

Title

**ASSESSING THE EFFECTS OF TAX RATES ON THE ECONOMIC GROWTH OF  
SMALL-SCALE BUSINESSES IN SALIMA (A CASE STUDY OF EXIPA FRESH  
FOODS)**

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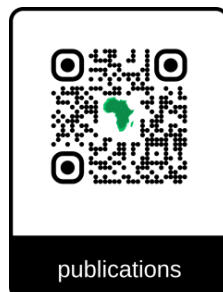
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## ABSTRACT

This study assesses the effects of tax rates on the economic growth of small-scale businesses in Malawi. Small-scale enterprises play a crucial role in the country's economy by creating employment, generating income, and contributing to overall economic development. However, taxation remains one of the major challenges affecting their performance and sustainability. The study aims to examine how different tax rates influence business growth, profitability, and compliance among small-scale enterprises. A quantitative research approach will be adopted, using structured questionnaires to collect data from selected small-scale business owners. The study will also utilize secondary data from government reports and relevant literature to support the analysis. Key variables to be examined include tax rates, business revenue, operating costs, and growth indicators such as expansion and employment levels. The findings are expected to reveal that high tax rates negatively affect the growth of small-scale businesses by reducing their profitability and limiting their ability to reinvest in their operations. Additionally, excessive taxation may encourage tax evasion and informality, which further hinders economic development. On the other hand, moderate and well-structured tax systems can promote compliance and support business growth by creating a favorable operating environment. The study will provide recommendations to policymakers on designing tax policies that balance revenue generation with the growth needs of small businesses. It will also highlight the importance of tax education and simplified tax procedures to improve compliance. Ultimately, this research contributes to a better understanding of how taxation impacts small-scale businesses and offers insights into fostering sustainable economic growth in Malawi.

**KEYWORDS:** Economic growth, Tax rates, business performance, Economic Policies, Small Scale Business

## INTRODUCTION

Taxation played a critical role in national development by generating revenue needed for public services, infrastructure, and governance. However, for small-scale businesses in developing economies such as Malawi, the tax system could be both a facilitator and a constraint to economic growth. Small-scale businesses were essential to the Malawian economy, contributing significantly to employment creation, poverty alleviation, and grassroots economic activities.

This study sought to assess the effects of tax rates on the economic growth of small-scale businesses in Malawi. By examining the relationship between tax policy and business performance, the research aimed to provide insights into how taxation could be optimized to support the development of this vital sector. Understanding this relationship was critical in designing tax policies that not only ensured government revenue but also promoted the flourishing of small enterprises.

## BACKGROUND OF THE STUDY

Small-scale businesses were widely recognized as engines of economic growth and development, particularly in developing countries such as Malawi. They provided employment to a large segment of the population, especially in urban and semi-urban areas, and acted as a catalyst for innovation, income generation, and poverty reduction. In Malawi, the informal and semi-formal nature of many small-scale businesses reflected a lively yet weak economic sector that operated under financial, regulatory, and institutional constraints.

This study mattered because it addressed the critical connection between fiscal policy and grassroots economic development. Understanding how tax rates affected small-scale businesses was very important not only for

creating a more enabling environment for entrepreneurs but also for informing broader economic policies that promoted complete and sustainable development.

In general, countries recognized the importance of developing small businesses through tailored tax policies and regulatory reforms.

## **PROBLEM STATEMENT**

Taxation is a major source of revenue for the Government of Malawi and is used to fund public services and development projects. However, high tax rates have become a challenge for small-scale businesses. Most small-scale businesses operate with limited capital and depend on small profits to survive and grow. When tax rates are high, a large portion of their income is paid to the government, leaving insufficient funds for business operations, reinvestment, and expansion. This situation may negatively affect the economic growth and sustainability of small-scale businesses in Malawi, making it important to assess the effects of tax rates on their performance. Therefore, this study sought to assess the effects of tax rates on the economic growth of small-scale businesses in Salima, with specific reference to Exipa Fresh Foods.

## **RESEARCH OBJECTIVE**

### **Main objectives**

- To assess the effect of tax rates on the economic growth of small-scale business.

### **Specific objectives**

- To examine importance of fair tax rates in small scale business.
- To evaluate the factors that leads to increase of tax rates in small scale business.

- To explore the best way of improving tax rates in small scale business.

## **RESEARCH QUESTIONS**

- What is the effect of tax rate in small scale business.?
- What is the importance of fair tax rates on the economic growth in small scale business.?
- What are the factors that leads to the increase of tax rates in small scale business.?
- What are the ways of improving tax rates in small scale business.?

## **SIGNIFICANCE OF STUDY**

This study was important because it provided a better understanding of how tax rates impacted the economic growth of small-scale businesses in Malawi. Small businesses played a vital role in job creation, poverty reduction, and overall economic development. However, high or poorly structured tax systems could limit their growth potential.

The findings could guide the development of more supportive tax policies that encouraged entrepreneurship, improved compliance, and promoted the sustainability of small enterprises. Additionally, the study benefited small business owners by highlighting areas where they needed more support, such as tax education or simplified tax processes.

## **LITERATURE REVIEW**

This chapter involved finding out what researchers had discovered about some elements of the study. The chapter was divided into a conceptual framework and empirical evidence. The conceptual framework included the definition of the key terms of the study, while

empirical evidence included findings of different researchers on the objectives of the study.

## Definition of Terms

### Meaning of Tax Rate

According to *Stiglitz & Rosengard (2015)*, a tax rate was defined as the legally prescribed proportion of a tax base that a taxpayer had to remit to the government. It was a policy tool used not only to raise revenue but also to influence economic behavior. *Stiglitz and Rosengard (2015)* stated that tax rates not only determined how much revenue was collected but also influenced economic behavior, such as decisions to work, invest, save, or formalize a business. If tax rates were too high, complex, or perceived as unfair, small businesses might have avoided registration and formal operations. On the other hand, well-structured, fair, and simple tax rates encouraged compliance, investment, and economic expansion, making them an important focus in evaluating policies aimed at fostering inclusive growth.

### Meaning of Economic Growth

According to *Todaro and Smith (2020)*, economic growth was defined as an increase in the capacity of an economy to produce goods and services over time. Economic growth was essential for improving living standards, creating employment, and generating the resources needed for public services and infrastructure development.

In the context of small-scale businesses, economic growth was observed through increased revenues, profitability, capital investment, and job creation. Factors such as tax policies, access to credit, infrastructure, and regulatory environments directly influenced whether small businesses could grow and contribute meaningfully to the *national economy (Musgrave, 1989)*.

## Meaning of Small-Scale Business

According to *Scarborough (2011)*, a small business was independently owned and operated, was not dominant in its field of operation, and typically had a small number of employees and relatively low sales volume. These businesses were often managed directly by the owner and relied on limited financial and human resources. In many developing countries like Malawi, small-scale businesses were crucial to the economy as they provided employment, supported household incomes, and contributed to local development, especially in rural and informal sectors.

Because of their size and resource constraints, small businesses were highly sensitive to external factors such as tax policies, regulatory requirements, and access to markets, all of which directly influenced their ability to grow and sustain operations.

### Meaning of Tax Burden

According to *Musgrave (1989)*, tax burden referred to the impact of taxation on the distribution of income and the economic behavior of individuals and businesses. It was measured in terms of the proportion of income or profits paid in taxes and the resulting effect on economic decisions.

*Musgrave and Musgrave (1989)* stated that tax burden included not only the legal obligation to pay taxes (the statutory tax rate) but also the real economic effect of taxation after considering factors such as tax shifting, compliance costs, and behavioral changes. For small-scale businesses, the tax burden encompassed both the direct financial costs of taxes and the indirect costs, such as time spent on tax administration or potential penalties for non-compliance.

### Empirical Evidence

Almost every research study conducted on the effects of tax rates on the economic growth of

small-scale businesses was based on previous empirical studies done in different countries. Most of these studies showed that tax rates were one of the major challenges that businesses faced and could not avoid.

### **To Examine the Effect of Tax Rates on the Economic Growth of Small-Scale Businesses**

According to *Chirwa and Odhiambo (2017)*, several empirical studies examined the relationship between tax rates and the economic growth of small-scale businesses, highlighting the significant impact taxation had on their performance. For instance, research conducted by *Karanja (2019)* on SMEs in Kenya found that high tax rates and complex compliance procedures negatively affected small business profitability and growth, leading many enterprises to remain informal to avoid tax burdens. Similarly, a study by *Chirwa and Odhiambo (2017)* in Malawi demonstrated that reductions in presumptive tax rates correlated with increased formalization and expansion of small-scale businesses, as lower taxes improved cash flow and allowed for reinvestment.

As a result, many small-scale businesses chose to remain informal to avoid tax burdens. Conversely, when tax rates were lowered or simplified, small businesses experienced improved cash flow and were more likely to formalize, invest in their growth, and hire more employees. This demonstrated that fair and manageable tax policies were crucial for supporting the development and sustainability of small-scale businesses, especially in developing countries like Malawi.

### **To Examine the Importance of Fair Tax Rates on Small-Scale Businesses**

According to *Bhorat and Kanbur (2018)*, when tax rates were perceived as fair and proportionate to business size, small enterprises were more likely to comply voluntarily and invest in expanding their operations. In Malawi, research by *Banda (2020)* found that small-scale

businesses benefiting from reduced and simplified tax regimes reported higher levels of profitability, increased reinvestment, and greater willingness to formalize.

Furthermore, data from the Malawi Revenue Authority indicated that fair tax policies contributed to improved tax compliance and broadened the tax base by encouraging informal businesses to register formally.

### **To evaluate the factors that leads to increase in tax rates**

According to *Bird and Zolt (2014)*, it was highlighted that in many developing countries, including Malawi, expanding public spending on infrastructure, healthcare, and social services had pressured governments to raise tax rates to generate sufficient revenue. Additionally, studies such as those by *Alm et al. (2015)* emphasized that weak tax administration and high levels of tax evasion often led governments to increase tax rates as a compensatory measure. Political factors, such as changes in government priorities or shifts toward more redistributive policies, were also shown to influence tax rate hikes. In Malawi, analysis by *Chirwa (2019)* linked increases in tax rates to efforts to stabilize the economy during periods of fiscal imbalance and external debt pressures.

### **To Explore the Best Ways or Strategies for Improving Tax Rates**

Studies by *Keen and Mintz (2004)* emphasized that simplifying tax structures and lowering rates improved compliance and broadened the tax base, ultimately increasing revenue without overburdening taxpayers. In Malawi, research by *Manda (2018)* showed that introducing presumptive tax regimes and reducing bureaucratic hurdles significantly improved tax compliance among small-scale businesses. Keen and *Mintz (2004)* provided valuable insights into the relationship between tax rates and economic growth, which could be directly applied to the context of small-scale businesses. Although

their original study primarily focused on tax thresholds and VAT policy, their broader arguments about tax structure, efficiency, and compliance had important implications for how tax systems affected the growth of smaller enterprises.

Moreover, empirical findings from *Bird and Zolt (2014)* indicated that investing in tax administration capacity—such as better taxpayer education, streamlined filing processes, and stronger enforcement—reduced evasion and improved revenue collection even at moderate tax rates.

## RESEARCH DESIGN AND METHODOLOGY

This study used a quantitative research methodology to assess the role of tax rates in the economic growth of small-scale businesses. The quantitative approach was suitable because it allowed for the collection of measurable and numerical data that could be analyzed statistically to identify patterns, relationships, and trends.

Data were collected using structured questionnaires with closed-ended questions targeting Exipa Fresh Food Company. These questionnaires focused on variables such as tax rate levels, business income, profitability, employee numbers, and business expansion. A random sampling technique was used to select participants, ensuring that the sample represented various types of small-scale businesses across different sectors.

## RESEARCH SETTING

This was the geographical or physical site where the researchers conducted the study. The study was conducted at EXIPA FRESH FOOD, Salima, Malawi.

## TARGET POPULATION

*Keller and Warrack (2003)* stated that the population of a study was defined as the elements or people to be studied and from whom data were obtained. The target population of this study consisted of 40 people at Exipa Fresh Foods.

## SAMPLING TECHNIQUE

The process of deriving a sample was called the sampling method. The sampling method was a technique through which a few people were selected as participants in the research from a wider population. The population under this study was grouped in relation to the chain of command (*Thomas, 2020*). There were two major sampling methods: probability and non-probability sampling. Probability sampling was a method where members of a population were chosen randomly by the researcher, giving all members an equal opportunity of being included in the sample. Examples of probability sampling included random, systematic, stratified, and cluster sampling.

## SAMPLE SIZE

Sample size determination was the act of choosing the number of observations to include in a statistical sample. It was an important feature of empirical studies aiming to make inferences about a population. In this study, the sample size was 40, which was considered convenient for data collection and provided sufficient statistical power.

A sample was defined as a subgroup of a larger population. The sample size for this study was 36 employees, selected from the target population of 40 people using *Slovin's formula*:  $n = N / (1 + Ne^2)$ . Where  $n$  = the number of samples,  $N$  = the total population and  $e$  = the error tolerance to use the formular. The margin error being 0.05 a confidence level of 95%

$$n = N / (1 + Ne^2)$$

$$n = 40 / (1 + *0.05^2) \quad n = 40 / (1.005)$$
$$n = 36$$

## RESEARCH INSTRUMENT

A research instrument was a tool used to collect, measure, and analyze data related to the research interests (Yaya, 2014). These tools were commonly used in health sciences, social sciences, and education to assess patients, students, teachers, or staff. Research instruments could include interviews, tests, surveys, or checklists. The research instrument was usually determined by the researcher and aligned with the study methodology. For this study, questionnaires were used.

### Questionnaire

Questionnaires were prepared and administered to the middle and low cadre employees. The researcher used closed questionnaires, and these questionnaires were sent directly to the respective respondents. The questionnaires were designed to capture data for assessment as a quantitative tool of analysis. They were made up of a number of questions printed or typed in English, depending on the comfort level of the respondents.

## PILOT STUDY

The pilot study helped determine the time taken to complete the questionnaire by the respondents, whether it was too long or too short. Piloting the study was a crucial part of the research process, as it determined whether the questions were clear and appropriate. The pilot study was conducted by the researcher at Exipa Fresh Foods Company, and more respondents took part to ensure accuracy and reliability of the questionnaire.

## DATA ANALYSIS

In this study, data analysis using the quantitative method focused on processing and interpreting numerical data collected from small-scale business owners through structured questionnaires. The purpose was to identify measurable patterns and relationships between tax rates and economic growth indicators such as business revenue, profit levels, employment size, and business expansion.

Using quantitative data analysis ensured that the findings were objective, reliable, and based on statistical evidence, which strengthened the validity of the research conclusions and recommendations.

## ETHICAL CONSIDERATION

This study adhered to strict ethical guidelines to ensure the protection, rights, and dignity of all participants involved. Before data collection, informed consent was obtained from all participants, clearly explaining the purpose of the study, their voluntary participation, and their right to withdraw at any time without consequences. Participants were assured that their responses would remain confidential and anonymous, and that the information collected would be used solely for academic purposes.

Additionally, the study avoided any form of harm or discomfort to the participants, whether physical, emotional, or psychological. Respect for participants' privacy was maintained throughout the research process. Ethical approval was sought from relevant authorities or research boards, where necessary, to ensure compliance with institutional and professional research standards.

## RESULTS AND DISCUSSION

This chapter presented the results obtained from the assessment of the effect of tax rates on the economic growth of small-scale businesses. The study aimed to understand the effects of tax rates on the economic growth of small-scale businesses through the analysis of responses from 36 participants. The chapter outlined the methodology employed, provided a summary of the respondents, and presented the key findings of the study. Data analysis was done using Microsoft Excel.

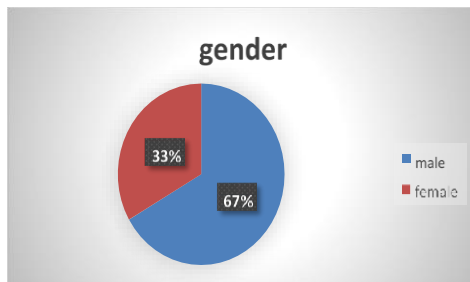
### Response Rate

The study response rate was 100%.

### Demographic Characteristics

#### Gender of Respondents

The study had a total sample size of 36 respondents, of whom 67% were male and 33% were female. The table below summarized the results.



#### *Gender of Respondents*

The results showed that out of 36 respondents, 24 were male, which represented 67%, and 12 were female, which represented 33% of the given responses. According to the results, it meant that there were more males than females, as shown in the figure above.

### Age of Respondents

Furthermore, the researcher categorized the sample size by age. As the graph below showed, the majority of the respondents belonged to the age range of 26–35 years. The graph below summarized the results.

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### Education level

The figure below showed the level of education of the employees. The results indicated that there were more workers with degrees and diplomas than those with MSCE, master's, or PhD qualifications. The researcher used Microsoft Excel to determine how the sample size was composed based on the highest level of education attained.

Presentation of research findings To assess the effects of tax rates on the economic growth of small-scale businesses.

The study wanted to find out if high tax rates reduce the profitability of small businesses

The study found out that out of 36 respondents 14 respondents strongly agreed which represents 39% and 22 respondents agreed that high tax rates affect the economic growth of the business which represent 61% of the respondents.

The study wanted to find out if favourable tax rates encourage investment and business expansion.

As shown in the figure above the study find out that 20 strongly agreed that favorable tax rates encourage investment and business expansion out of 36 respondents which represents 56% where 12 respondents representing 33% agreed favorable tax rates encourage investment and business expansion and 4 respondents representing 11% did not favorable tax rates encourage investment and business expansion.

The study wanted to find out if frequent changes in tax rates negatively affect business planning and stability

Based on the given data above, out of 36 people surveyed, 19 strongly agreed (representing 56%) frequent changes in tax rates negatively affect business planning and stability. 14 people (representing 41%) just agreed with this statement, and 3 people (representing 3%) strongly disagreed. Analyzing the results, it can be observed that a majority (56%) of the respondents strongly agreed with the statement. This indicates that they firmly believe that frequent changes in tax rates negatively affect business planning and stability. Strong agreement from this group suggests a high level of understanding and recognition of the purpose. The study wanted to find out if lower tax rates can improve the financial performance of small-scale enterprises.

Based on the data given below, out of the 36 respondents, the largest group (50%) just agreed, suggesting that they lower tax rates can improve the financial performance of small-scale enterprises. Others strongly agreed (39%) holds a more resolute lower tax rates can improve the financial performance of small-scale enterprises. as the key to success. Their stronger agreement suggests a higher level of conviction in the role of the lower tax rates can improve the financial

performance of small-scale enterprises.in driving business success. Only a small proportion of respondents (11%) did not agree with the statement. It would be valuable to further explore their reasons for disagreement and understand their perspectives to gain insights into their differing viewpoints.

The study wanted to find out if Tax rates directly influence the survival and sustainability of small-scale business

Analyzing the results below, it could be observed that a majority of respondents (86%) either strongly agreed or just agreed that tax rates directly influenced the survival and sustainability of small-scale businesses.

The largest group (64%) just agreed, indicating their recognition that tax rates directly influenced the survival and sustainability of small-scale businesses.

The group that strongly agreed (22%) held a firmer belief that tax rates directly influenced the survival and sustainability of small-scale businesses. Their stronger agreement suggested a higher level of conviction in the role of tax rates in influencing the survival and sustainability of small- scale businesses.

A small proportion of respondents (14%) disagreed with the statement. It would have been valuable to understand their reasons for disagreement and explore their perspectives

To evaluate the factors that leads to increase of tax rates in small scale business.

The study wanted to find out if fair tax systems help promote equity small business owners

Based on this information, the following conclusions could be drawn: The majority of respondents (20 out of 36) agreed that financial

ratio analysis compared the results of previous periods and competitors, which represented 56% of the total respondents. This suggested that a significant portion of the participants believed in the value of financial ratio analysis for making comparisons.

Fourteen respondents strongly agreed with the statement, representing 14% of the total respondents. Although this number was smaller than the agreement group, it still indicated a notable portion of respondents who held a strong belief in the usefulness of financial ratio analysis for comparisons.

Only 2 respondents disagreed, representing 5% of the total respondents. This implied that a minority of participants expressed skepticism or disagreement with the idea that fair tax systems helped promote equity among small business owners.

The study wanted to find out if predictable and transparent tax policies encourage compliance among small scale businesses

The majority of respondents (19 out of 36) strongly agreed that predictable and transparent tax policies encourage compliance among small scale businesses, representing 52% of the total respondents. This indicates that a significant portion of the participants strongly believes predictable and transparent tax policies encourage compliance among small scale businesses. 12 respondents agreed with the statement, representing 33% of the total respondents. While this group is smaller than the strong agreement group, it still signifies a notable portion of participants who acknowledge the usefulness of that predictable and transparent tax policies encourage compliance among small scale businesses. 5 respondents disagreed, representing 14% of the total respondents. This indicates that a minority of participants expressed disagreement with the idea that predictable and transparent tax policies

encourage compliance among small scale businesses

The study wanted to find out if Reasonable taxation motivates entrepreneurs to formalize their businesses

From the figure above the majority of respondents (33 out of 36) either strongly agreed (15 respondents) or agreed (18 respondents) that Reasonable taxation motivates entrepreneurs to formalize their businesses. This represents a combined percentage of 92%. This indicates that a significant portion of the participants believes in the reasonable taxation motivates entrepreneurs to formalize their businesses. A total of 3 respondents (2 disagreed and 1 strongly disagreed) expressed a contrary opinion. These respondents represent a combined percentage of 8%. Although small, this indicates that a minority of participants do not agree with the notion that reasonable taxation motivates entrepreneurs to formalize their businesses.

The study wanted to find out if inconsistent tax policies lead to unpredictable tax rates increases  
The majority of respondents (32 out of 36) either strongly agreed (13 respondents) or just agreed (19 respondents) that inconsistent tax policies lead to unpredictable tax rates increases. This represents a combined percentage of 89%. This indicates that a significant majority of the participants believe inconsistent tax policies lead to unpredictable tax rates increases

Disagreement: A minority of respondents (4 out of 36) disagreed with the statement. This represents 11% of the total respondents. It is worth noting that no respondents strongly disagreed with the statement.

The study wanted to find out if weak enforcement of tax laws causes the government to raise taxes to recover lost revenue

From the figure below a significant percentage of

respondents (22 out of 36) either strongly agreed (7 respondents) or agreed (15 respondents) that weak enforcement of tax laws causes the government to raise taxes to recover lost revenue. This represents a combined percentage of 64%. A notable percentage of respondents (14 out of 36) disagreed with the statement. This includes 13 respondents who disagreed and 1 respondent who strongly disagreed. Collectively, they represent 39% of the total respondents.

Weak enforcement of tax laws causes the government to Assessing the relationship between tax rates and the economic growth of small-scale businesses

The study wanted to find out if high taxation limits small businesses contributions to Malawi's economic growth

Based on the figure below majority of respondents (36 out of 36) either strongly agreed (23 respondents) or just agreed (13 respondents) that high taxation limits small businesses contributions to Malawi's economic growth. This represents a combined percentage of 100%. This indicates that all participants agreed or strongly agreed that high taxation limits small businesses contributions to Malawi's economic growth.

None of the respondents expressed disagreement or strong disagreement with the statement. This suggests that all participants either agreed or were neutral on the subject, emphasizing the consensus that high taxation limits small businesses contributions to Malawi's economic growth.

The study wanted to find out if lower tax rates stimulate entrepreneurship and job creation

Based on the data provided, let's analyse the responses regarding the lower tax rates stimulate entrepreneurship and job creation: Agreement: A majority of respondents (32 out of 36) strongly agreed (14 respondents) and agreed (18 respondents) that lower tax rates stimulate

entrepreneurship and job creation. This represents a combined percentage of 89%. This indicates that a significant majority of participants recognize the lower tax rates stimulate entrepreneurship and job creation.

Disagreement: A minority of respondents (4 out of 36) disagreed with the statement. This represents 11% of the total respondents. It is worth noting that no respondents strongly disagreed with the statement.

The study wanted to find out if fair taxation leads to higher business survival rates and sustained growth

Based on the data provided, let's analyse the responses fair taxation leads to higher business survival rates and sustained growth: Agreement: The majority of respondents (33 out of 36) either strongly agreed (19 respondents) or just agreed (14 respondents) that fair taxation leads to higher business survival rates and sustained growth. This represents a combined percentage of 92%. This indicates that a significant majority of the participants recognize fair taxation leads to higher business survival rates and sustained growth.

Disagreement: A minority of respondents (3 out of 36) disagreed with the statement that fair taxation leads to higher business survival rates and sustained growth. This represents 8% of the total respondents.

The study wanted to find out if tax burden discourages investment in productive business sectors.

Based on the data provided, let's analyse the responses regarding the tax burden discourages investment in productive business sectors.: A combined percentage of 61% of respondents either strongly agreed (19%) or agreed (42%) that tax burden discourages investment in productive business sectors. This indicates that a significant proportion of the participants believe tax burden discourages investment in productive business sectors.

Disagreement: A combined percentage of 39% of respondents either disagreed (31%) or strongly disagreed (8%) with the statement.

## **SUMMARY OF RESEARCH FINDINGS**

The study also established that inconsistent tax policies create an unpredictable tax environment. A total of 32 out of 36 respondents (89%) strongly agreed or agreed that frequent changes and inconsistencies in tax policies lead to unpredictable increases in tax rates. This instability makes it difficult for small-scale businesses to plan effectively, allocate resources, or make long-term investment decisions, ultimately hindering their contribution to economic growth.

Further analysis of the specific objectives revealed overwhelming consensus among respondents. All 36 respondents (100%) agreed or strongly agreed that high tax rates reduce profitability and limit the economic growth of small-scale businesses. Similarly, 89% agreed that favourable tax rates encourage investment and business expansion, while 97% acknowledged that frequent changes in tax rates negatively affect business planning and stability. Lower tax rates were viewed as capable of improving financial performance by 89% of respondents, and 86% confirmed that tax rates directly influence the survival and sustainability of small-scale businesses.

On the factors leading to increases in tax rates, 95% of respondents agreed that fair tax systems help promote equity among small business owners, and 85% believed that predictable and transparent tax policies encourage compliance. Reasonable taxation was seen as motivating entrepreneurs to formalize their businesses by 92% of respondents. Inconsistent tax policies were linked to unpredictable tax rate increases by 89%, while weak enforcement of tax laws was cited by 64% as a reason governments raise

taxes to recover lost revenue. Finally, 100% of respondents agreed that high taxation limits small businesses' contributions to Malawi's economic growth, 89% stated that lower tax rates stimulate entrepreneurship and job creation, and 92% believed fair taxation leads to higher business survival rates and sustained growth. The tax burden was reported as discouraging investment in productive sectors by 61% of respondents.

These results directly answered all research questions and fulfilled both the main and specific objectives of the study.

## **CONCLUSION**

The main objective of this study was to assess the effects of tax rates on the economic growth of small-scale businesses in Salima, with specific reference to Exipa Fresh Foods. Through a quantitative survey of 36 respondents (100% response rate), the study conclusively established that high tax rates exert a significant negative impact on the profitability, investment capacity, planning stability, survival, and overall economic growth of small-scale businesses. Respondents overwhelmingly (85–100% agreement across key indicators) indicated that elevated and unstable tax rates leave insufficient funds for reinvestment, discourage formalization, and limit contributions to national economic development.

The findings align with the problem statement: high tax rates constrain small businesses that operate with limited capital and thin profit margins. Factors such as poor government revenue collection methods, inconsistent policies, weak enforcement, and the resulting compensatory rate increases were identified as primary drivers of the tax burden. Conversely, fair, predictable, lower, and simplified tax rates were shown to promote compliance, investment, entrepreneurship, job creation, and long-term

sustainability.

This research corroborates earlier empirical studies cited in the literature review (e.g., Chirwa and Odhiambo, 2017; Karanja, 2019; Banda, 2020) and confirms that taxation in Malawi can serve as both a revenue tool and a growth constraint for the small-scale sector. The case of Exipa Fresh Foods illustrates the broader challenges facing small businesses in Salima and Malawi. Ultimately, without targeted tax reforms, the vital role of small-scale enterprises in employment, poverty reduction, and grassroots development will remain undermined.

## RECOMMENDATIONS

Based on the findings and to address the research objectives, the following recommendations are proposed:

### **To the Government of Malawi and the Malawi Revenue Authority (MRA):**

- Introduce or expand simplified presumptive tax regimes with lower rates specifically for small-scale businesses (turnover below a defined threshold) to reduce the compliance burden and encourage formalization.
- Invest in strengthening tax administration through digital filing systems, taxpayer education programmes, and improved enforcement mechanisms. This will reduce evasion and eliminate the need to raise rates on compliant businesses.
- Ensure tax policies are stable, transparent, and predictable by publishing clear guidelines and minimising frequent changes, thereby supporting effective business planning and investment.
- Provide targeted incentives such as tax

credits, holidays for start-ups, or reduced rates for businesses that demonstrate job creation and reinvestment.

### **To small-scale business owners (including those at Exipa Fresh Foods):**

- Actively participate in tax education workshops offered by the MRA to improve understanding and compliance.
- Form or join business associations to collectively advocate for fairer tax policies.

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