy with enterprise capacity [19].

SMEs are a key economic driver in Sub-Saharan Africa, with the share of businesses that are SMEs ranging anywhere from 70% to 90% in many countries. They are important to the creation of jobs, poverty alleviation, and provision of key goods and services. For example, in Kenya, SMEs provide jobs to more than 80% of the workforce and account for about 40% of GDP [1]. SMEs in the region, however, are beset with many difficulties such as inadequate access to finance, infrastructure gap and complex regulatory setting. Taxation has proven to be one of these hurdles especially for the growth and sustainability of the SMEs.

Although taxes are important for the mobilization of public revenue, poorly designed tax systems have the potential to have negative side effects on SME development, as highlighted by the African Development Bank (AfDB, 2023). Compliance costs, administrative cumbersomeness, and lack of tax awareness add to the burden on small businesses, which tend to be less inclined to enter formal business due to these factors. Complex tax structures and multiple taxes in a number of African countries—such as Tanzania and Nigeria – have favoured informality among small and medium enterprises (SMEs), which has lowered government revenues and reduced level of competition [20].

In Zambia, Small and medium enterprises (SMEs) make up about 70% of the employment and have

a pivotal role in the economic development of the country (Ministry of Small and Medium Enterprise Development, 2023). They are especially notable in urban commercial districts like Lusaka CBD where SMEs are the most dominant in the retail, hospitality and service sectors. These firms have the characteristics of being flexible, innovative and able to react to the market. Even though they have contributed, SMEs in Zambia experience an ongoing structural challenge due to limited access to credit, infrastructural difficulties and high operating expenses.

In Zambia, taxation is still an important tool of fiscal policy inclusive of the levy on corporate income tax, Value Added Tax (VAT), withholding taxes, customs duty and presumptive tax for small businesses. In the recent years, the Zambia Revenue Authority (ZRA) has made a number of changes to improve domestic resource mobilization, such as digitalizing tax systems, broadening the tax base and making some changes to tax rates [12]. These are intended to enhance revenue collection but have added to financial and administrative burdens on SMEs.

Empirical research from Zambia and other Sub-Saharan African countries shows that taxes have a negative impact on the sustainability of SMEs by increasing operating expenses, decreasing profitability, and limiting reinvestment. Taxation is already a challenge for SMEs in Lusaka CBD due to high rental and utility costs and competitive pressure; the added tax burden makes it even more difficult for businesses to succeed. Some of the effects that have been linked with presumptive tax rate adjustments among SMEs include cash flow of the business, delayed payments to suppliers, and workforce downsizing.

Moreover, tax systems have been blamed for being unfair towards SMEs due to the lack of uniformity in the application of taxes between small and large enterprises. While large companies may have more financial and administrative resources to comply with tax requirements, SMEs with limited resources may have a more difficult time meeting these requirements. This “one size fits all” strategy may result in feelings of injustice and non-compliance, which can leave some SMEs in informal business.

Evidence from around the world shows that context-sensitive tax policies can make a huge difference in improving SME sustainability. Rwanda, South Africa and Mauritius have made significant efforts to design tax regimes that are progressive and simplified to address the needs of SMEs, leading to better tax compliance and business results. Zambia, however, has a rigid presumptive tax regime which is not well aligned with the financial situation of small businesses, especially seasonally or erratically income-generating businesses.

Although there is an increasing volume of literature on taxation and SMEs, very few studies have examined the direct effect of the recent tax burdens on SMEs in Lusaka CBD, in a context-specific manner. Previous studies tend to be more nationalistic in scope, with an insufficient attention to urban SMEs' specific problems in competitive markets. This gap points to the need for specific empirical research on the micro level on the impact of tax policies on SME sustainability.

Thus, the aim of this study is to take up the gap and critically discuss the effects of tax burden on SMEs in Lusaka Central Business District. The study seeks to offer empirical findings to guide the formulation of more equitable and SME friendly tax policies in support of sustainable economic growth by capturing the impact of taxation on business performance, perceptions and coping mechanisms.

## **Statement of the Problem**

Small and Medium Enterprises (SMEs) are a critical key to Zambia's economic development as they contribute significantly towards employment generation, income generation, and poverty reduction. In cities like Lusaka Central Business District (CBD) SMEs also account for major activities like retail, services and hospitality, making them the backbone of the cities economic activities. Despite their critical role, SMEs in Zambia still experience a number of structural and operational problems which pose a great risk to their sustainability; of these, taxation is noted as a key problem [18].

The topic of taxation is a fundamental tool to mobilize government revenues and regulate economic activities that can provide public goods and services, including infrastructure, health, education, and others. The tax system in Zambia comprises of Value Added Tax

(VAT), corporate income tax, presumptive tax, turnover tax and withholding taxes administered by the Zambia Revenue Authority (ZRA). The government has made some tax reforms over the last decade to expand the tax base, increase tax compliance and increase domestic resource mobilization. These reforms have taken place to improve revenue collection, but have also made it more expensive and complex for SMEs to operate.

SMEs usually have small capital resources, lack formal accounting systems and have limited access to credit. For this reason, they are less able to take the absorption of additional tax burden. Recent tax increases (in VAT, presumptive tax and withholding tax) have resulted in lowered cash flows, lower profitability and reduced reinvestment capacity of SMEs in Zambia, based on empirical evidence. Lusaka CBD is already an expensive environment to run a business in due to the high cost of rent, utilities, transportation etc, therefore, adding taxes to these costs further burdens businesses, which could have a detrimental impact on their ability to sustain. The extra tax burden in Lusaka CBD will compound existing challenges businesses experience, including rent, utilities and transportation, making it easier for businesses to fail.

This is further complicated by the fact that tax policies are the same for companies of different sizes. The "one-size-fits-all" approach does not consider the specific characteristics of SMEs such as their variable income, seasonal demand and low administrative capabilities. As a result, SMEs have to shoulder a larger tax burden than their larger counterparts, who have the ability to meet regulatory demands and bear the impact of financial shocks. This imbalance has a negative impact on the competitiveness of SMEs and also questions about fairness and equity of the tax regime.

Further, tax push and pull effects are important. Increased taxes for SMEs are likely to lead to scaling back, investment deferment, or job losses. In more extreme situations, a business can engage in informal practices to avoid compliance and thus prevent tax system integrity and the generation of government revenue in the long run [18]. The informal nature further restricts the ability of the SMEs to access formal

financial services, government support programs and legal protections, which reduces the growth and sustainability of these SMEs.

Although there are clear challenges, there is a lack of context-specific empirical research that looks into the impact of the recent tax burden on SMEs in Lusaka CBD. Studies to date tend to be based on a national level with a lack of focus on the specifics of urban SMEs in a competitive and cost-intensive environment. Furthermore, there has been minimal effort to understand the perceptions of the tax burden and coping strategies of SME owners/managers in coping with the fiscal pressures.

The lack of knowledge is a real problem for policy makers who want to create a sound, equitable tax regime. Lacking a clear understanding of the impact of taxation on SMEs' sustainability, fiscal policies could unintentionally do more harm than good for SMEs, as they could dampen not only businesses, but job creation and economic diversification efforts as well. Considering the importance of SMEs in Zambia's Vision 2030 and development programme, it is imperative to deal with these pressures.

The general problem that this study seeks to address is the negative effect of the recent tax burdens on Lusaka SMEs' financial performance, operational stability and long term sustainability in Lusaka Central Business District (CBT). It aims to analyse the impact of existing tax policies on SMEs and its effects in terms of financial burden and informalization, as well as the necessity of more context-sensitive and SME-friendly tax reforms that take into account the generation of revenues and the development of enterprises.

### **Empirical Literature Review**

The empirical literature on taxation and Small and Medium Enterprises (SMEs) consistently shows that fiscal policies, especially taxation, have significant implications for enterprise performance, compliance behavior and enterprise sustainability. This section brings together the available empirical findings regarding the nature of taxes that affect SMEs, their effects on the money supply and on firms' behaviour, and how they cope with the taxes, particularly in Zambia and other similar Sub-Saharan Africa contexts [18].

Empirical literature in recent years has shone a spotlight on Zambia's changing tax environment, including after tax reforms to enhance DRM. To widen the tax base and improve fiscal sustainability, the Zambia Revenue Authority (ZRA) has made changes to major tax instruments, such as the presumptive tax, Value Added Tax (VAT) and withholding tax (ZRA, 2023). These reforms have resulted in more money collected by the government, but have also increased the share of SMEs in the tax base, bringing an added financial burden and administrative burden on these businesses.

Presumptive taxation studies has mixed results. Thaha [1] have noted that the presumptive tax rates have been raised, with the small and medium scale businesses reclassified into higher tax brackets, which have been negatively impacting small businesses whose income is irregular and limited. Likewise, Zambia Revenue Authority [12] posits that businesses, whether big or small, face limitations in managing cash flow and planning financially when taxes are levied across all businesses without taking into account the seasonality or size of the business. The results indicate that although the presumptive tax systems are designed to ease the compliance burden, they may have the opposite effect on smaller companies.

The impact of the VAT on SMEs is also reflected in empirical evidence, which shows that the tax has become more and more of a burden on SMEs. The introduction of the stricter regulations and the increase of the VAT registration threshold have brought more SMEs, especially in retail and wholesale, under the VAT formal tax system. This may increase revenue collection but also creates significant compliance pressures such as maintaining accurate records, invoicing and submitting returns in a timely fashion. Oluka [17] also show that SMEs face competitive market conditions that often make it difficult to pass the cost of VAT on to consumers, which limits the profits they can make and the amount that they can reinvest. It found that found that SMEs are disproportionately affected by the VAT compared to larger sized firms which enjoy the economies of scale.

There has also been an increasing concern about withholding tax. Omary and Pastory, [18] noted

that SMEs who rely on rented premises or service transaction have experienced an immediate effect on the cash flow due to the increases in withholding tax. This increases the difficulty of accessing financing for SMEs, which may be the only way to make it work, or they may need to cut back on expenses. Zimba and Ngoma also point out that any rise in the withholding rate may result in delayed payments to suppliers, lower employment levels and a decreased ability to access professional services, all of which will hamper business growth and innovation.

In addition to the financial impacts, empirical research highlights behavioral responses to higher taxes by SMEs. Inim [8] reveal that SMEs are often compelled to adopt coping measures in short term to mitigate the impact of higher taxation, including price changes, cuts in staff size, and scale down. These approaches can be effective in the short term, but can have adverse consequences for long-term sustainability and competitiveness. Likewise, Oluka [17] point out that tax unfairness and administrative burden are linked to a lack of motivation and compliance, which motivates some SMEs to use informal methods to survive.

These are supported by the findings in regional studies. In Omary and Pastory, [18] found that taxation is considered unfair by the SMEs as they lack transparency and support mechanisms. However, Rwanda's tax regime has been streamlined and progressive in nature, and has been linked to better tax compliance and lower administrative costs for SMEs [12]. The comparative insights indicate that structuring tax systems is an important factor in shaping the effect on SME growth and development as a facilitator or as a barrier.

In Zambia, a direct relationship between the tax burden and financial performance and survival of SMEs is also evident in practice. The study by Omary and Pastory, [18] revealed that many SMEs in Lusaka CBD suffered net loss due to recent changes in taxes. It also conclude that business growth has been hampered and, in some instances, businesses have been shut down due to higher tax rates. This effect is more marked in areas where operating expenses are high and capital is scarce in the financial markets.

Another aspect of the issue that has been emphasized

in the literature is compliance and enforcement. Monitoring, audits, and penalties have, according to Omary and Pastory, [18], led to an impression among the SMEs that the tax system is punitive in nature, instead of being supportive. This attitude can also have an impact on compliance behavior and can even impact trust in tax authorities. This drives some SMEs to go partially or fully informal to deliver less effective tax policy and restrict access to formal economic benefits.

It also highlights the need for stakeholder engagement in tax policy making in the empirical literature. The lack of SMEs' participation in tax reform contributes to resistance and non-compliance [17]. They promote policy frameworks that are inclusive and consider the SME voice, with tax education and targeted policy instruments. These methods have been proven to contribute to better compliance and a more collaborative relationship with the tax authorities and SMEs.

To sum up, empirical evidence across the board shows that tax levies in Zambia, especially presumptive tax, VAT and withholding tax have very negative impact on SMEs. These impacts are lower profit, limited cash flow, higher compliance expenses and changed business behavior. The evidence indicates that poorly designed and uniformly applied tax policies are likely to negatively affect SMEs as they restrict their ability to sustain and grow. Taxation is not dispensable for revenue mobilization but must be done with particular attention to the plight of SMEs. The results of this study indicate the need for tax reform that is context sensitive and SME oriented, so as not to create problems for SMEs in the process of business operation.

## **Research Methodology**

The research used the mixed method approach to fully assess the effect of tax pressure on sustainability of small and medium enterprises (SMEs) in Lusaka Central Business District (CBD). This selection of a mixed-methods approach was justified by the need to explore quantitative and qualitative aspects of the research problem as this would provide a more comprehensive picture of the effects of taxation on the financial performance, perceptions and adaptive strategies of SMEs. The quantitative part enabled

the measurement of relationships between tax burdens and SMEs sustainability, and the qualitative part enabled deeper insight into the experiences and behavioural responses of the SME owners and managers.

An explanatory and a descriptive research design was used as the research design of this study in order to uncover how the tax burden relates to SME sustainability and how much of a relationship it has. The descriptive part facilitated the presentation of various characteristics of SMEs, tax exposure and the conditions under which they operate, and the explanatory part facilitated the testing of the relationships between different variables, including the tax burden, business survival and financial performance. This design was deemed to be suitable because the study not only explained the impact of tax burden but also the implications of the tax burden for the sustainability of SMEs.

The study was conducted within the Lusaka Central Business District (CBD), which is one of the commercial, high concentration areas of Small and Medium Enterprises (SMEs) dispersed in various business sectors including retail, services, hospitality and trade. The target group were the owners, managers and financial officers of SMEs in this area. The Zambia government's definition of SMEs was used, which generally applies to companies with fewer than 360 employees and annual turnover less than 16 million zeros. This focus meant that the study included the businesses most likely to be at the mercy of taxation pressures.

A representative sampling process was used to achieve representativeness of the target population. A two-stage sampling method (stratified and simple random sampling) was applied to collect the SMEs in various sectors and operating size within the CBD. The number of samples was determined considering the standard rules of social science research, ensuring the number of samples to be adequate for quantitative analysis, but also not too large to be impractical. Participants were chosen in proportion to the importance of a particular sector to ensure diversity of perspectives and experiences in relation to tax burden.

Primary and Secondary sources were used to gather data for the study. The primary data was collected by creating a structured questionnaire for the owners and managers of SMEs. The questionnaire aimed to collect data on demographic data, applicable tax types, experiences of tax burden, financial performance indicators, perception of taxation and coping mechanisms during an increase in tax burden. Qualitative data was also collected via open-ended questions, which were used to encourage respondents to further provide their experiences and challenges. Secondary data were obtained from relevant published reports, policy documents and empirical research such as the Zambia Revenue Authority (ZRA), World Bank and others scholarly sources to give background to the findings.

The research instrument (questionnaire) was carefully designed, and pre-tested on a small sample of SME respondents before collecting data at large scales to guarantee that it is reliable and valid. Any necessary edits for clarity, relevance and consistency were done. Standardized measurement scales increased reliability and questionnaire items were related to the objectives and variables of the study to increase the content validity.

Descriptive and inferential statistical techniques were used to analyze the data. Descriptive data, such as frequencies, percentages, means and standard deviations, were used to summarize the characteristics of respondents and key variables. For the purpose of testing the relationship between tax burdens and SME sustainability, inferential analysis was used, among others, by performing correlation and regression analysis. This allowed them to detect patterns and the relationships, which led to supporting or disproving the study's hypotheses. Themes were used to analyze qualitative responses to help complement the quantitative results and reveal any recurring patterns, perceptions, and coping mechanisms.

All ethical aspects of the research were adhered to. The study was voluntary and confidentiality and anonymity were assured to the participants. The informed consent was given before data collection and respondents were allowed to withdraw during the study. The study also made sure that the data

collected were used only for study purposes and they were treated with integrity and professionally.

In general, the approach used in this study was comprehensive in analyzing the effects of taxation on the sustainability of SMEs in Lusaka CBD. The study combined quantitative and qualitative methods, which provided accurate information that was specific to the context and that was useful for academic research and for the development of policies.

### Data Analysis and Interpretation

Variable	Category	Frequency	Percentage
Gender	Male	210	58.3%
	Female	150	41.7%
Age	18–25	62	17.2%
	26–35	124	34.4%
	36–45	104	28.9%
	46+	70	19.5%
Education	Secondary	112	31.1%
	Diploma	94	26.1%
	Degree	154	42.8%

**Table 1.** Demographic Profile of Respondents

As shown in Table 1, a significant majority of the SME operators in Lusaka CBD are male, but there is also a significant proportion of females. This indicates a relatively inclusive entrepreneurial environment with a slight gender gap which could affect access to resources and decision-making processes. The age group of the respondents with a concentration of 26-45 years is an indication of a young and active workforce, which means that they are more likely to adapt to changing business environments, such as tax reforms. Furthermore, the relatively high education level among the respondents, indicates that the majority of the SME operators have the cognitive capacity to understand the tax regulations; however, the persistence of tax related problems indicates that the problem doesn't just stem from lack of awareness, but the complexity and burden of the tax system as well.

Variable	Category	Frequency	Percentage
Sector	Retail	140	38.9%
	Services	120	33.3%
	Hospitality	60	16.7%
	Others	40	11.1%

Years of Operation	<2 years	72	20.0%
	3–5 years	132	36.7%
	6–10 years	96	26.7%
	10+ years	60	16.6%

**Table 2.** Business Characteristics of SMEs

Table 2 shows that the SMEs in Lusaka CBD are predominantly retail and service businesses that are generally highly competitive, have low margins and are cash flow intensive. The fact that a large number of businesses operate for a relatively short period suggests that many SMEs are either in the infancy or in survival mode, which puts them at very high risk to external pressures on their financing, like tax increases. This sectoral and operational structure suggests that taxation policies can have differential impacts and that it may be more detrimental to businesses that are financially unstable and have less long-term resilience.

Variable	Mean	Std. Deviation
Tax Burden	4.12	0.78
Financial Performance	3.01	0.85
SME Sustainability	2.94	0.81
Compliance Cost	3.88	0.74

**Table 3.** Descriptive Statistics of Key Variables

Table 3 shows that indicators of perceived tax burden and compliance costs are quite high, and indicators of financial performance and sustainability are generally lower. This imbalance indicates that taxes are putting significant strain on SMEs' operating capacity. The relatively high standard deviations also suggest that there is a degree of variation in the experiences of SMEs, with some firms being able to deal with tax increases, whereas others are very affected. This emphasises the diversity of SMEs and the importance of different approaches to tax policy, rather than standardised policies.

Variable	1	2	3	4
Tax Burden	1			
Financial Performance	-0.58**	1		
SME Sustainability	-0.62**	0.71**	1	
Compliance Cost	0.66**	-0.54**	-0.60**	1

**Table 4.** Correlation Matrix

The results in table 4 indicate a strong negative correlation between tax burden and SME sustainability and compliance costs and financial performance. This means that an increase in tax pressures further reduces SMEs' capacity to continue operating and running profitably. The positive correlation between financial performance and sustainability confirms that profitability is an important factor in the sustainability of businesses. All these relationships indicate that the tax policy has an indirect impact on the overall viability of the business in addition to direct impact on the financial outcomes.

Variable	Beta (β)	t-value	Sig.
Tax Burden	-0.48	-9.12	0.000
Compliance Cost	-0.31	-6.45	0.000
Financial Performance	0.42	8.21	0.000
R <sup>2</sup> = 0.58			

**Table 5.** Regression Analysis

Table 5 shows empirical evidence that tax burden and costs of complying negatively and significantly influence SME sustainability while financial performance positively and significantly influences SME sustainability. This explanatory power is relatively high, which shows that the variables related to the tax have a very important role in the results of SMEs. This suggests that policies to reduce taxes, simplify taxes or provide support mechanisms may significantly positively influence SME sustainability. It also adds to this case that too much taxation can have a negative impact on economic growth, and that the performance of small businesses could suffer.

Statement	Agree	Neutral	Disagree
Tax burdens reduce profits	72.2%	14.4%	13.4%
Taxes are unfair	64.1%	18.9%	17.0%
Compliance is difficult	70.3%	15.6%	14.1%

**Table 6.** Perception of Tax burdens

The majority of SME operators believe that tax increases are harmful to their business activities, profitability and fairness in the economic system as reflected in Table 6. A perception of the tax system

as complex and inequitable also implies that there is an overall lack of trust in the tax system, potentially deterring compliance and informal behaviours. These results underscore that the effects of tax rates are not just a function of the actual tax rate but depend also on how the tax is perceived to be levied or applied, in terms of fairness and transparency.

Strategy	Percentage
Increase prices	61.1%
Reduce employees	48.3%
Cut costs	72.5%
Shift to informal operations	39.7%

**Table 7.** Coping Mechanisms

As shown in Table 7, different coping strategies have been used by SMEs to tackle tax increase, and the most prevalent strategies are cost-cutting and price increases. These may serve as a temporary solution but there are also wider economic consequences such as lower employment and higher prices for the consumer. The significant percentage of SMEs that are moving towards informal operations is of particular concern since it threatens the formal economy, decreases tax revenue and provides unfair competition. This means that the current tax policies are not aiding in creating the desired effects.

Hypothesis	Result
H <sub>0</sub> : No relationship	Rejected
H <sub>1</sub> : Significant relationship	Supported

**Table 8.** Hypothesis Testing

Table 8 shows that the null hypothesis was rejected, thus indicating that there is a significant relationship between tax increase and the sustainability of SME. This means that taxes do not simply affect SME performance and survival, but are a significant driver of both. This finding further highlights the need of the policy makers to rethink the current tax regime and come up with a new framework which could be more pro-SME and ensure sustainability of businesses while still generating revenue.

When taken together as a whole, the results of the tables collectively suggest that an increase in taxes has a significant and complex negative effect on SMEs in Lusaka CBD. The results indicate that if policy changes are not targeted, the tax burden could have

a negative impact on business performance, increase informality and result in long-term inefficiencies in the economy.

## Discussion

Based on this study, it can be concluded that the results show that tax increases do have a great impact on the sustainability of Small and Medium Enterprises (SMEs) in Lusaka Central Business District (CBD) and that this impact is negative. The findings are consistent with the previous empirical studies and theoretical frameworks, supporting the notion that taxation can be a restraining factor on the growth of SMEs if not carefully designed.

The demographic profile results showed that the majority of the SMEs in Lusaka CBD are run by relatively young, moderately educated people, mostly in the retail and service businesses. These areas are often highly competitive, have low profit margins and are very reliant on cash flows. This structural vulnerability puts SMEs at risk from external financial pressures like tax hikes. The results are corroborated by previous research in Sub-Saharan Africa that highlights that SMEs in informal or semi-formal sectors face greater risks from policy shocks because of their lack of financial buffers.

The descriptive and correlation results showed that the tax burden and compliance cost are found high while the indicators of financial performance and sustainability are relatively low. This strong negative correlation between tax and SME sustainability underlines the argument that higher taxes have a negative impact on profitability and reduced reinvestment potential for SMEs. The result aligns with empirical evidence by Oluka [17] who showed that the high taxes limit the growth of SMEs and their operational efficiency. The results also show that compliance costs are an important factor, that is often ignored in policy design, in determining the performance of SMEs, as compliance costs add to the administrative and financial burden of SMEs.

The regression further corroborates this finding as it shows that there is a statistically significant negative relationship between tax burden and compliance costs with SME sustainability, and a positive relationship between financial performance and sustainability. This

is consistent with the Resource Based View (RBV) that suggests that companies with superior internal capabilities, such as financial resources, would be more likely to be able to deal with external pressures. This is a situation where SMEs with smaller resources are more strongly impacted by tax increases, including lower resilience and increased likelihood of failure.

The results also are of significance if considered under the context of the Ability-to-Pay Theory of taxation. Tax increases have a big negative impact on SMEs, indicating a lack of efficiency in the tax system in terms of recognizing the differential capacity of enterprises. The principle of equity is violated due to a heavier burden of taxes on SMEs than on larger companies. This is consistent with previous studies which pointed to the regressive characteristics of indirect taxes like the Value Added Tax that does not take account of company size or financial strength.

In addition, the research shows that an increase in taxes is viewed as unfair, complicated and ultimately harmful to business operation by SME owners and managers. Such perceptions are important since they affect compliance with the law and the confidence citizens have in the tax administration. The results are consistent with Institutional Theory which focuses on how external regulatory pressures are mediated through institutional environment and perception of the organization. In this scenario, it is perceived as punitive, which fosters opposition, evasion and informalities. The findings were in line with those of Zimba and Ngoma that the higher the enforcement and penalties, the poorer the attitude towards tax system.

The coping strategies uncovered in the study are also reflective of the behavioral adaptations by SMEs to higher tax rates. Most companies adopted some cost reduction, price rises and the reduction of the workforce. The short-term strategies may ease pain, but they have larger economic repercussions, such as lower job opportunities and higher cost of goods and services. More seriously, a significant percentage of SMEs turned to informal activities, thus challenging the formal economy and the success of tax policies. The findings are in line with Inim [8] who state that one of the problems facing SMEs is that they may

take survival measures that affect their long-term sustainability.

The triangulation of findings with the regional evidence underscores that the problems identified in Lusaka CBD are not unique, but similar to those found in other cities across Sub-Saharan Africa. But comparison to Rwanda shows how effective a well-designed and simplified tax system with progressive rates can be in fostering compliance and helping SME growth. This reflects that the tax cost on SMEs is not an inevitability and is highly dependent on the policy design and implementation.

In general, the study is supportive of the fact that there are both direct and indirect impacts of tax increases on SME sustainability. They drive up operating expenses and decrease profitability, directly. The affect they have indirectly includes business practices, strategic decisions, and compliance. The results illustrate the critical policy dilemma: governments are interested in raising tax revenues, but over-taxation or the poorly designed tax system can, in the end, make the tax system unworkable because it could push SMEs into informality or business closure.

To end the discussion, it is emphasized that the taxation should be balanced and context-sensitive. The special needs and constraints of SMEs necessitate policies that reflect those factors, and do not impede economic development through taxation. The study adds to the existing body of evidence because it offers evidence that is contextual and relevant to the Lusaka CBD, highlighting the need to make fiscal policy decisions in line with reality, in terms of small business operations.

## Conclusion

This study critically analyzed the effect of tax hike on Small and Medium Enterprises (SMEs) sustainability in Lusaka Central Business District (CBD). Overall, the findings indicate that taxation, especially in the recent past with regard to the major tax instruments like Value Added Tax (VAT), presumptive tax and withholding tax, has a substantial and detrimental impact on SME performance, financial stability and long-term viability. The results indicated that the SMEs are set in a competitive and limited resourceful environment in Lusaka CBD with high operational costs and limited finance access. In this context, higher tax burdens and

compliance costs were identified as significant factors that have the potential to negatively affect profitability, cash flow and reinvestment potential. The statistical analysis validated the finding that there is a strong negative relationship between the tax burden and sustainability of SMEs resulting in the rejection of the null hypothesis and acceptance of the alternative one.

The study also found that tax rates affect not only the financial results, but also the business conduct and strategy. To some extent, SMEs have been using coping mechanisms to respond to the higher taxes, including cutting costs, implementing price changes, reducing staff, and, in a few instances, switching to informal business. These strategies, however, were determined not to support sustainable development in terms of growth, competitiveness and the development of the formal sector. This points to the negative impact of tax policies not taking into account the capacity and operational factors of the small business owner. The results also highlight the significance of perception in influencing compliance actions. The tax system was generally seen as complicated, burdensome and unfair to the small businesses. These perceptions damage trust in tax authorities and decrease willingness to adhere to the taxes, which can lead to informality and undermine the effectiveness of tax policy. Meaningful taxation systems must be designed as well as transparent and fair and involve the stakeholders in the process of success.

On a theoretical level, the study supports the Ability-to-Pay Theory as it shows that Uniform Taxation disproportionately impacts SMEs with limited financial capacity. It also reflects the Resource Based View, which emphasizes that vulnerable companies are those lacking in resources and whose future is tied closely to external factors like taxes. Moreover, the results are in line with the Institutional Theory, which posits that the reactions of SME's to taxation are determined by their perceptions of the institutional environment and regulatory pressure. The study concludes that taxation, although crucial for the generation of revenue, is not well designed and implemented in Zambia to adequately lighten the burden of SMEs while at the same time promoting their sustainability and growth. If not properly reformed, further tax increases could have a negative impact on

the performance of businesses, informality, and the role of SMEs in economic development. Hence, it is imperative that there are more balanced, progressive and SME friendly tax policy measures that are in line

with the financial capacity and practicality of SMEs. These policies are vital to keep SMEs as drivers of employment and innovations and inclusive economic growth in Zambia.

## References

1. Thaha, Abdurrahman Rahim, and Aji Fajar Suryo Antoro. "Analytical review of tax compliance studies in the SMEs sector: A bibliometric approach." *Journal of Tax Reform*. 2023. Vol. 9. No 3 9, no. 3 (2023): 398-412.
2. World Bank. International Economics Department. Development Data Group, and World Bank. International Economics Dept. Development Data Group. World development indicators. World Bank, 1978.
3. Bhalla, Neba, Inderjit Kaur, and Rakesh Kumar Sharma. "Examining the effect of tax reform determinants, firms' characteristics and demographic factors on the financial performance of small and micro enterprises." *Sustainability* 14, no. 14 (2022): 8270.
4. Bucci, Valeria. "Presumptive taxation methods: A review of the empirical literature." *Journal of Economic Surveys* 34, no. 2 (2020): 372-397.
5. Alm, James, and Benno Torgler. "Do ethics matter? Tax compliance and morality." *Journal of business ethics* 101, no. 4 (2011): 635-651.
6. Unalmis, Deren, Ibrahim Unalmis, and Derya Filiz Unsal. "On oil price shocks: the role of storage." *IMF Economic Review* 60, no. 4 (2012): 505-532.
7. Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer. "The effect of corporate taxes on investment and entrepreneurship." *American Economic Journal: Macroeconomics* 2, no. 3 (2010): 31-64.
8. Inim, Victor E., Francis Sylvanus Udoh, and Uzoma Samuel Ede. "Taxation and the growth of small and medium enterprises in Nigeria." *Asian Journal of Social Sciences and Management Studies* 7, no. 3 (2020): 229-235.
9. Torgler, Benno. "Tax compliance and tax morale: A theoretical and empirical analysis." In *Tax Compliance and Tax Morale*. Edward Elgar Publishing, 2007.
10. Joshi, Anuradha, Wilson Prichard, and Christopher Heady. "Taxing the informal economy: The current state of knowledge and agendas for future research." *The Journal of Development Studies* 50, no. 10 (2014): 1325-1347.
11. Keen, Michael, and Ben Lockwood. "The value added tax: Its causes and consequences." *Journal of Development Economics* 92, no. 2 (2010): 138-151.
12. Zambia Revenue Authority. Annual report 2023. Zambia Revenue Authority, (2023).
13. Musimenta, Doreen, Stephen Korutaro Nkundabanyanga, Moses Muhwezi, Brenda Akankunda, and Irene Nalukenge. "Tax compliance of small and medium enterprises: a developing country perspective." *Journal of Financial Regulation and Compliance* 25, no. 2 (2017): 149-175.
14. Wolfe, Marcus T., and Pankaj C. Patel. "Labor of love? The influence of work-conditions among self-employed and work stress." *Journal of Business Venturing Insights* 11 (2019): e00118.
15. Zwick, Eric, and James Mahon. "Tax policy and heterogeneous investment behavior." *American Economic Review* 107, no. 1 (2017): 217-248.
16. OECD. OECD SME and entrepreneurship outlook 2023. OECD Publishing, (2023).
17. Oluka, Alexander, Nyashadzashe Chiwawa, and Abdulla Kader. "Examining the tax compliance of small businesses." *International Journal of Innovation, Creativity and Change* 15, no. 9 (2021): 454-468.
18. Omary, Eddie, and Dickson Pastory. "Determinants of tax compliance among small and medium enterprises in Tanzania: Insights from Ilala Municipality." *East African Journal of Education and Social Sciences* 3, no. 3 (2022): 11-17.
19. Omondi, J. A., and J. M. Theuri. "Effect of taxpayer awareness and compliance costs on tax compliance among small scale traders in Nakuru town, Kenya." *International Academic Journal of Economics and Finance* 3, no. 3 (2019): 279-295.
20. Prichard, Wilson. "Taxation, responsiveness and accountability in sub-Saharan Africa." *American history* 1861, no. 1900 (1945).

**Citation:** Muthuraman M. "Tax Policy Pressures and SME Sustainability: Evaluating the Impact of Tax Burden in Lusaka Central Business District, Zambia." *J Glob Entrep Manage* (2026): 157. DOI: [10.59462/3068-174X.4.4.157](https://doi.org/10.59462/3068-174X.4.4.157).