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## **Examining the Effects of Widening the Tax Base on Economic Growth in Malawi, A Case Study at Machinga BOMA. Malawi**

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### **ABSTRACT**

This research delves into the intricate dynamics of tax base expansion and its direct impact on economic growth within the context of Machinga Boma, Malawi. Against the backdrop of a rapidly evolving global economy and the imperative of robust fiscal policies in developing regions, this study offers a localized investigation of the consequences of broadening the tax base. Machinga Boma, as a microcosm of the broader Malawian economy, provides valuable insights into the tangible effects of taxation policies at a subnational level.

Employing a rigorous case study methodology, this research examines the specific challenges and opportunities presented by the widening of the tax base in Machinga Boma. Through a nuanced analysis of local revenue generation, public expenditure patterns, and the overall economic landscape, we uncover multifaceted relationships between taxation policies and economic growth in this region.

Findings from our study reveal that tax base expansion in Machinga Boma has distinctive implications for the local economy. It not only contributes to increased revenue streams for the local government but also holds the potential to stimulate entrepreneurship, attract investment, and enhance infrastructure development. Nevertheless, we also identify localized challenges, including compliance issues and the need for tailored policy strategies.

This case study not only informs the broader discourse on fiscal policy in developing nations but also offers practical insights for local policymakers, shedding light on the critical balance between revenue mobilization and sustainable economic development. By examining the unique dynamics of Machinga Boma, our research underscores the significance of context-specific fiscal policies in promoting long-term prosperity and economic growth in subnational regions within Malawi and similar contexts.

This abstract places a strong emphasis on the case study in Machinga Boma, highlighting the unique contributions and findings from your localized research within the broader topic of tax base expansion and economic growth in Malawi.

**KEY WORDS:** Taxation policies, Economic growth, Developing economies, Fiscal stability, Sustainable growth, Tax base widening, Public services, Infrastructure development, Poverty reduction initiatives, Revenue for governments, Policy implications, Fiscal strategies, Empirical research, Localized effects, Administrative efficiency, Compliance levels, Socioeconomic characteristics, Overtaxed sectors, Foreign direct investment (FDI) and Private sector development

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### **1. INTRODUCTION**

Taxation policies and their impact on economic growth have long been subjects of considerable interest and debate within the realm of economics and public policy. In the context of developing economies like Malawi, where fiscal stability and sustainable growth are paramount, the role of taxation takes on heightened importance. This study focuses on a critical aspect of fiscal policy – the widening of the tax base – and seeks to unravel its effects on economic growth in the specific context of Machinga Boma, a subnational region in Malawi.

Malawi, like many other developing nations, grapples with the challenge of financing essential public services, infrastructure development, and poverty reduction initiatives. Effective taxation policies play a pivotal role in addressing these challenges, as they serve as a primary source of revenue for governments. The decision to broaden the tax base, i.e., increasing the range of taxable activities or entities, is a policy choice that has significant implications for economic development. However, the outcomes of such policies can vary widely depending on the local context, administrative efficiency, and compliance levels.

Machinga Boma, situated in the southern region of Malawi, offers a unique setting for this research. As a microcosm of the broader Malawian economy, this subnational region presents a compelling case study. By scrutinizing the effects of tax base expansion in Machinga Boma, we can gain valuable

insights into the tangible consequences of fiscal policy decisions at a localized level. Such insights can inform not only regional policymakers but also contribute to the broader discourse on fiscal strategies in developing economies.

### ***STATEMENT OF THE PROBLEM***

Malawi, like many other developing nations, faces a pressing challenge at the intersection of fiscal policy and economic development. As the government seeks to fund essential services and infrastructure projects while fostering sustainable economic growth, the effectiveness of its taxation policies becomes paramount. One specific policy consideration of great importance is the widening of the tax base, which involves extending the range of taxable activities or entities. While this approach holds promise as a means of augmenting government revenue, its implications for economic growth remain unclear, particularly within the localized context of Machinga Boma, Malawi.

The problem at hand is the lack of a comprehensive understanding of how tax base expansion influences economic growth dynamics within Machinga Boma. While the theoretical underpinnings of tax policy and economic growth are well-documented, there exists a dearth of empirical research that specifically addresses the outcomes of tax base widening policies in this subnational region. This knowledge gap presents a critical challenge for both local and national policymakers, as they strive to design effective fiscal strategies that balance revenue generation with the imperative of fostering economic prosperity.

To date, the specific effects of tax base expansion in Machinga Boma remain largely unexplored, and the region's unique socioeconomic characteristics, including its economic structure, resource endowments, and administrative capacities, require tailored investigations. Furthermore, understanding the challenges and opportunities associated with such policy implementation in this specific context is essential for formulating evidence-based recommendations that can inform not only local policy decisions within Machinga Boma but also broader fiscal policy initiatives in Malawi.

Therefore, this research seeks to address the critical problem of the uncharted territory surrounding tax base expansion in Machinga Boma and its ramifications for economic growth. By conducting a rigorous case study in this subnational region, we aim to provide much-needed insights into the localized effects of taxation policy changes, ultimately contributing to the development of informed and effective fiscal strategies that can drive sustainable economic growth in Malawi.

This problem statement clearly articulates the research problem, highlights its significance, and underscores the need for empirical investigation within the specific context of Machinga Boma, Malawi. It sets the stage for your research by explaining why the topic is important and what knowledge gap your study aims to fill.

### ***PURPOSE OF STUDY***

The primary purpose of this comprehensive research endeavor is to systematically examine the multifaceted relationship between tax base expansion and economic growth in the specific context of Machinga Boma, Malawi. By conducting an in-depth case study in this subnational region, we aim to achieve the following overarching goals:

**To Unravel the Localized Effects:** The first and foremost purpose of this study is to elucidate how widening the tax base impacts the economic growth dynamics of Machinga Boma. Through rigorous empirical analysis, we seek to identify the specific consequences of tax base expansion on key economic indicators, including GDP growth, employment generation, and private sector investment within the region.

**To Assess the Challenges and Opportunities:** This study endeavors to assess the challenges and opportunities associated with the implementation of tax base widening policies in Machinga Boma. By thoroughly examining the administrative, compliance, and resource constraints, as well as the potential for stimulating entrepreneurship and attracting investment, we aim to provide a nuanced understanding of the policy landscape.

**To Contribute to Local and National Policymaking:** Our research seeks to provide actionable insights for policymakers at both the local and national levels in Malawi. By offering evidence-based recommendations tailored to the specific context of Machinga Boma, we aspire to inform the formulation of effective fiscal policies that strike a balance between revenue mobilization and sustainable economic development.

**To Enhance the Academic Discourse:** Beyond its immediate policy relevance, this study contributes to the broader academic discourse on taxation policies and their effects on economic growth in developing economies. By conducting a localized investigation within Malawi, we hope to enrich the existing body of knowledge and offer a case study template that may be adapted for similar contexts worldwide.

**To Advocate for Evidence-Based Decision-Making:** Ultimately, the purpose of this research is to advocate for evidence-based decision-making in fiscal policy. In an era marked by economic uncertainties and evolving global dynamics, the need for empirically informed taxation policies that promote long-term prosperity and fiscal sustainability cannot be overstated.

In summary, this research project seeks to fulfill a multifaceted purpose, ranging from the elucidation of localized effects to the provision of actionable policy recommendations and contributions to the broader academic and policy arenas. Through an in-depth case study in Machinga Boma, we aspire to advance our understanding of the complex interplay between taxation policies and economic growth in Malawi, with the aim of fostering sustainable development and fiscal resilience in the region and beyond.

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## RESEARCH QUESTIONS

- i. What are the implications of widening the tax gap?
- ii. What role does government expenditure play on economic growth in Malawi?
- iii. What are the equilibrium effects of reducing tax burden on the overtaxed sectors?
- iv. What are the welfare effects of introducing new taxes?
- v. How does the administrative capacity and efficiency of tax collection mechanisms in Machinga Boma impact the success of tax base expansion policies?
- vi. What are the challenges and obstacles faced by local businesses and taxpayers in complying with the expanded tax base policies in Machinga Boma
- vii. How does tax base expansion affect the attractiveness of Machinga Boma as a destination for foreign direct investment (FDI) and private sector development?
- viii. What are the lessons learned from Machinga Boma's experience with tax base expansion that can inform the design and implementation of similar policies in other subnational regions in Malawi?

These research questions cover various aspects of my study, including the historical context, economic drivers, fiscal impact, challenges and opportunities, and policy implications of widening the tax base in Machinga Boma, Malawi. They will provide a structured framework for my research and help guide my data collection and analysis efforts.

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## RESEARCH OBJECTIVES

### MAIN OBJECTIVE

The primary objective of this research study is to empirically assess the impact of widening the tax base on economic growth within Machinga Boma, Malawi, with the aim of providing evidence-based insights to inform fiscal policy decisions at both the local and national levels and contribute to the broader academic understanding of taxation policies in developing economies.

### SPECIFIC OBJECTIVE

Here are specific objectives for your research topic, "Examining the Effects of Widening the Tax Base on Economic Growth in Malawi," with a focus on Machinga Boma

- To analyze the historical trends and patterns of tax base expansion in Machinga Boma, Malawi, over a specified time period.
- To assess the impact of tax base widening policies on government revenue generation and fiscal stability in Machinga Boma
- To quantify the direct effects of tax base expansion on key economic indicators, including GDP growth, job creation, and poverty reduction within Machinga Boma.
- To identify the key drivers and mechanisms through which tax base expansion influences economic growth dynamics within Machinga Boma.
- To evaluate the challenges and opportunities associated with the implementation of tax base expansion policies in Machinga Boma, including compliance issues and administrative capacities.
- To investigate the attractiveness of Machinga Boma as a destination for foreign direct investment (FDI) and private sector development in the context of tax base expansion.
- To provide evidence-based recommendations for local and national policymakers in Malawi, based on the findings and insights derived from the case study in Machinga Boma.

These specific objectives outline the detailed goals of your research, focusing on different aspects of tax base expansion and its impact on economic growth within the specific context of Machinga Boma, Malawi. They provide a structured framework for your research study.

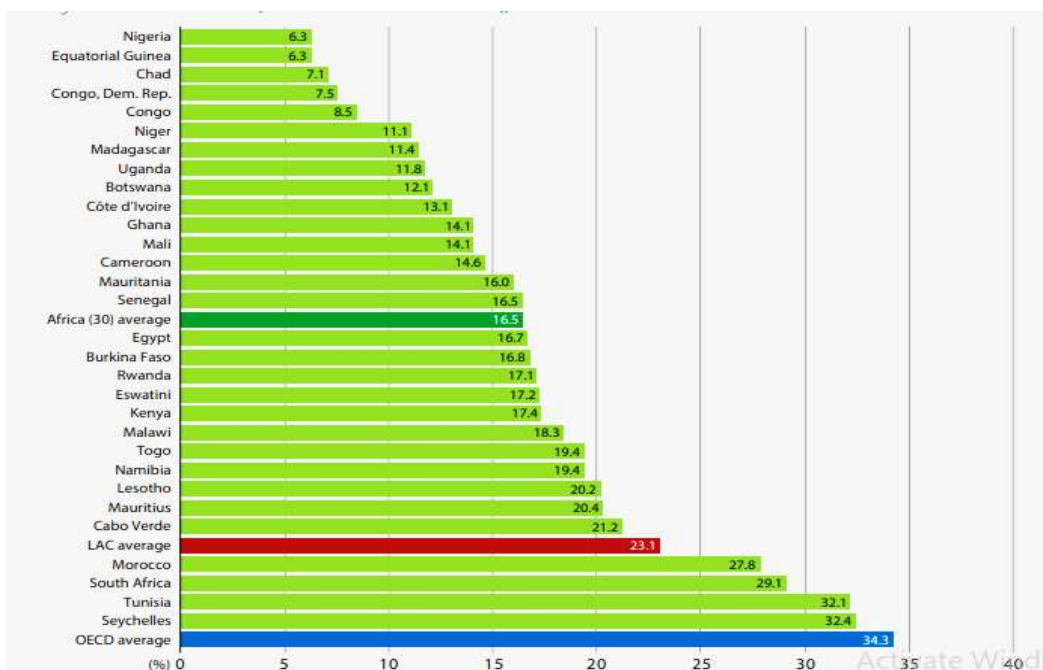
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## BACKGROUND

The limited tax base and the growing demand for public services attributed to the rise in the population has led to rapidly growing government fiscal deficit .In the past years from 2009 to 2017, government debt as a percentage of the GDP has grown from 29.27% to 55.15% leading to an increase of 88% increase in the government deficit (World Bank, 2020)

This is worrisome to the already fragile economy of Malawi as this may have led to the crowding out of private investments. This rise public debt is an indication that Malawi needs to rethink and create better domestic resource mobilization by the public sector in order to reduce the public debt and meet its obligation of supply public goods and services to the citizens. Given the rising government expenditure trends in Malawi from 2013 to 2020, Malawi needs to raise its tax revenues to fund the activities of its government.

### Diagram



Source: OECD/ AU/ ATAF

It is the task of the public finance experts to figure out how to design a revenue systems that is both efficient by minimizing distortions in the house hold and business decisions and equitable distributing of the burden fairly.

Figuring out how to best raise revenue ,has been the central concern for the public sector experts at least since Adam Smith devoted an entire Book of nations (1776) to the revenue of the sovereign including his famous dictum that the taxes one party pays should be proportional to the revenue enjoyed under the protection of the state” David Ricardo, Himself a student of the Smithian classical thoughts and an important Nineteen Centaury figure in the History of Macro economic theory titled his most famous book principles of political economy and Taxation. It is therefore a concern for public finance experts to explore means of expanding the revenue base without punitive of the same individuals the thin cow phenomenon so that everyone can pay tax (Rosen, 2010).

In the past five decades, the Malawi tax system has under gone a number of the policy reforms with varying objectives either in the short or long term. The objectives increasing revenue generating capacity, encouraging both domestic and foreign investments in the economy, promoting equity and efficiency as well as international trade, competitiveness .Despite these reforms, the tax system does not generate sufficient revenue to keep pace with the ever growing government expenditures. Consequently the budget deficit has widened leading to heavy reliance on budget on budget support from donor community. Lately Malawi has been rated as the country with the lowest GDP per capital in the world implying that there is a greater need increased public expenditure. In poverty reducing programs government is therefore challenged to establish a robust revenue base relative to its expenditure requirements within the framework of the poverty eradication programs.

Like most of the countries in the world Malawi depends heavily on taxes to generate resources for the provision of public services demanded by her citizenry.

Soon after independence in the 1960s the government realized the resource constraint it faced given the expectations; Malawian population had to have their lives changed for better .This prompted the reformation of tax systems the country inherited from the British government with the view of generating adequate revenues to finance the ever growing public expenditure. The major policy changes Taxation also included restructuring of tax administration by merging two tax collecting departments into one organization the Malawi Revenue Authority (MRA).Although several tax reforms have been undertaken taxation has failed to generate sufficient revenue to meet the needs if the government(Chafuwa,2017).

Malawi embarked on a comprehensive tax reforms with the World Bank assistance in the latter half of the 1980s .In January, 1985, the government asked the World Bank to locate and analyze the weakness in its tax system and to make recommendations for change .Subsequently it asked for help to finance

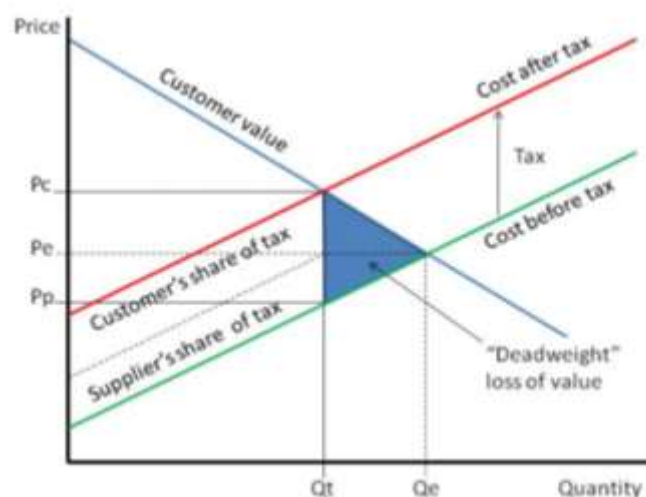
the technical assistance required to implement those of the reform proposals that were approved by the Government. The World Bank discussed the revenue problems up to the mid-1980s that created need for reform measure and rationale of the solutions offered concluding with a brief review of what has and has been not been implemented to date. Many reforms are still in the process of being introduced their ultimate success cannot yet be assessed (Shalizi, 1990) It might be argued that the Malawian tax system has gone through four major reforms since the country gained independence in 1964. The first reform covered from the period of 1969 to 1977. The reforms were inward looking as they were aimed at increasing savings and investment level and discouraging consumption of imported luxury goods. The second reform period was between 1978 and 1984 and was characterized by frequent adhoc changes in the tax systems exhaustive analyses it might be argued that they were aimed at responding to increased pressure on government expenditure. The third period of reform was implemented under the structural adjustment programmed (SAPS). Period trade liberalization program and Southern African Development Community (SADC) trade protocol and stretched from 1985 to 1999 just before the operationalization of the Malawi Revenue Authority (Shalizi, 1990). The reform program sought to improve efficiency and equity of the tax system. Encouraging a free trade Market, increasing the level of Foreign Direct Investment (FDI) Increased tax collection and improved the tax administration. The period characterized by the introduction of new taxes to widen that tax base ,gradual reduction of direct tax and import tariff rates ,the inclusion of other forms to come into the tax base goods and services that were previously not taxed , and the increased of excise rates and rationalization of surtax. On the administration side, it was a period when the government enacted the law of law of establishing Malawi Revenue Authority (MRA) In 1998 and also the formation of a tax policy unit in the Ministry of Finance in 1993. Fourth period stretched from 2000 to date, which involved among others the evolution of surtax to Value Added Tax (VAT) in 2005 and customs Tax reforms under Common Market for Eastern Africa (COMESA) (Malawi government 2000).

However, Malawi is faced with a small Tax base as less as 20% of its current total population estimated at about 18 million people and are ones paying. This narrow tax base exists because of high prevalence of informality currently estimated at 89% and willingness to pay taxes among its citizens. (Malawi government, 2019). There is need of sensitization and reach out to the public fully who do not know the importance of paying taxes and make sure that the measures or policies are put in place of these information traders to be need to voluntarily tax compliance.

Although tax burden has slightly increased from 14.46% in 2009 to 17.39% in 2019 the narrow tax base in Malawi shows that a small number of citizens provide for the public services for the entire population which is detrimental to the welfare and stability of the economy (World Bank, 2020). The small number of tax payers are heavily taxed which reduced their disposable income and reduces spending in the economy. However broadening the tax base makes it possible to provide tax cuts without having an impact on the budget and provides good implications to the economic stability of the country. Largely, the tax policy reforms emphasized the need to expand the tax base by incorporating other forms of income in the tax fold, reviewing the tax rates, sealing loopholes, discouraging tax evasion, reducing exemptions and changing the tax administrative structures. In addition the reforms also coincided with trade liberalization programs and the need for the regional integration, which gained popularity in the late 1980s through 1990s and early 2000. This paper therefore examines the effects of widening the tax base on economic growth of Malawi. The motivation of this is that when this the tax base is widened enough, chances are that government is going to lower down the tax rates, while collecting even more and that the government will be able to realized more Revenue that financing the budget is going to be easy (Chipeta et. Al, 1998) In that case, that is good for economic growth because economic which is growing improves the livelihoods of its people hence people are able to self-sustain themselves and on the other hand there can be more industries emerging due to high effective demand for goods and services and improvement of business and individuals due to low tax rate that government initiated by increasing the tax base.

The figure below demonstrates this graphically for price versus quantity with  $p_e$  representing a natural equilibrium price and  $p_c$  representing the new equilibrium price after taxes.

#### DIAGRAM BELOW



The solution therefore is having tax rates lowered as a result of a more broadened tax base.

Widen tax base will ensure that the informal sector is brought into the system with an understanding of increasing revenue collection even for more effort to do that.

The problem is that there have been worsening budget deficits in Malawi for a long time. The government expenditure has been surpassing total revenue, forcing the government to borrow both from domestic financial markets and international arena. The raising government deficits are detrimental to economic growth as it will have to sell debt to the private sector and getting individuals and institutions to purchase the debt may require the higher rates. This rise in interest rates may then crowd out private investment and consumption, offsetting the fiscal stimulus (Chafuwa, 2017) found that in real terms tax collection has continuously increased as a percentage of GDP from 10-21 percent. Chafuwa, (2017) further asserts the fact that tax base still remains very narrow despite increased levels of entrepreneurship mainly due to high levels of informality and low tax compliance.

The inefficient in the tax systems have caused a rising tax burden to occur in the economy and show the need for the government to increase the tax base. Widening of the tax base will not only reduce these inefficiencies but also will lead to increase in the provision public services which have a bearing on economic growth in the country. However, widening of the tax base has to be coupled with good public finance Management and also reductions in corruption in the public sector it to stimulate the spillover effects that grow economy (Weltar chiv, v 1988) Trends in real GDP growth in relation with Development Budget percent of GDP

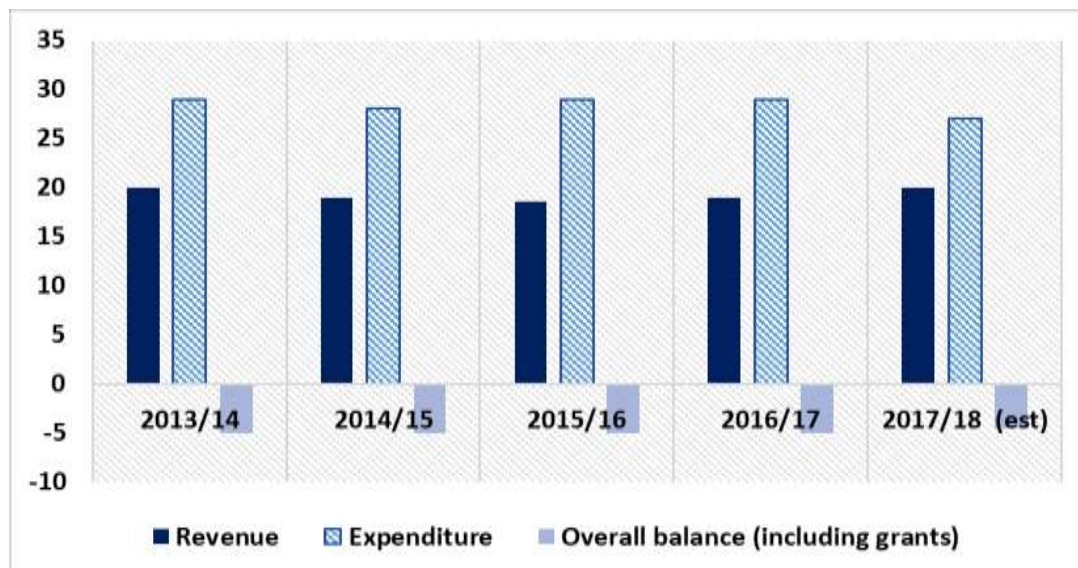
#### Diagram below

An analysis by the World Bank has shown that the relationship between the development expenditure and the economic growth is positively related in Malawi. Evidence has shown that as the government is increasing its investments into the economy it stimulates economic activities which increase the economic growth, which augers well with the Keynesian Macro economist paradigm. For instance, data shows that as the fiscal allocations to the development, investment budget as a percentage of GDP declined from 6.5% in 2017 to 4.7% in 2018, the real economic growth declined from 4.0% to 3.17% (Worldbank, 2019). Furthermore by the World Bank have shown that further efforts by the Malawian government to rationalize a high number of fiscal incentives, while rebalancing the tax mix and expanding the tax base, could stimulate economic growth in the country.

Revenue and grants totaled to 10.3% of the GDP through December 2019, below the target of 12.2% GDP. Total expenditure and net lending were below the budgeted levels as the government spent 0.9% of the GDP below the Midyear target of 14.0%, due to under spending on the development expenditure which was partially offset by recurrent expenditure overruns of 0.6 percent of the GDP.

Repeated high fiscal deficits have contributed to accumulation of domestic debt such that the stock of domestic debt increased from 28.2 to 29.7% of the GDP between 2018 and 2019 (the World Bank in Malawi, 2020)

#### Diagram



Malawi trends in revenue expenditure and the budget deficit % of GDP.

A closer analysis of the budget trends from 2015-2019 reveals that the development expenditure is always smaller than the recurrent expenditure as indicated in the graph above. Furthermore, the economic growth patterns in Malawi further justify the notion that increase in the proportion of the investment expenditure in comparison with recurrent expenditure lead to increased economic growth. For instance, in 2016 to 2017 the economy grown

from 2.3% to 4.0%. During this time the investment budget increased from 4.1% to 6.5% representing a 59% increase whilst the recurrent budget increased from 23.3% to 21.7 representing a 7 percent decline. This shows that the economy experiences massive economic growth periods in the times when the investment budget is slightly increasing whilst that of the recurrent budget is declining which is a depiction of good economic governance and fiscal macro-economic management (World Bank, 2019). This assertion is furtherly shown in the economic periods' between 2005 - 2009.

Following the retrospective budget review for the past five years, UNICEF has recommended that the GOM needs to do more to expand its tax base as this reduces tax burden and stimulates economic growth (UNICEF - Malawi, 2017).

Furthermore, Officials from Indigenous Business Association of Malawi (IBAM) complained of the high taxes that are faced by local cross boarder traders in the importation of goods and services into the country which they highlighted as a big challenge in running their businesses (Nelson & Francis, 2019). These high tax rates are a consequence of a narrow tax base which leads to Government setting high taxes in order to meet its revenue targets in order to finance the national budget.

Increasing the tax base is one way of increasing tax revenues while avoiding overburdening the current tax payers. This is desirable for the economy as it improves the tax elasticity which insures that public services are efficiently delivered and that there is macroeconomic stability in the country (Chafuwa, 2017).

Therefore, the researcher wanted to understand what works with taxation in Malawi. How can Government improve the welfare of people to increase economic growth and at the same time making sure that the people are not over burden with taxation? How can government achieve this?

### **LIMITATIONS OF STUDY**

- **Generalizability:** One of the primary limitations of this study is the potential challenge of generalizing the findings beyond the specific case of Machinga Boma. While the case study offers valuable insights into localized dynamics, the unique socioeconomic characteristics of this region may limit the direct applicability of the results to other subnational regions or the entire nation of Malawi.
- **Data Availability:** The study's findings heavily rely on the availability and quality of data. Limitations related to data collection and availability may restrict the comprehensiveness of the analysis. In particular, data gaps or inconsistencies in historical records may affect the accuracy and reliability of the research
- **Time Frame:** The study's scope may be limited by the chosen time frame for data collection and analysis. Economic growth and policy effects can manifest over extended periods, and this study's duration may not capture long-term trends or delayed consequences of tax base expansion.
- **External Factors:** Economic growth can be influenced by a multitude of external factors, such as global economic conditions, political stability, and natural disasters. Isolating the precise effects of tax base expansion from these external factors may pose challenges.
- **Data on Informal Economy:** Informal economic activities are prevalent in many developing countries, including Malawi, and are often difficult to capture accurately in official records. The study may not fully account for the informal economy's contribution and its potential response to tax base expansion.
- **Causality vs. Correlation:** While the study aims to establish causal relationships between tax base expansion and economic growth, demonstrating causality can be challenging in observational research. The findings may highlight correlations rather than direct causal links.
- **Administrative Factors:** The success of tax base expansion policies can depend on administrative factors, including tax collection efficiency and enforcement. Limitations in administrative capacity or changes in administrative practices during the study period may affect the outcomes.
- **Policy Changes:** Taxation policies are subject to change over time. Any changes in tax policies during the study period may confound the interpretation of results, as the effects of these changes may be intertwined with the effects of tax base expansion.
- **Sampling Bias:** The selection of Machinga Boma as the case study area may introduce potential sampling bias. While efforts will be made to select a representative sample, the choice of this specific region may not fully capture the diversity of circumstances in Malawi.
- **Resource Constraints:** Limitations in terms of funding, time, and access to resources may restrict the depth and breadth of the research. Some potential avenues of investigation may not be explored due to resource constraints.

### **Research Hypothesis**

In line with the above objectives, the following null hypotheses were formulated:

- Null Hypothesis (H0): There is no statistically significant relationship between the widening of the tax base and economic growth in Machinga Boma, Malawi.
- Alternative Hypothesis (H1): There is a statistically significant relationship between the widening of the tax base and economic growth in Machinga Boma, Malawi.

## SCOPE OF THE STUDY

This study is focused on the effects of widening the tax base on economic growth within the subnational region of Machinga Boma in Malawi. It does not encompass the entire country but rather zooms in on the specific context of this region. The study will cover a specified time frame that includes historical data on tax base expansion and economic growth within Machinga Boma. The exact time period will be determined during the research design phase. The study will also examine the effects of tax base widening policies within Machinga Boma, including changes in tax rates, coverage, and exemptions, as they relate to economic growth. The research will focus on key economic indicators, such as GDP growth, employment generation, and poverty reduction, as primary measures of economic growth. The choice of Machinga Boma gave an opportunity to the researcher to acquire enough information on revenue data through the Malawi Revenue Authority, Malawi Chambers of Commerce and Industry among others. The study population comprised of employees of MRA, shop/grocery owners, barber shops, salon owners and land owners. The study will explore the policy implications of its findings, offering recommendations to inform fiscal policies at both the local and national levels in Malawi. The research will employ a combination of quantitative and qualitative research methods, including data analysis, surveys, interviews, and literature review, to investigate the research questions and test the hypotheses. It will also engage with relevant stakeholders in Machinga Boma, including local government authorities, businesses, taxpayers, and other relevant actors, to gather insights and perspectives on the research topic. The study will acknowledge its limitations, including potential data constraints, generalizability issues, and the challenges associated with establishing causality in observational research. While the primary focus is on Machinga Boma, the study may make limited comparisons with other regions in Malawi to provide context and insights where relevant. The research will emphasize practical implications and the applicability of its findings to real-world policy decisions and economic development strategies.

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## 2: LITERATURE REVIEW

### 1.1 Introduction

The previous chapter presented the introduction, background, research objectives, research questions, scope and significance of the study. This chapter analyses and reviews the underpinning literature and it starts with the definition of the most important concepts and moves on focusing on the theories and then the empirics' literature. The presence of the government or public sector is justified because of existence of public goods and services which must still be supplied in one way or the other. Government services therefore require that there should be resources to certify this important task. Ever since the recorded history human societies became the large complex and technologically sophisticated, they need a referee, a rule settler an authority for resolving disputes. Many of these rules and disputes are economic in nature (Ulbrich, 2011)

### Literature Review

The government of Malawi Established the Malawi Revenue Authority to collect the taxes to support the Budget. The Malawi Revenue Authority that was established by an act of the parliament in 1998 and launched in February, 2000 with an aim to do the assessment, collection and accounting for Tax revenue on behalf of the government. Malawi Revenue Authority was formed to improve on the behalf functions previously carried out by divisions of customs and Excise and income Tax in the Ministry of finance. The Tax revenue authority collects goes to the government for the implementation of various social economic development projects such as construction of Roads, Bridges, Schools, Health facilities and provisions of social services which include; National security, provision of salaries for civil servants such as the Police, the Army, Judges, Doctors, Nurses and Teachers (Malawi Revenue Authority, 2019). Broadening of the tax base can raise higher tax revenue which can help to support the government budget to easily fund its expenditure in the country.

However, Malawi is faced with high incidences of tax evasion and avoidance by tax payers, leading to low level of government revenue which further reduces the level of government expenditure, culminating into a reduction in the income saving and expenditure into of households and firms, leading to low level of economic activities and economic growth (Cornelius M Ojong, Orga Anthony, 2016).

Malawi has a small tax base as less 20% of its total current population which is estimated at about 18 Million people are the ones paying (NSO, 2018). This narrow base exists because of high prevalence of information currently estimated at 89% and unwilling to pay tax among the citizens (Malawi government 2019). These tax challenges generates a vicious cycle, where Malawi remains poor because they are unable to mobilize revenue to invest in public goods which highlights a key development challenges among policy makers, on what policies can build governments' ability to raise the tax base and revenue and leverage that revenue to provide public goods in developing countries (Clos, 2015).

Tax base broadening can be one of the measures that can eliminate the effects of tax rates cuts on the budget deficits as this can lead to increase in revenue and also increase the economic activities in the country. In addition these fiscal measures lead to re allocation effects of resources across sectors towards the highest value economic use, resulting increased efficiency and potentially raising the overall size of the economy (Gale et al. ,2015)

The very existence of the government or public sector is justified because of public goods and services which must be still be supplied in one way or another. Government services therefore require that there should be resources to satisfy this important task. From, before the recorded history, human societies have felt the need for the need to have the government. Very small societies may get by with relatively little government, but once societies may become large then, the complex and technological sophisticated, they need a referee a rule setter an authority for resolving the disputes. Many of these these rules and disputes are economic in nature (Ulbrich 2011)



The government of Malawi established the Malawi Revenue Authority to collect taxes to support its budget. The Malawi Revenue Authority was established by the act of the parliament in 1998 and was launched in February, 2000 with an aim to do the assessment, collection and accounting for tax revenues on behalf of the government.

Malawi Revenue Authority was formed to improve on the functions previously carried out by the Division of customs and excise and income tax in the ministry of finance. Tax Revenue the Authority collects goes to the government for the implementation of various Social –economic projects such as construction of roads, bridges, schools, Health facilities which include in the National security systems provision of salaries to civil servants such as police, Military, Doctors, judges, Nurses and many more (MRA, 2019)

Broadening the tax base can raise higher tax revenue which can help the government budget to easily fund its expenditure in the country.

However, Malawi is faced with high incidence of tax evasion and avoidance by tax payers, leading to low level of the government revenue which further reduces the level of the government expenditure, culminating into a reduction in the income, saving and expenditure of households and firms, leading to low level of economic activities and economic growth (Cornelius M. Ojong, Ogar Anthony, 2016)

In addition, Malawi has a small tax base as less than 20% of its current to population estimated at about 18 million are the owners paying tax (NSO, 2018). This narrow tax base exists because of high perseverance of informality currently estimated at 89% and unwillingness to pay taxes among its citizens (government of Malawi, 2019).

The tax challenges generate a vicious cycle where Malawi remains poor because they are unable to mobilize revenue to invest in public goods which highlights a key development challenge among policy makers on what can build governments' ability to raise the tax revenue and leverage that revenue to provide public goods in developing countries (Clos, 2015)

Tax base broadening can be one of the measures that can eliminate the effects of tax rate cuts on budget deficits, as they can lead to increase in Revenue and also increase the economic activities in the country.

In addition these Fiscal measures lead to reallocation effects of resources across sectors towards their highest value economic use resulting in increased efficiency and potentially raising the overall size of the economy (Gale. Et al, 2015).

This proposal therefore contains back ground of the study, problem statement, Research objectives, Research question, and scope of the study, significant of the study, Literature review, and conceptual frame work, research time table, research budget and bibliography.

The limited tax base and the growing demand for public for public services attributed to the rise in population Covid-19, Cyclones Anna, Kenneth, Batsirai, Gombe and the deadly Cyclone, Freddy, Russia/Ukraine wars and the devaluation of Malawian currency, Cholera outbreak has led to a rapidly growing government fiscal deficit. In the past years from 2009 to 2017 government debt expenditure as a percentage of GDP has grown from 29.27% to 55.15% leading to an increase in the government deficit (World Bank, 2020)

This is worrisome to the already fragile economy of Malawi as this may lead to the overcrowding out of private investments. This rise in public debt is an indication that Malawi needs to rethink and create better domestic resource mobilization by the public sector in order to reduce the public debt and meet the obligation of supplying public goods and services to the citizenry. Given the rising government expenditure trends in Malawi from 2013-2020, Malawi need to raise its tax revenues to fund activities of its government.

It is the task of the public finance expert to figure out how to design revenue systems both efficiency by minimizing distortion in the house hold and business decision and equitable distribution of the burden fairly.

Figuring out how to best raise revenue has been a central concern for the public sector experts' at least since Adam Smith devoted an entire book of the nations (1776) to the revenue of the sovereign include his famous dictum that the taxes one party pays should be proportional to the revenue enjoyed under the projection of state David Ricardo himself a student of Smithian Classical thought and an important nineteenth Century figure in the History of the macro economic theory titled his most famous book principles of political economy and taxation. This is therefore a concern for public finance expert to explore means of expanding the revenue base without punitive of the some including the thin cow phenomenon so that everyone can pay tax (Rosen, 2010)

In the past 5 decades the Malawi tax system has undergone a number of the policy reforms with varying objectives, either in the short or long term. The objectives were to increase revenue generating base.

## **THEORETICAL AND IMPORTANT CONCEPTS**

### **1.2 Public Finance**

Public Finance is the study of the role of the government in the economy. It is the branch of economics which assesses the government revenue and government expenditure of the public authorities and the adjustment of one or the other to achieve desirable effects and avoid undesirable ones. Public finance has to play a special role of promoting economic growth in the developing countries besides maintaining price stability. Public revenue, public expenditure, Public debt, financial administration and public budgeting are the major subject matter of the public finance. Government can therefore push up the industrial and economic development of the country, provide more employment opportunities, encourage investments and savings in the desired direction and increase social benefits through public expenditure (Ishwor, 2020)

## Tax Base

Tax base is defined as an increase in “the aggregate value of income, sales or transactions on which particular taxes are levied. In this regard, the definition offered for any given tax type like corporate or personal income tax or value-added tax or any movement towards capturing the entire potential number of taxable entities, activities or values is viewed as entailing a broadening of the tax base (Rosen, 2010). Kagan defined tax base as the total amount of assets or income that can be taxed by a taxing authority, usually by the government. The South Africa’s National Treasury defined tax base as the aggregate value of income, sales or transactions on which the Government can tax.

There are two types of Tax base, namely; the *potential* tax base and the *actual* tax base. The potential tax base includes all relevant economic activity, while the actual tax base is often much smaller because governments grant exemptions (Rosen, 2010). When the potential tax base of the Goods Sales Tax (GST) includes all goods and services sold in Australia in a given year, the actual tax base excludes many goods and services. For instance, the sales of certain foods, childcare costs, and health services are GST exempt.

### 1.2.1 Tax Reforms

Tax reforms are undertaken for different reasons. Several countries have implemented tax reforms with different aims, for instance; Uganda, Australia and RSA. The aim of implementing these reforms in Uganda has undertaken reforms geared towards broadening the tax base and increasing domestic revenue mobilization. However, despite this observed growth in revenue collections, Uganda is still below potential when other indicators such as revenue or tax to Gross Domestic Product (GDP) ratio are considered. This is due to the weaknesses in the tax administrative system, high levels of informality, tax evasion, detrimental tax incentives and a narrow tax base (Civil Society Budget Advocacy Group, 2017).

Through its tax reform, Australia was able to reduce distortions to decisions about the structure and operation of businesses and about the composition of saving and investment. In addition to that, the reforms made Australia to have a more productive economy, together with the effect of lower tax rates and made her a relatively more attractive location for internationally mobile skilled labour and capital, which has helped to generate dynamic economic growth gains which flow to low income as well as to high income taxpayers (Freebairn, 2015).

South Africa took steps to broaden its tax base by reforming its fiscal policy. The results of these reforms were that as the tax base was increased the Government was able to lower its tax rates which led to an increase in economic growth, as the reductions meant that the economic activities were incentivised in the country, and thus stimulating economic growth due to the increase in the business enabling environment attributed from the reductions in tax rates (Calitz, 2019).

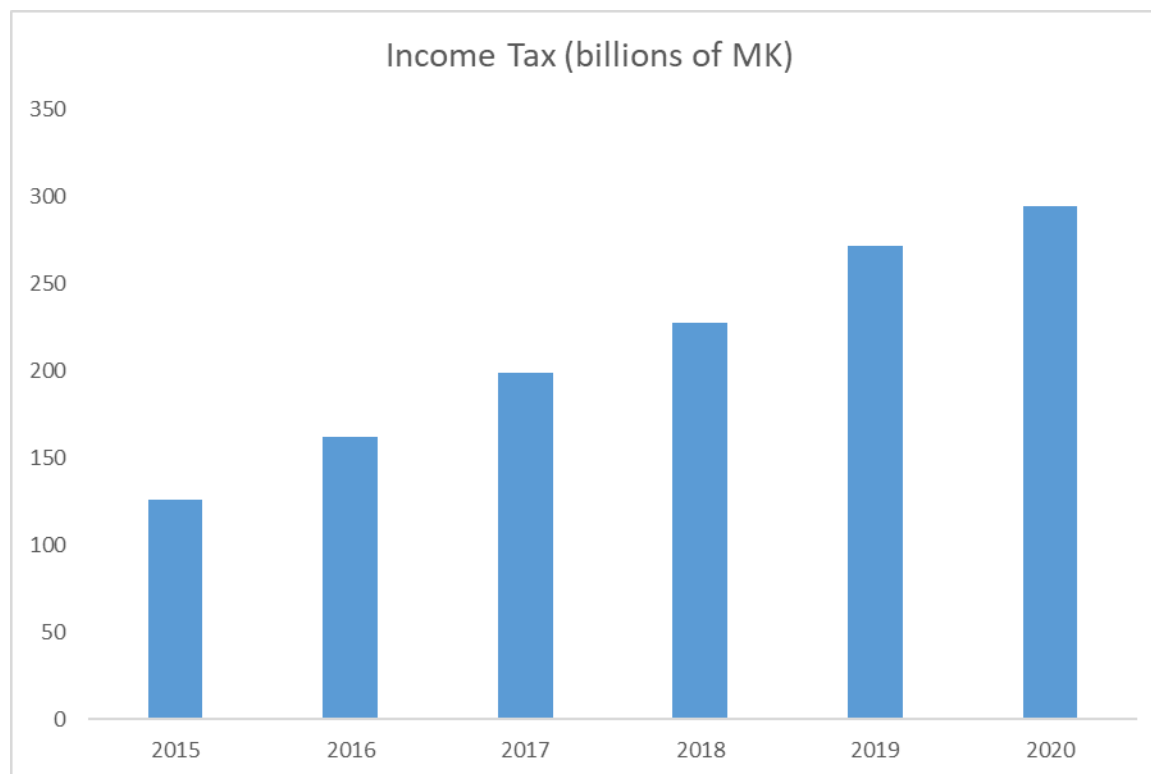
Other developing countries are often advised to broaden their tax base as well. In this regard, Malawi is not spared. The Malawian fiscal authorities have at various times claimed to do so, inter alia in order to reduce tax rates. The first reform covered the period between 1969 to 1977, 1978 to 1984 and 1985 to 1999 with an aim to increasing savings and investment levels and discouraging consumption of imported luxury goods, responding to the increased pressure on Government expenditure and also to improve efficiency and equity of the tax system; encouraging a free trade market; increasing the level of Foreign Direct Investment (FDI); increasing tax collection and improve the tax administration respectively (Government of Malawi, 1987) to (Government of Malawi, 1999).

Among the reforms in 1999, one of them was the introduction of new taxes to widen the tax base, gradual reduction of direct tax and import tariff rates; the inclusion other forms of income into the tax base and goods and services that were previously not taxed; and the increase of excise rates and the rationalization of surtax.

Again Malawi, in the year 2020 has also undergone new tax reforms aimed at broadening tax base with an aim of achieving wealth creation and economic sustenance. However, no research has been done to find out whether this new tax reform will be effective or not.

### 1.3 Income Tax

Income tax is one of the major contributor of taxes attributed to over 65% of the fiscal budget in Malawi (*Final Report Study of Malawi Taxation System Area 25*, n.d.). Whenever the income taxes are going up, it simply shows that the economy is growing but whenever the income taxes are going down, it shows that the economy is not growing. It is not like that with the case for Malawi. The case for Malawi is that, the economy keeps growing but the tax revenue does not match the rate at which taxes grow and do not match the rate the economy grows.

**FIGURE 2: Trend showing how income tax grow through years**

(Malawi Revenue Authority, 2019)

## 1.4 THEORIES

### 1.4.1 Keynesian Approach Theory

**Keynesian economics** is a theory that says the government should increase demand to boost growth. Also believe consumer demand is the primary driving force in an economy, as a result, the theory supports the expansionary fiscal policy. Its main tools are government spending on infrastructure, unemployment benefits, and education. President Franklin D. Roosevelt used Keynesian economics to build his famous New Deal program by increasing the debt by \$3billion to create 15 new agencies and laws. Keynes advocated deficit spending during the contractionary phase of the business cycle.

### 1.4.2 Pareto Optimality Theory

**Pareto Optimality theory** – is the measurement for efficiency named after Vilfredo Pareto and it assumes that an economic state where resources cannot be reallocated to make one individual better off without making at least one individual worse off. The condition is that, the marginal rate of substitution between any two products must be the same for every individual who consumes both.

Trade off, if government is going to increase the tax rate without broadening the tax base it means that people are either in an inefficient tax system or the government is not helping the people, it means that welfare is going to be eaten away, but if government is able to lower the tax rate and increase the tax base. If that is a possibility, it means that for one to gain this, you have to reduce that, and that is taking away resources from somewhere.

### 1.4.3 Theory of Taxation

The core of Ibn Khaldun's theory of taxation in his own words is 'to lower as much as possible the amount of individual imports levied upon persons capable of undertaking cultural enterprises. In this manner, such persons will be psychologically disposed to undertake them, because they can be confident of making a profit from them'. Thus, he advocates for decreasing the burden of taxation on the private sector, as this leads to encourages economic activities in the real sector. The reductions in tax rate leads to an increase in the number of formal enterprises which later on increase the tax base. In consequence, the tax revenue increases from the resulting effect of the widening Tax base (Holley, 2013).

He further asserts that a high tax rate is no guarantee of revenue maximization due to the impact of diminishing effect on revenue and calls for proper public finance management. Because higher tax rates discourage work effort and encourage tax avoidance and even tax evasion thus shrinking the tax base as the rates increase. Therefore, an increase in a tax rate causes a less than proportional increase in tax revenue. It is very obvious that at a tax rate of zero percent, the government would collect no tax revenues, no matter how large the tax base. Likewise, at a tax rate of hundred percent, the government would also collect no tax revenues because no one would willingly work for an after-tax gain of zero leading to a zero tax base scenario thus between these two extremes there would be a tax rate that would collect the maximum amount of revenue leading to revenue maximization (Holley, 2013).

### 1.4.4 Laffer's curve

Laffer's curve theory states that at a zero-tax rate, there is no tax revenue. At a 100 percent tax rate, taxable economic activity is pointless, so there will be no tax base and there will again be no revenue. Between those extremes, the tax system will generate revenue, but there are trade-offs between the revenue-increasing and revenue-decreasing effects of higher rates. This indicated that the choice of tax rate has an impact on the eroding of the tax base. This implies that Malawi needs to reform its tax regime in order to widen its tax base which will result into higher tax revenue and eventually reduce the crowding out effect on the economy.

#### 1.4.5 The cost of Service theory

According to the cost of service theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service (Jhingan, 2009). This theory believes that tax is similar to price. So, if a person does not utilize the service of a state, he/she should not be charged any tax. Some criticisms have been levelled against this theory.

According to Jhingan (2009), the cost of service theory imposes some restrictions on government services. The objective of government is to provide welfare to the poor. If the theory is applied, the state will not undertake welfare activities. Furthermore, it will be very difficult to compute the cost per head of the various services provided by the state again, the theory has violated the correct definition and tenets of tax. Finally, the basis of taxation as propounded by the theory is misleading. The limitations pertaining to this theory led to the bringing up of a new theory, the benefit received theory of taxation. According to this theory, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The government confers some benefits on tax payers by providing social goods which the tax payers pay a consideration in the form of taxes for using such goods. The inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Ahuja, 2012). The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole (Bhartia, 2009).

According to Musgrave and Musgrave (2006), the distribution function deals with the distribution of income and wealth to ensure conformity with what society considers a fair or just state of distribution. The stabilization function of taxes seeks to attain high level of employment, a reasonable level of price stability, an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments.

Holley (2012) argued that widening the tax base makes increasing Government revenue whilst reducing tax rate possible which implies that Governments are more likely to introduce tax incentives which have positive effects in stimulating economic activities in the country which leads to higher economic growth in the economy.

Auriol (2004) indicated that high informality rates in developing countries like Malawi is indicated of market barriers pertaining to entry fees and regulation costs. The high market barriers are the cause of high informality rates currently estimated at 89%. These barriers lead to the blocking of the emergence of micro small medium enterprises and lead to emergence of a few large enterprises which provide higher tax revenue to the country. This is the situation in which the country has a narrow tax base which is heavily taxed to support the fiscal budget. Auriol argued that reforming the tax regime in the country like Malawi will lead to the increase in formalizing of the economy which will widen the tax base and result into higher Government revenue which can be used to provide public services to the population and stimulate economic growth.

Kalas et al (2018) found that widening the tax base in Serbia and Croatia has a positive impact in increasing economic growth of these countries. The Author noted that as the tax base was growing in his period of study so did the GDP increase which showed a positive relationship between the tax base and economic growth (Kalas B. Mirovic V. Milenkovic N, 2018).

Adereti, Sanni and Adesina (2011) studied value added tax and economic growth in Nigeria. Time series data on the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2008 sourced from Central Bank of Nigeria (CBN) were analysed, using both simple regression analysis and descriptive statistical method. Findings showed that the ratio of VAT Revenue to GDP averaged 1.3% compared to 4.5% in Indonesia, though VAT Revenue accounts for as much as 95% significant variations in GDP in Nigeria. A positive and significant correlation exists between VAT Revenue and GDP.

Gale et al (2015) investigated the relationship between taxes and economic growth. He found out that the increase in tax base through widening up into property taxes lead to a significant increase in the GDP. He later on cited that increasing the tax base and in ways that do not increase the tax burden has the most significant impact on increasing economic growth in the country (Gale W.G. Krupkin A. Reuben K, 2015).

Ojong (2016) examined the impact of tax revenue on the Nigerian economy. He found that there is a significant relationship between tax revenue and the economic growth. He later on did find out that widening the tax base is a great tool for increasing the economic growth of the country. He further advises Government in developing countries like Malawi to find ways in which they can avoid problems of tax evasion and avoidance which decrease the tax base and are detrimental to the economic growth of the country (Ojong C.M. Anthony O. Arikpo O.F, 2016).

Norman (1988) found that increasing the tax base with aims of reallocating resources from the private to public sector for public service delivery stimulates economic growth through the budget multiplier (Weltarchiv V, 1988). He stated that in the Keynesian tradition it has been argued that the generally lower utilization of resources in Low Developing Countries compared with Developed Countries render tax policy a potent instrument for expanding economic activity. He later on stated that increasing tax base in an economy with aims to finance public debt has detrimental effect in the real sector and eventually leads into crowding out effect.

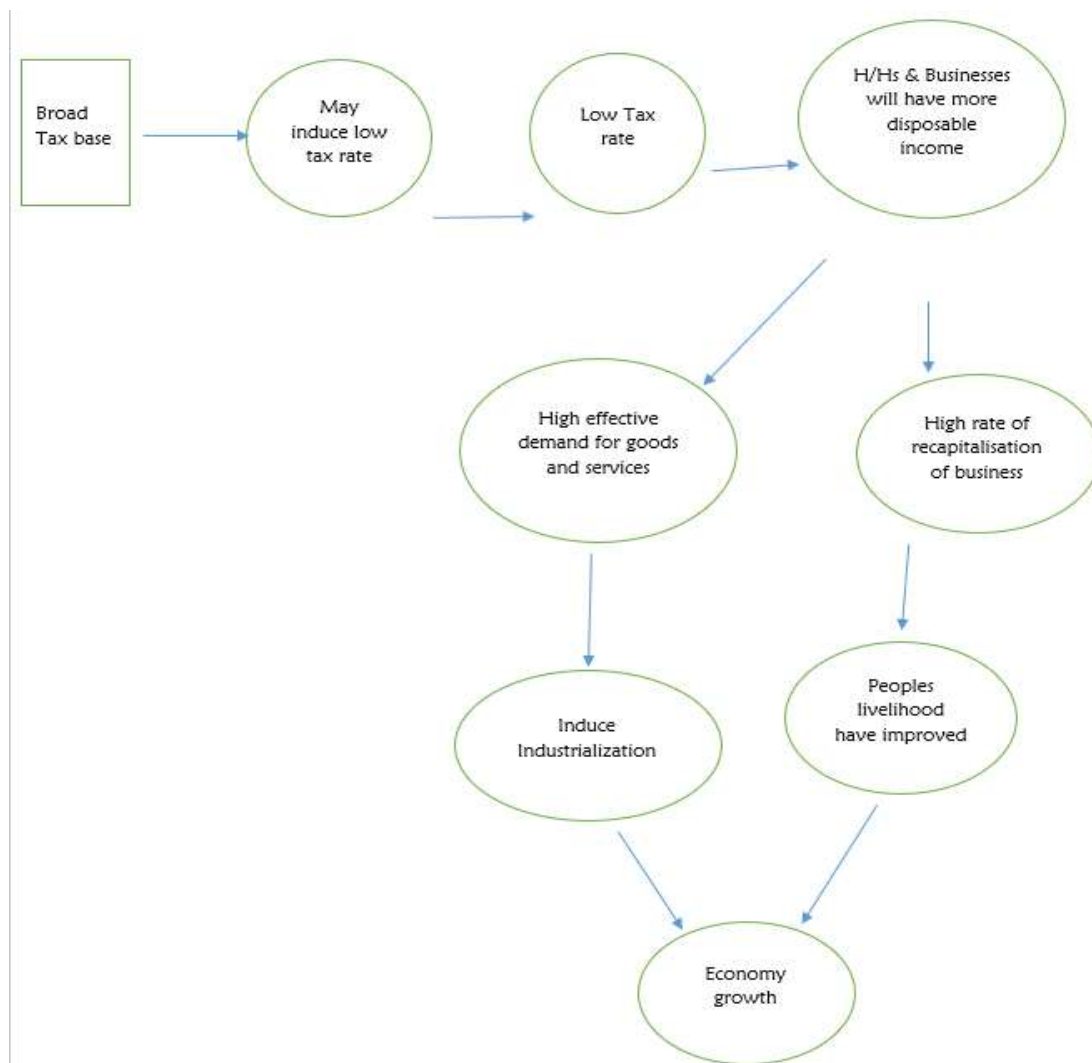
Studies by the World Bank have shown that further efforts that have been done by the Malawian Government to rationalize a high number of fiscal incentives, while rebalancing the tax mix and expanding the Tax base, could stimulate economic growth in the country. This shows that widening tax base has an impact on lowering tax rates which leads to an increase in economic growth (World Bank, 2019).

Mertens (2012) found that the empirical relationship between tax base and economic growth to be positive. She argued that providing tax incentives to the economy i.e. reducing corporate tax has an effect of stimulating economic growth and Government revenue in the long run (Mebride W, 2012;1945).

Civil Society Budget Advocacy Group CSBAG) asserted that widening the tax base leads to increase in Government Revenue which eventually declines Government borrowing, which reduces the detrimental crowding out effects on the economy and eventually increases economic growth (Civil Society Budget Advocacy Group, 2017).

Studies by the World Bank shows that the revenue base in the country is limited which leads to poor revenue performance, and this in combination with overruns in the recurrent budget, resulted into high fiscal deficits which lead to negative effect on the economic growth due to crowding out effect (World Bank, 2019). Furthermore, evidence shows that over the past years, fiscal debt as a percentage of GDP has been over the recommended amount of 4% by SADC which is detrimental to the economic growth as shown by the stagnant growth experienced in the county over the years (UNICEF, 2019).

#### 1.4.6 Conceptual Framework



## RESEARCH METHODOLOGY

### Introduction

The research methodology discussed in this chapter on the area of study, research design, data collection methods, subjects of the study, sampling techniques, analysis of data techniques, study limitations as well as ethical considerations. The methods and tools for data collection applicable to the research design and analysis was covered in the research design. Lastly data analysis and further recommendations for the study concluded this chapter.

Figure 3: Shows the research design

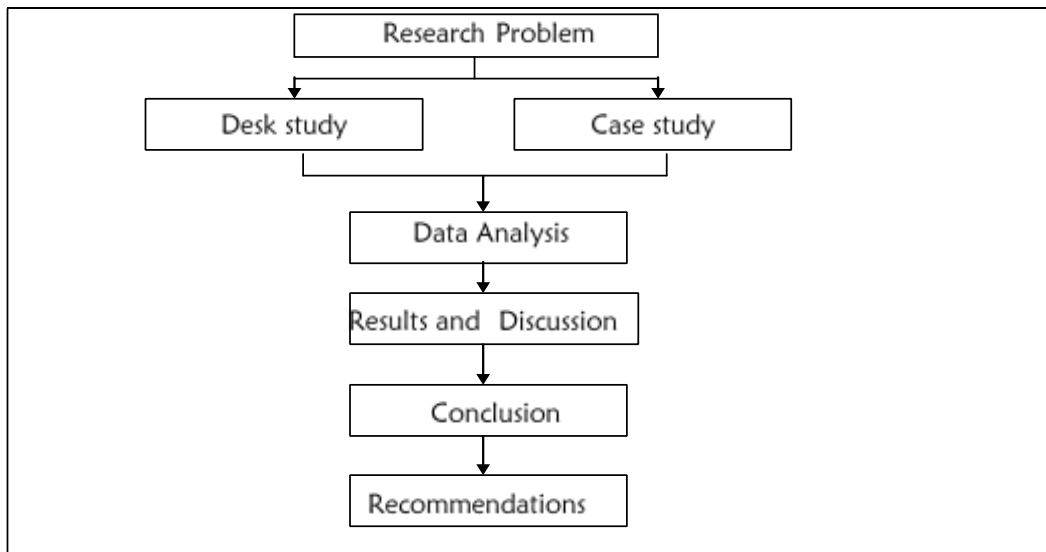
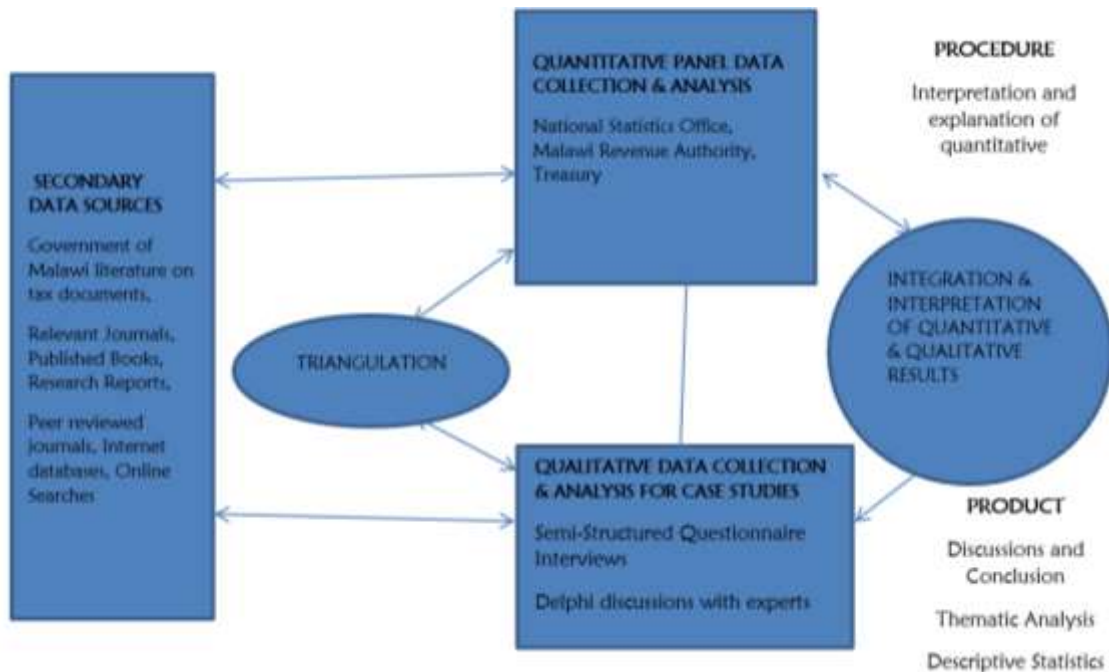


Figure 4 shows Step by step research methodology of the study



*Source: Adapted from Yilmaz (2013) and Creswell (2014)*

### 1.5 Research Approach

A research approach was either deductive or inductive and its selection depended on the previously made choice, research aims, limitations and personal opinions.

**Deductive:** This research approach tends to flow from generic to specific. It starts with theory and move on to research question or hypothesis which is tested through data collection afterwards. In the end, findings derived from the collected data would either confirm or reject the research question or hypothesis. **Inductive:** This type of reasoning or approach is used or helpful when there is little research available on a topic. A researcher has to move in the opposite direction from research question to observation and observation to analysis before finally getting on to theory (Saunders et. al., 2019).

However, a deductive research approach is more preferred and applied in this study as it starts with small and gets bigger. It starts with a specific hypothesis that has been developed based on information or patterns that have been observed by the researcher. It then seeks to test this hypothesis and develop a broader theory from it. The primary data that will be collected here will be meant to test and validate the prior hypotheses postulated through literature review, which will be the secondary source of data.

## 1.6 Research Strategy

This research strategy is concerned with how a researcher plans to collect data for the project in question. Such data collection methods could include experiment, survey, case study, action research, grounded theory, ethnography and archival research. **Survey** has been selected to be used in this paper. A Survey design often results from a deductive approach and is capable of collecting large volume of data that is apt for statistical analysis. The collected data helps answer research question or hypothesis in a cost-effective manner (Saunders et. al., 2019).

## 1.7 Research Choice

The choices in the research opinion include the Mono-method, the Mixed-method and the Multi method. The **Mono-method** takes place when the researcher goes about collecting either qualitative data or quantitative data based on the previous research opinion. **Mixed-method** on the other hand, takes place when a researcher collects both quantitative and qualitative data with an aim to use them equally in the research study, data collection and analysis. Lastly, **Multi-method** means that both qualitative and quantitative data collection techniques are used. However, analysis of the collected data is done using one perspective only. On this paper a Mixed-method research was preferred and a researcher opted for qualitative research approach because it concentrates much on words and observations to express reality and attempts to describe people in natural situations (Amaratunga et al 2002). Qualitative research attempts to define preliminary questions, which eventually addressed in quantitative studies. As much as the study paper was qualitative, it employed a bit of quantitative approach in its analysis as a researcher intended to use E-views and Stata computer software to aid in the explanation of charts and frequencies and the use of questionnaires in collection of data (Campbell and Fiske, 1959).

## 1.8 The study population

The population is the entire group that a researcher wants to draw conclusions about and this study population was 200 respondents. Data collected from these specified categories went a long way by giving a clear picture of the situation on the ground.

The researcher targeted MRA employees with a minimum of three years' work experience, shop/grocery owners, barbers/salons and land owners (who are not paying taxes at the council). It was assumed that all parties within this specification be able to discuss the subject matter and hence effective contribution to the subject matter under study. Stratified sampling method was employed on this project as it involves dividing the population into subpopulations that may differ in important ways. This allowed a researcher to draw more precise conclusions by ensuring that every subgroup (called strata) is properly represented in the sample based on gender (male and female). To select a sample from each subgroup, a systematic sampling was executed where by every member of the population was listed with a number and individuals was chosen at regular intervals (McCombes, 2019).

## 1.9 Data collection

A Mixed approach research choice in which quantitative and qualitative research methods was used. In this, Country-level data was gathered from secondary sources including case studies, published articles, books, government surveys and statistics, and grey literature.

Data was collected using questionnaires and key informant interviews. The respondents were selected from the targeted group. The assumption was that the respondents were better understanding of the nature of the subject matter. The study was conducted using self-administered questionnaire that was sent partly to MRA employees through email and the remaining group of respondents was sent by hand delivered by the researcher. This type of questionnaire administration was chosen to enable all respondents to fill in their own opinion. Informant Interviews helped the researcher obtain information in a way that allowed detailed questions to be asked as well as ambiguities to be clarified and incomplete answers followed up by using both open ended and closed ended questions on top of piloting the questionnaire with colleagues in order to refine or modify the research questions. The variables that were used to conduct the regression analysis were Tax base, Value Added Tax (VAT), Foreign Direct Investment (FDI), Government Investment budget, Fiscal debt, Real GDP and Income tax.

### 1.9.1 Primary sources

The primary data collection methods included questionnaires, Delphi discussions with experts and informant interviews. Data analysis was performed on the semi-structured questionnaires that were used for respondents during interviews using a mix of qualitative and quantitative methods.

#### 1.9.1.1 Questionnaires

A questionnaire enabled informants to have enough time to understand and respond at a free and comfortable time. In this research, questionnaires were used to collect data from the sample population. This method of collecting data was chosen because it saves time. Not only that, but also for easy generalisation of the target population. In addition to achieve that, this method greatly reduces interview bias. In order to obtain clear information about the people, the questionnaire was designed in such ways that it helped obtain different views from different people. The questionnaire was composed with both open and closed ended questions in which respondents were able to express their views.

#### 1.9.1.2 Key Informant Interviews

These were qualitative in-depth interviews with people who know what is going on in the tax administration and business traders and the purpose are, to collect information from a wide range of people who have first-hand knowledge about the effects of different measures to enhance tax base/tax collection in this country. Thus, in-depth interviews were employed where necessary because they presented a means of getting beyond surface appearances and permitted greater sensitivity to the meaning of the contexts surrounding informant utterances (Schutt, 2001, pp.263). Marshall (1996, pp. 92), also adds

that; “Key informants, as a result of their personal skills, or position within a society, are able to provide more information and a deeper insight into what is going on around them”.

### 1.9.2 Secondary sources

In addition to the above-mentioned data collection methods, secondary data also played a crucial role to the study. Secondary data were collected through an extensive review of current literature based on studies, surveys, reports and assessments on the issue of the effect of raising revenue and supporting countries in growing their tax base. An extensive search was made of texts on the subject area through the internet. According to Nkhata (2009), secondary data is very useful as it helps in validating the data obtained both through questionnaires and interviews. It also improves the researchers understanding of the problem at hand.

### 1.10 Data analysis

The researcher used both descriptive and inferential statistics. The results of close-ended questions were assessed using a five-point Likert scale ranging from 1 to 5. “Strongly disagree” scored 1, “Disagree” scored 2, “Neutral” scored 3, “Agree” scored 4, and “Strongly agree” equaled to a “5” score. To analyse the results which were obtained from the respondents, then the Weighted Mean Score was calculated using STATA. For the open-ended questions, personal interpretation to reasonably score the textual answers specified by the respondents was employed. Evaluative measures consisting of mean scores were computed for all factors defined and factors ranked at the top 3 was put forward and analysed. In this study, data analysis of information that was collected through questionnaires was done by utilizing the STATA. To identify participants’ pattern of responses, data was presented in graphs and tables.

Regression analysis with the least squares approach was adopted to analyse the impact of several variables on economic growth. These variables included Tax Base, level of foreign direct investment, domestic real capital formation and government expenditure.

A growth model was adopted where economic growth was the dependent variable economic growth for one equation and welfare for the other equation. The welfare effects of changes in tax base were then analysed using elasticity’s.

$$EG_t = \beta_1 + \beta_2 Taxbase_t + \beta_3 FDI_t + \beta_4 DINVEST_t + \beta_5 GEXP_t + EG_{t-1} + \varepsilon_t \quad (1)$$

Equation number 1 is a generic growth model which operationalized through Ordinary Least Squares Method. After conducting diagnostic tests, the model was subjected to further changes to deal with such problems as multicollinearity, heteroskedasticity and serial autocorrelation. Most likely, an autoregressive model was estimated.

### 1.11 Ethical consideration

Cassel, (2009) argues that, “A research must strive to protect subjects from undue harm arising as a consequence of their participation in research. This requires that subjects’ participation should be voluntary and as fully informed as possible”. In view of this, the research was conducted with full regard and respect to research ethics. It respected the respondents’ privacy, confidentiality, informed consent and voluntary participation.

Research design considered issues of confidentiality, problems of disclosure, and the need to ensure adequate and informed consent (Ellsberg & Heise, 2005).

### 1.12 Research Timetable

The following is a schedule of the research project; all activities that were undertaken throughout the whole project are explained below.

Month (s)	Targeted Activity(s).
June, 2021	
Week 1	Choice of Research Topic.
Week 2	Literature review, defining research objectives in line with available literature.
Week 3	Information gathering, evaluation and draft proposal.
Week 4	Information gathering, evaluation and draft proposal.
July, 2023	
Week 1	Writing research proposal
Week 2	Submission of research proposal.
Week 3	Sample Selection
Week 4	Sending of questionnaires
August, 2023	
Week 1	Sending of questionnaires



Week 2		Follow up on questionnaire
Week 3		Follow up on questionnaire
Week4		Primary data collection
September, 2023		
Week 1		
Week 2		Secondary data collection.
Week 3		Data analysis
October, 2023		
Week 1		Submission of first draft
Week 3		
Week 4		Revision of the first draft
Nov, 2023		
Week 1		Submission of final draft.
Week 4		

**Table 3. Month(s) and targeted activities.**

### 3: DATA ANALYSIS, PRESENTATION AND FINDINGS

#### Introduction

This chapter presents the results of the research findings. It presents the findings and gives an analysis of the data collection from various respondents who filled the questionnaires that were distributed. Both qualitative and quantitative analyses were used.

Several distractive analyses were made to achieve the objective of the study which was to establish the effects of widening tax base on economic growth in Malawi. Which also link between the tax bases and the economic growth in Malawi?

A case study of the Malawi Revenue Authority was selected. The responses will significantly contribute towards the effects of widening the tax base on Malawi's economy. In order to ensure confidentiality no name on the questionnaire was written.

#### 4.2 Presentation of findings

##### 4.2.1 Response Rate;

Samples of 200 questionnaires were distributed. All the questionnaires were answered and returned. This translates the response rate of 100%. Therefore the data analysis is based on 200 respondents.

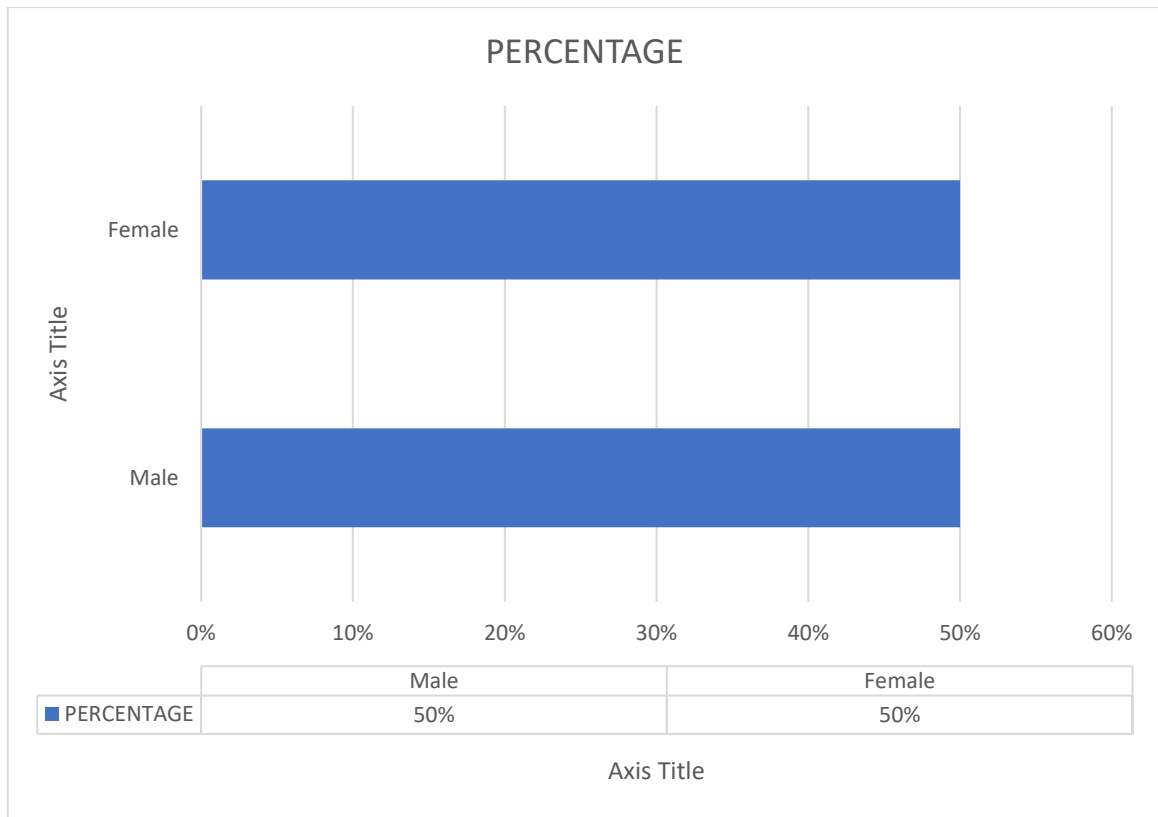
##### 4.2.1 Respondent;

**Table 4.1 Gender of the respondents**

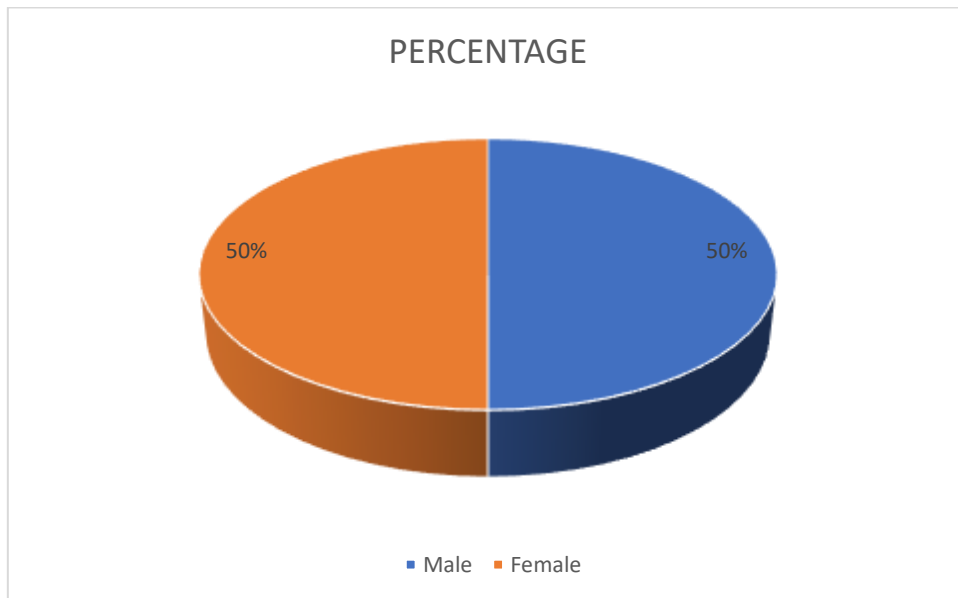
CATEGORY	NUMBER	PERCENTAGE
Male	100	50%
Female	100	50%

#### GRAPH 4.1 Gender of the respondent

To ensure that the results are not gender based, we ensured that 50% of the students were female and 50% were male students. In short, a 50-50 ratio for male and female interviewers was an achieved in this study and the results were shown in the bar graph and pie-chart below;



To ensure the efficiency of the data, the data above was also presented in a form of a pie-chart as shown below which also indicates that 50% of the total respondents were male and the other 50% of the total respondents were females.



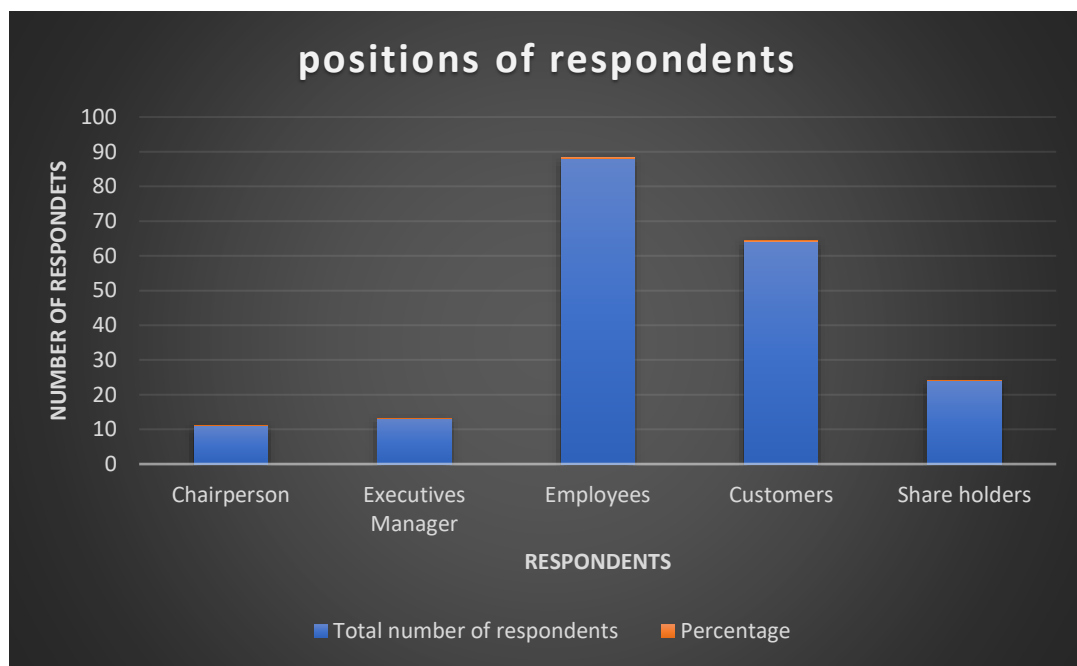
As it observed from the table 4.1 above and figure 4.1, out of the 200 respondents 100 were males and 100 were females .This means that Half of the respondents were Males and another half were women representing it to 100%.Therefore in this regards 200 respondents participated means it was 100 percent attendance .In this regards 50% of the sample were females and the other 50% were males, as the figures articulates.

1 Position of the respondents

Table 4.2

SCORES	RESPONDENTS	PERCENTAGE
11	Chairperson	5%
13	Executives Manager	7%
88	Employees	44%
64	Customers	32%
24	Share holders	12%

From the data above, the following bar graph was plotted for respondents against the total number of respondents;



The data collected was presented in form of a pie-chart and this is shown in the figure below;



**Explanation**

Table 4.2 and pie chart above concurs to each other in the way that it is telling us of personal information about the respondents from the sample and their position in various sectors; 11 respondents were the chairpersons represents 5% of the sample, Executive managers scored 13 from the respondents representing 7% of the sample and the Employees scored 88 respondents representing 44% of the sample, customer scored 64 representing 32% of the sample and finally shareholders scored 24 respondents representing 12% of the sample.

- **Chairpersons (5%):** Chairpersons are individuals who hold leadership positions within organizations. Their presence in the survey suggests that high-level decision-makers are interested in understanding the impact of tax base expansion on economic growth. Their insights can provide valuable perspectives on the policy and strategic implications of taxation policies within the context of Machinga Boma.
- **Executive Managers (7%):** Executive managers typically play a significant role in shaping an organization's strategies and operations. Their participation in the survey indicates that those responsible for implementing and managing policies are engaged in the research topic. Their input can provide insights into the practical implications of taxation policies on the economic activities of businesses and organizations in the region.
- **Employees (44%):** Employees represent the largest group of respondents, making up 44% of the sample. This substantial representation reflects the perspectives of the workforce in Machinga Boma. The responses from employees can provide crucial information about how taxation policies affect their income, job security, and overall well-being. Their views can also shed light on the local labor market dynamics and any potential disparities in economic outcomes.
- **Customers (32%):** The presence of customers, comprising 32% of respondents, is relevant as it offers insights into consumer behavior within Machinga Boma. Understanding how taxation policies influence customer choices, spending patterns, and overall economic activity is essential for assessing the impact on businesses and the local economy.
- **Shareholders (12%):** Shareholders, making up 12% of respondents, have a vested interest in the financial performance of organizations. Their participation highlights the importance of tax base expansion on business profitability and, by extension, the returns on investments. Their insights can provide valuable information on the financial implications of taxation policies for shareholders in the region.

2 Size of enterprise in turn over

Table4.3

1) Small	120	60%
2) Medium	80	40%

Pie chart4.3

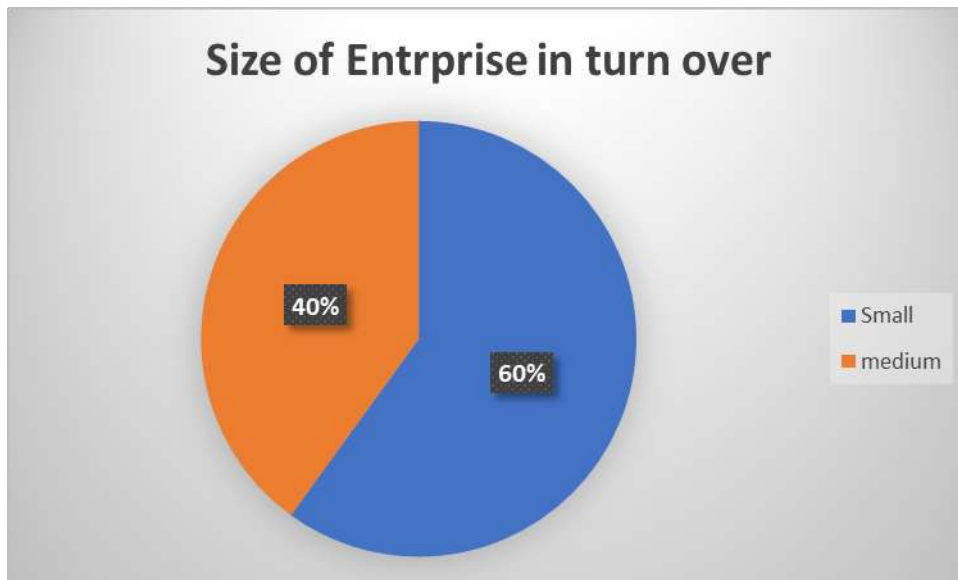


Table 4.3 above and the pie chart 4.3 agrees with that table above that the small enterprise score 120 respondents representing 60% of the sample and the medium enterprises scored 80 respondents representing 40% of the sample.

How many people are employed both temporally and permanently in the enterprise?

Table4.3

EMPLOYEES	SCORE	PERCENTAGE
1-5	80	59%
5-10	50	23%
10-15	40	10%
15 and above	30	8%

Graph 4.3

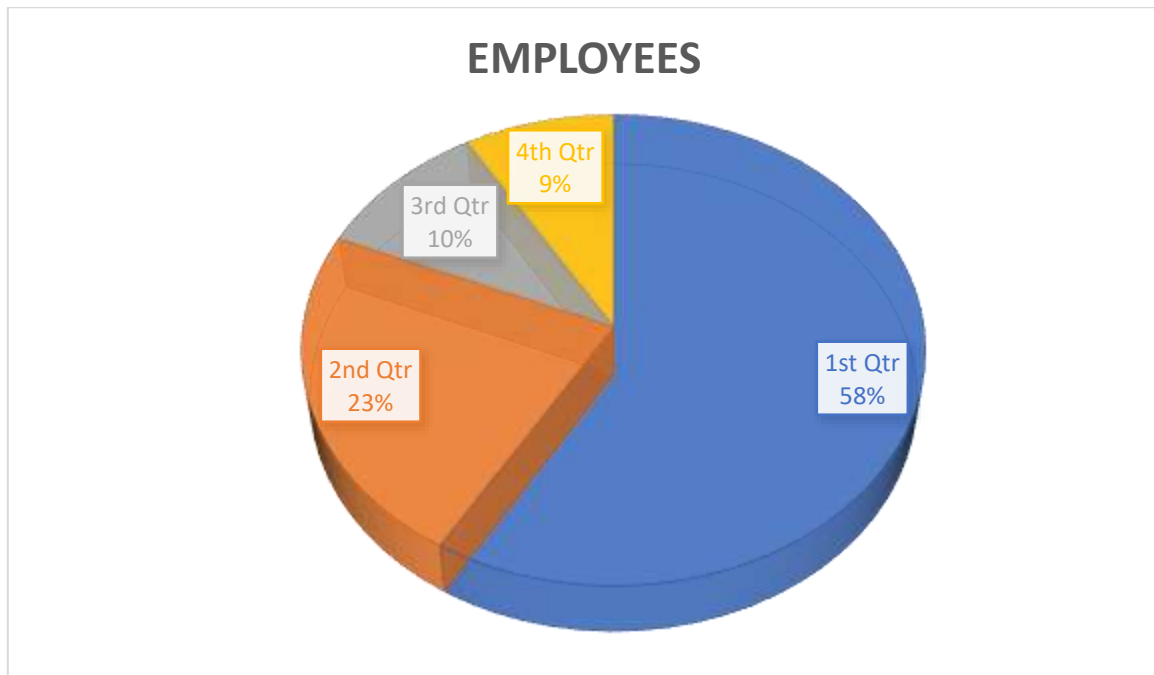


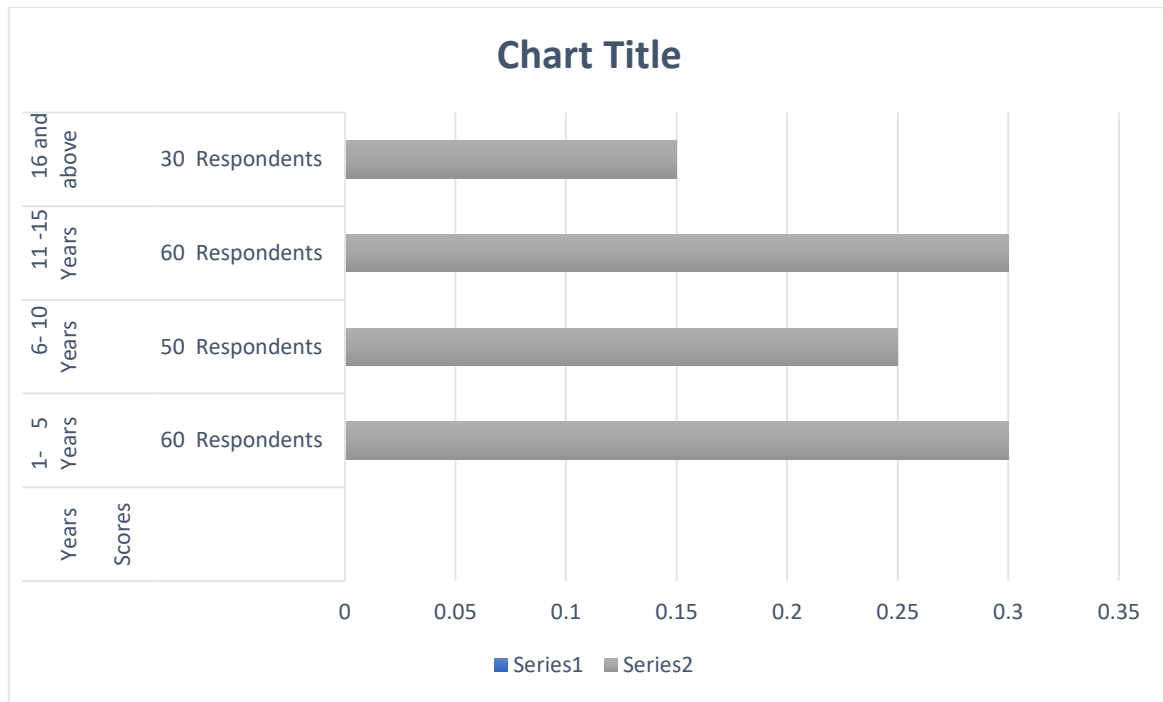
Table 4.3 and the graph 4.3 indicates the projection of how each and every enterprise employed people in the arena of how many and a percentage in the sample. In such it was articulated that 1-5 years employed 80 respondents representing 59% of the sample, 5 to 10 years employed 50 respondents representing 23% of the sample, 10 to 15 years employed 40 representing 10% of the sample and finally 15 and above years employed 30 representing 8% of the sample.

How long have you been a member of the enterprise?

Table 4.4

Years	Scores	Percentage
1- 5 Years	60 Respondents	30%
6- 10 Years	50 Respondents	25%
11 -15 Years	60 Respondents	30%
16 and above	30 Respondents	15%

The information above was also presented in form of graphs as shown below;



Then the data was also presented in form of a pie-chart indicating the total number of respondents against its frequency. This is shown in the graph below;

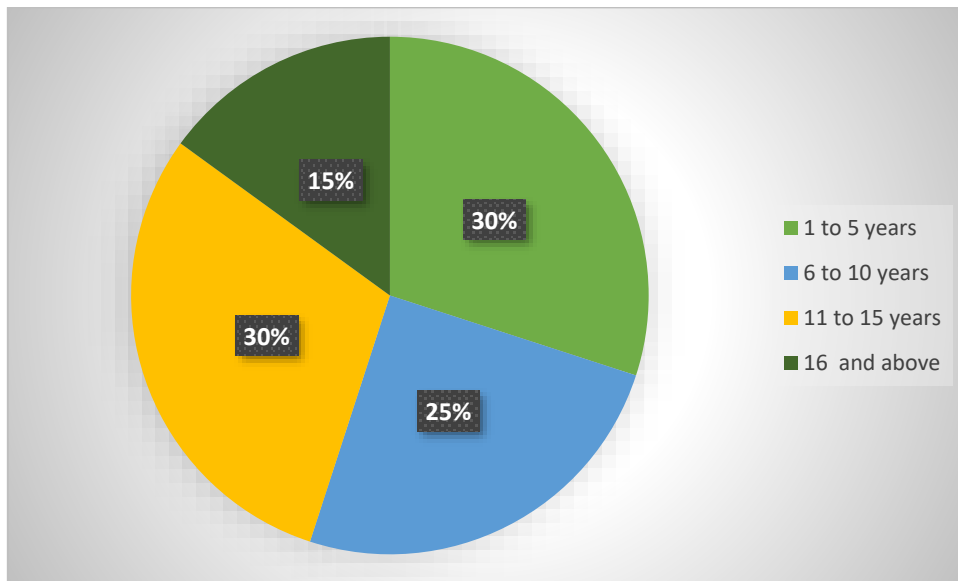


Table 4.4 and the Graph4.4 above projects on how long each and every respondent has been a member of the enterprise in this it all articulates that respondents from 1 to5 years scored 60 respondents representing 30% of the sample, 6 to10 years scored50 respondents representing 25% of the sample, 11 to15 years scored 60 respondents representing30% of the sample and finally 16 and above scored 30 respondents representing 15% of the sample.

Table 4.5

**PERSONAL AGES**

18 -30	31 Respondents	15%
31 -40	69 Respondents	35%
41 -50	42 Respondents	21%
51 -60	38 Respondents	19%
61 and above	20 Respondents	10%

Pie 4.5

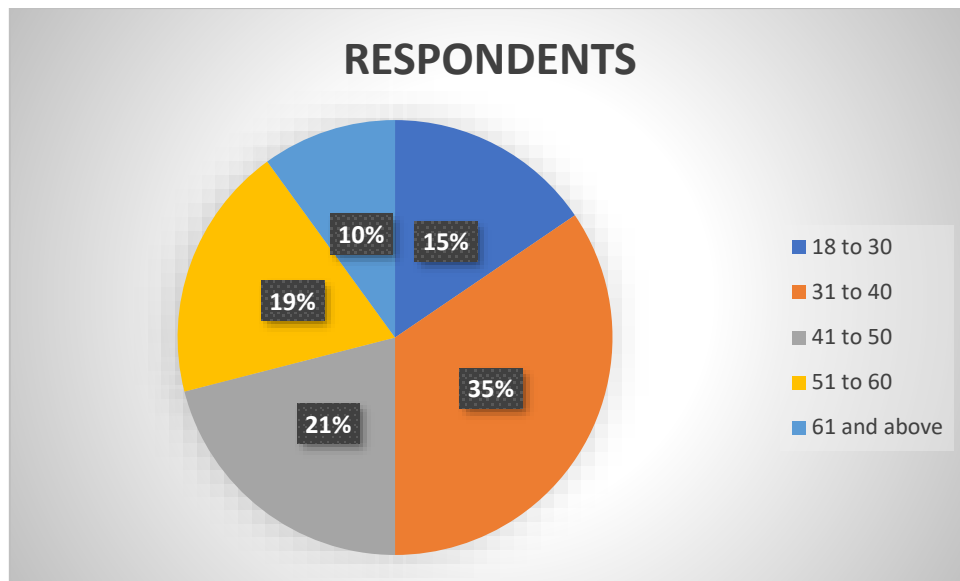


Table 4.5 from the

**Table 4.5** and Pie chart above are illustrating on the age group within the sample in such age group from 18 to 30 scored 31 representing 15% of the sample, age group from 31 to 40 scored 69 representing 35% of the sample, age group from 41 to 50 scored 42 representing 21% of the sample, age group from 51 to 60 scored 38 representing 19% of the sample and finally 61 and above scored 20 respondents representing 10% of the sample.

Table 4.6

**ORIGINALITY AND RACE**

Indigenous Malawian	83	41%
Malawian of Asian Origin	42	21%
Foreign National	40	20%
Malawian of another African countries	35	18%

Pie chart 4.6

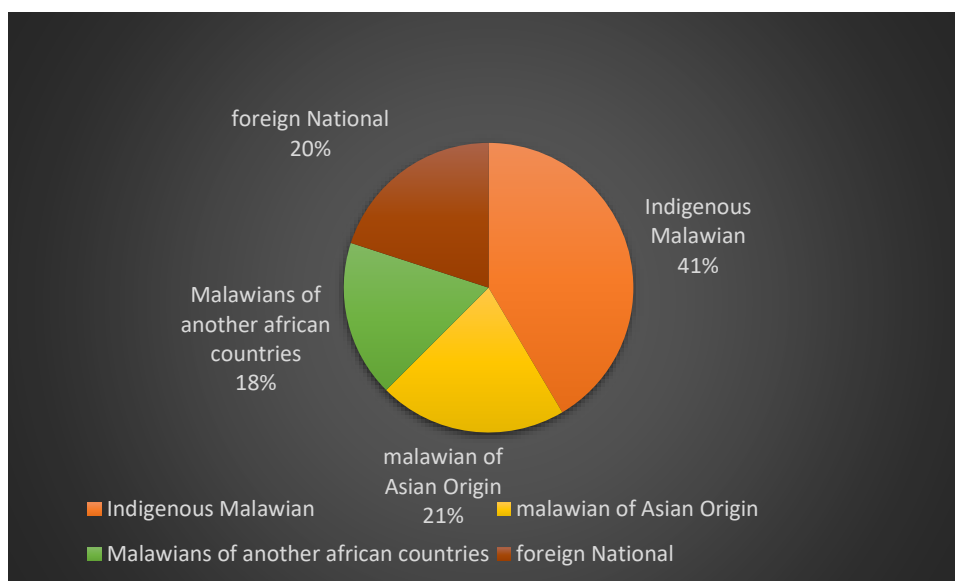


Table 4.6 above and the pie chart above discusses much on the human races within the sample in such we have almost four races which are represented into categories and these are Indigenous Malawian scored 83 respondents representing 41% of the sample, Malawian of Asian origin scored 42

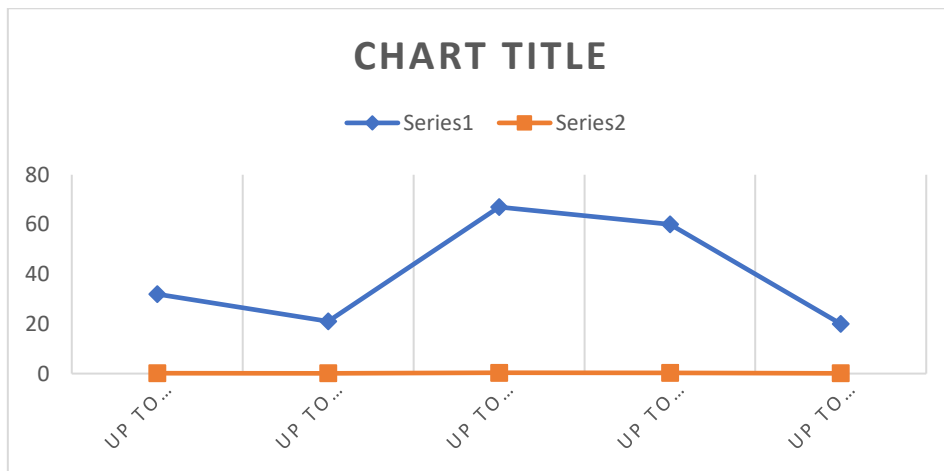
respondents representing 21% of the sample, Foreign Nationals scored 40 respondents representing 20% and finally Malawians of another African countries scored 35 respondents representing 18% of the sample. In this context it is trying to identify and recognize races that are in Malawi within business community and contributes to tax base of Malawi.

Table 4.7

**LEVEL OF EDUCATION**

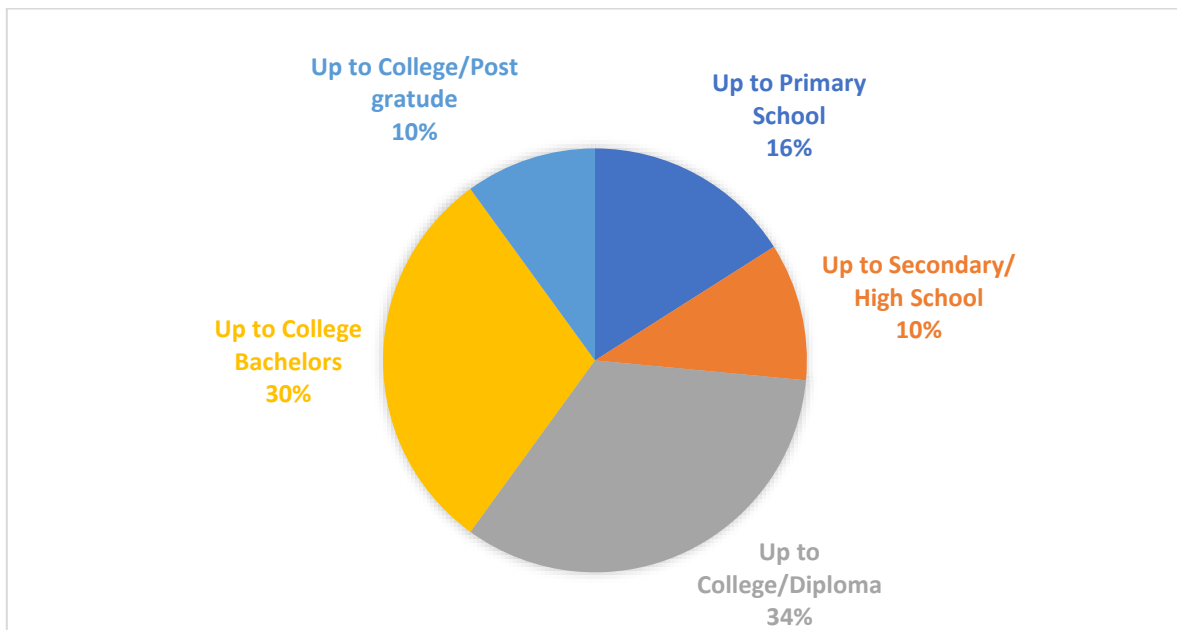
Up to primary school	32	15%
Up to secondary/high school	21	10%
Up to college/ diploma	67	34%
Up to college Bachelor's	60	30%
Up to college/postgraduate	20	10%

The following graph was also plotted for the presentation of the data above.



After presentation of the data in form of a linear graph, another form of presenting data was used. That's a pie chart was used. The following figure below indicate the use of pie chart in data presentation.

Pie chart 4.7





DESCRIPTION OF THE ABOVE GRAPHS

Table 4.7 and pie chart 4.7 reports that Up to primary school, scored 32 respondents representing 16% on the pie chart, Up to secondary or high school scored 21 respondents representing 10% of the sample, up to college diploma school, scored 67 representing 34% of the sample, Up to college bachelors scored 60 respondent representing 30% of the sample and finally up to college post graduate ascore 20 representing 10% of the sample.

Malawi’s tax regime is complicated and difficult to understand

The following information also indicated the total number of people interviewed during the survey. In this scenario, some strongly agreed, some agreed, some were neutral and some did not agree while the last group of people were strongly disagree. After the study, data were also presented in form of a table and graphs. This is shown in the table below;

Table: 4.8

Strongly agree	90	45%
Agree	60	30%
Neutral	23	10%
Disagree	23	12%
Strongly disagree	4	2%

Pie chart 4.8

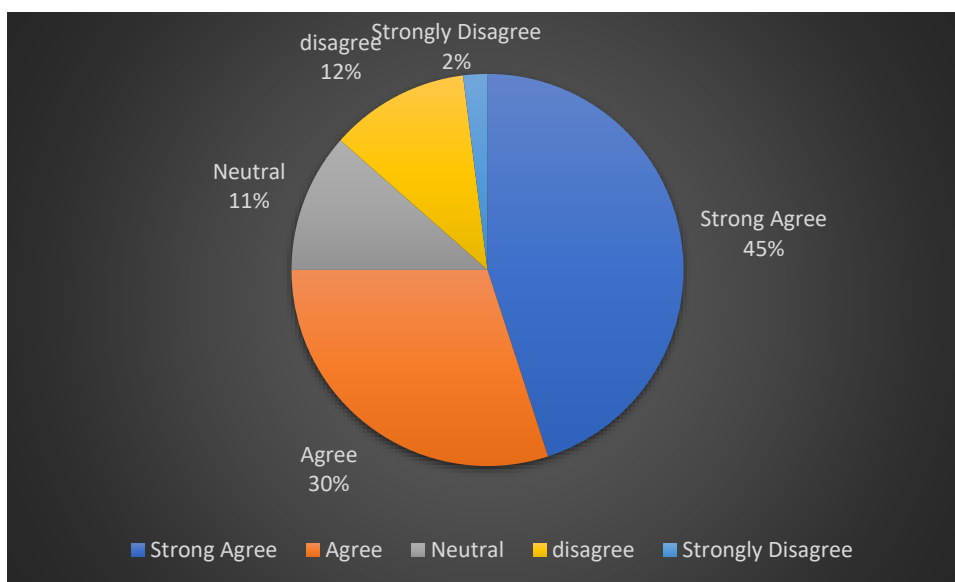


Table 4.8 and the pie chart 4.8 above concurs each other on the Malawi’s tax regime is complicated however 90 respondents strongly agreed representing 45% of the sample in the pie chart, in this regard Agreed scored 60 respondents which is 30% of the sample Natural scored 23 where it represent 11% Disagree scored 23 where it represents 12% in the chart and finally the strongly agree got 4 representing 2% of the sample .This is pitiful as strongly agree scores 90 respondents representing 45% of the total sample and Agree scored 60 respondents which again representing 30% of the total sample this proves that a great number of the public’s do not understand and have negative of it as this encourage the tax evasion as the monies collected is un accounted for in the forms of cash gates this contributes to the limited tax base .

The Tax system is accommodative of the growth and development needs.

Table 4.9

Strongly agree	57	28%
Agree	39	20%
Neutral	24	12%
Strongly disagree	42	21%
Disagree	38	19%

Fig 4.9

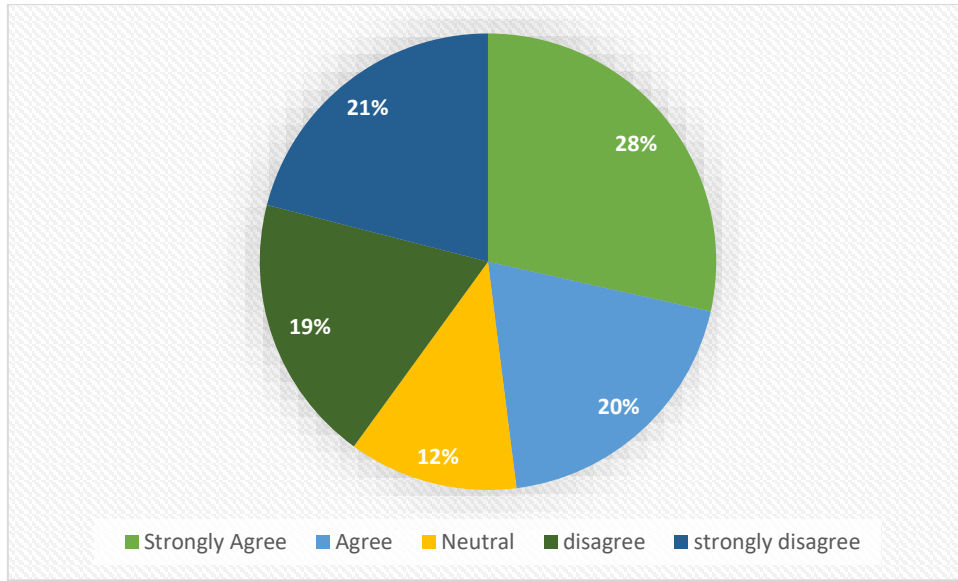


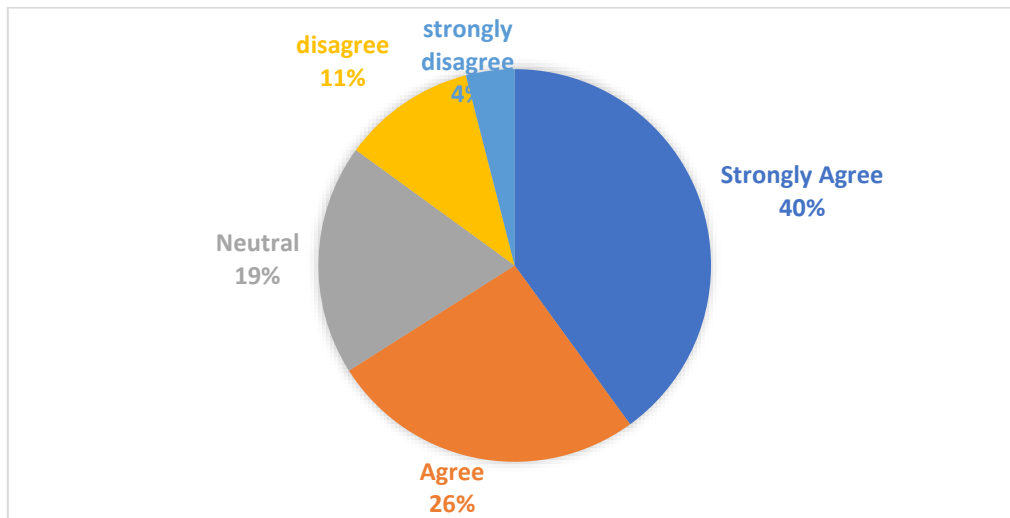
Table 4.9 and fig 4.9 above agrees to the questionnaire that the table the tax systems are accommodative of the growth and development needs .According to the table 4.9 and fig 4.9 further agrees that strongly agree scored 57 representing 28% of the sample, Agree scored 39 representing 20 % of the sample, Neutral scored 24 representing 12% of the sample, Strongly disagree scored 42 representing 21% of the sample and finally Disagree scored 38 representing 19% of the sample. In this regards according to the questionnaire and the respondent agrees that the tax systems is accommodative to the growth and development needs.

- (1) Very few Malawian pay taxes because government fails to get a hold of other SMME's

Table5.0

1. Strong Agree	80	40%
2. Agree	52	26%
3. Neutral	38	19%
4. Disagree	22	11%
5. Strongly disagree	8	4%

Fig 5.0



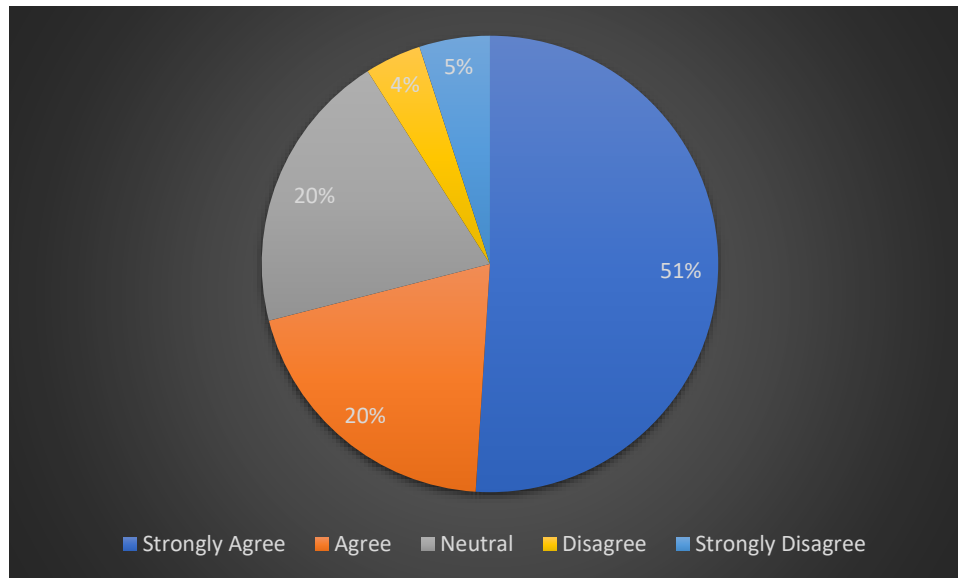
**Table 5.0** and pie chart 5.0 both concurs with each other, in this questionnaire in which 1 Strongly agree scored 80 respondent representing 80%, 2 Agree scored 52 respondent representing 26% of the sample, 3 Neutral scored 38 respondents representing 19% 4 Disagree scored 22 respondents representing 11% and finally 5, strongly disagree scored 8 respondents representing 4% of the sample .The respondents agrees that they fail to get hold of the SMMES in the way of appreciating those that pay and reward them with cheap and affordable loans to boost their businesses at the same time offering good market for their products and services this may encourage them to be part and parcel of the team.

(2) Malawi high tax rate discourage me from complying with tax laws of the country.

Table 5.1

Strongly agree	102	51%
Agree	40	20%
Neutral	40	20%
Disagree	8	4%
Strongly agree	10	5%

Fig 5.1



From the above questionnaire where it articulates the impacts of high taxes in Malawi .In this context Table 5.1 and fig 5.1 agrees that Strongly Agree scored 102 from the sample representing 51% of the sample, Agree scored 40 respondents representing 20% of the sample, Neutral scored 40 respondents 20% of the sample, Disagree scored 8 respondents representing 4% of the whole sample and finally strongly disagree scored 10 respondents, representing 5% of the sample. Anticipating the questionnaire 51% of the respondents admits that this system affects the tax compliance among the stake holder's .which proves if the taxes are made affordable many will comply hence widening the tax base.

(3) Given a chance I would rather pay no taxes

Table 5.2

Strongly agree	72	36%
Agree	25	12%
Neutral	45	22%
Disagree	49	25%
Strongly disagree	9	5%

Fig 5.2

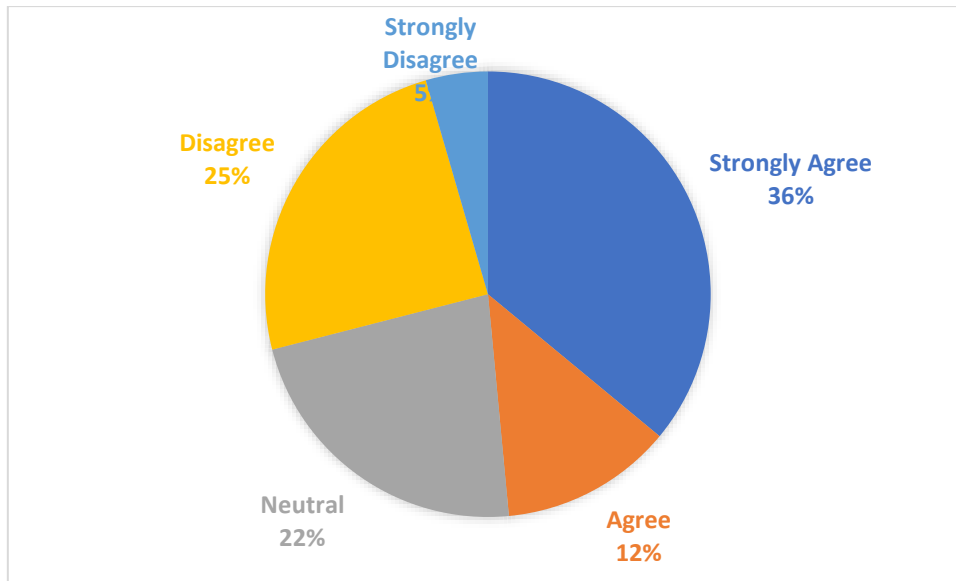


Table 5.2 and fig 5.2 further agrees that if given a chance I would opt to pay no tax in this strongly agree scored 72 respondents representing 36% of the sample, Agree scored 25 representing 12% of the sample, Neutral scored 45 respondents representing 22% of the sample, Disagree scored 49 respondents representing 25% of the sample, finally strongly disagree scored 9 respondents, representing 5% of the sample.

4) Tax revenue in Malawi does not do the intended work

Table5.3

Strongly agree	113	59%
Agree	29	15%
Neutral	45	24%
Disagree	3	2%
Strongly disagree	1	0%

Fig 5.3

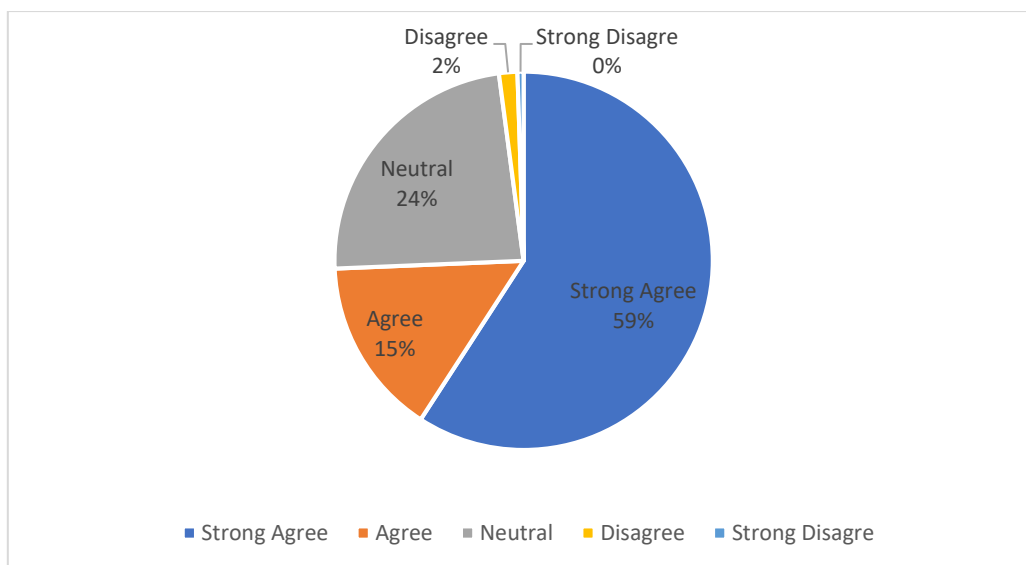


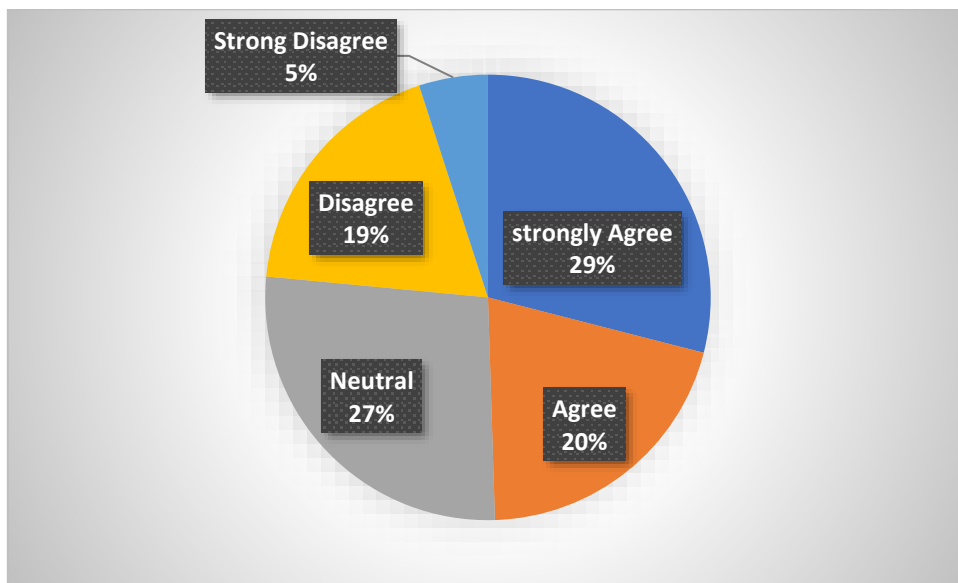
Table 5.3 and fig 5.3 further agrees that the Malawi’s taxes do not work as intended in such those with strongly agreed scored 113, representing 59% of the sample, Agree scored 29, Representing 15% of the sample, Neutron scored 45, representing 24% of the sample Disagree scored 3, representing 2% of the sample and finally strongly disagree scored 1representing 0% of the sample.

5) Government expenditure in Malawi is not dependent on tax revenues

Table: 5.4

Strongly agree	58	29%
Agree	41	20%
Neutral	54	27%
Disagree	37	19%
Strongly disagree	10	5%

Fig.5.4



Government expenditure does not depend on Tax revenues in this both the Table5.4 and Fig 5.4 articulates on the following scores; Strongly agree scored 58 respondents, representing 29% of the sample, Agree scored 41 respondents representing 20% of the sample, Neutral scored 54 representing 27% of the sample, Disagree scored 37 respondents representing 19% of the sample and finally strongly disagree scored 10 respondents representing 5% of the sample.

(6) The budget deficit needs to finance as soon as possible.

Table 5.5

Strongly agree	89	
Agree	85	
Neutral	7	
Disagree	6	
Strongly	13	

Fig 5.5

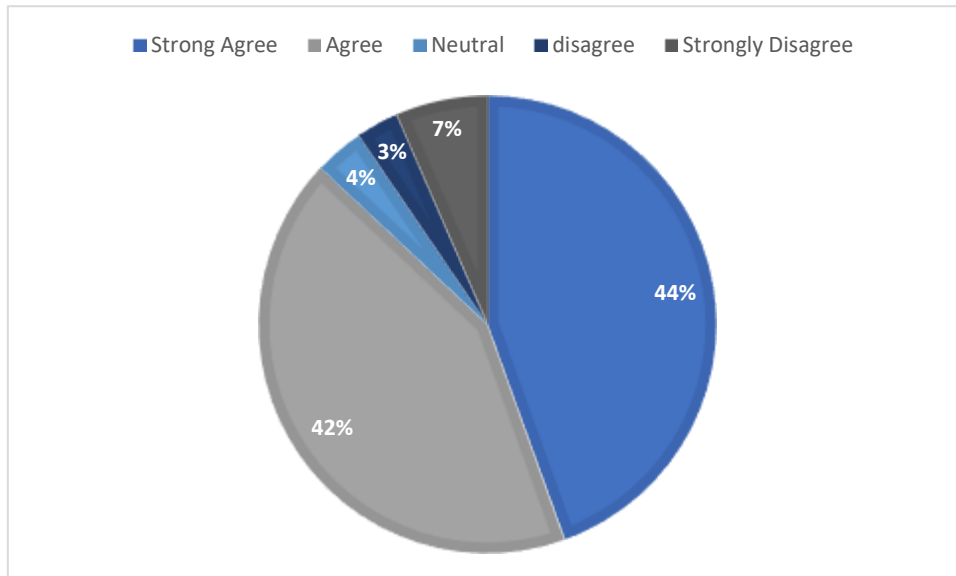


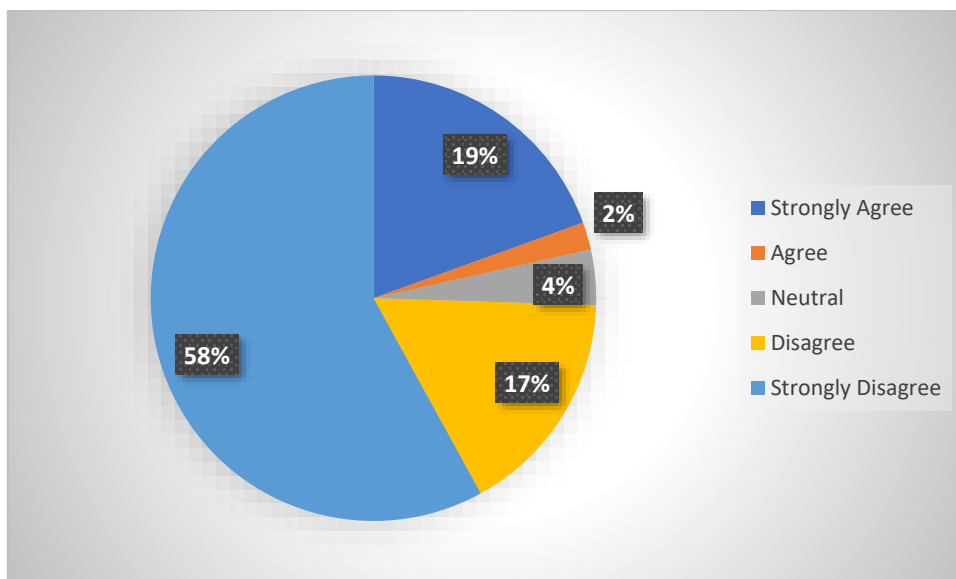
Table 5.5 above and the fig 5.5 above both agrees that the budget deficit needs to be financed as soon as possible according to the respondents below Strongly agree scored 89 of respondents representing to 44% of the sample. Agree scored 85 respondents representing 42% of the sample, Neutral scored 7 representing,4% of the sample, Disagree scored ,6 representing,3% of the sample and finally Strongly disagree scored 13 respondents representing 7% of the sample.

(4) The tax base in Malawi cannot be widened

Table; 5.6

Strongly Agree	39	58%
Agree	4	2%
Neutral	8	4%
Disagree	33	17%
Strongly disagree	116	19%

Fig 5.6



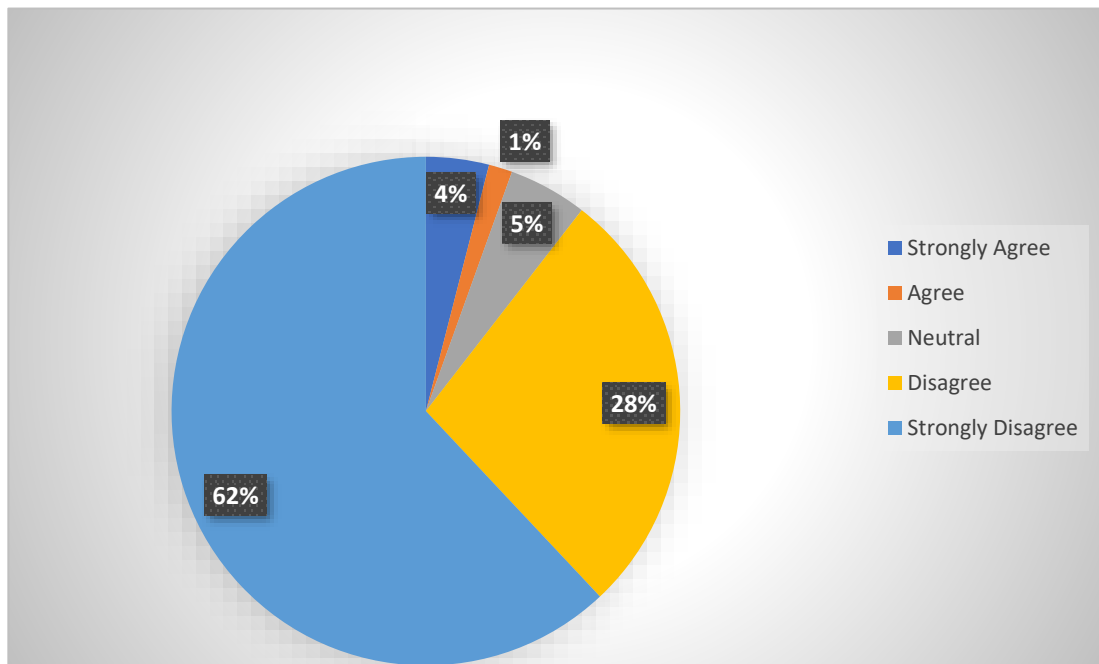
**Table: 5.6** above and **Fig 5.6** above demonstrates on the question that tax base can be widened in this Strongly agree scored 39 respondents representing 19% of the sample, agree scored 4 respondents representing 2% of the sample, Neutral scored 8 respondents representing 4% of the sample, Disagree scored 33 representing 17% of the sample and finally strongly disagree scored 116 respondents, representing 58% of the sample.

(5) Widening Malawi tax base will have no effect on tax revenue

Table.5.7

Strongly Agree	8	4%
Agree	3	1%
Neutral	10	5%
Disagree	55	28%
Strongly Disagree	124	62%

Fig.5.7



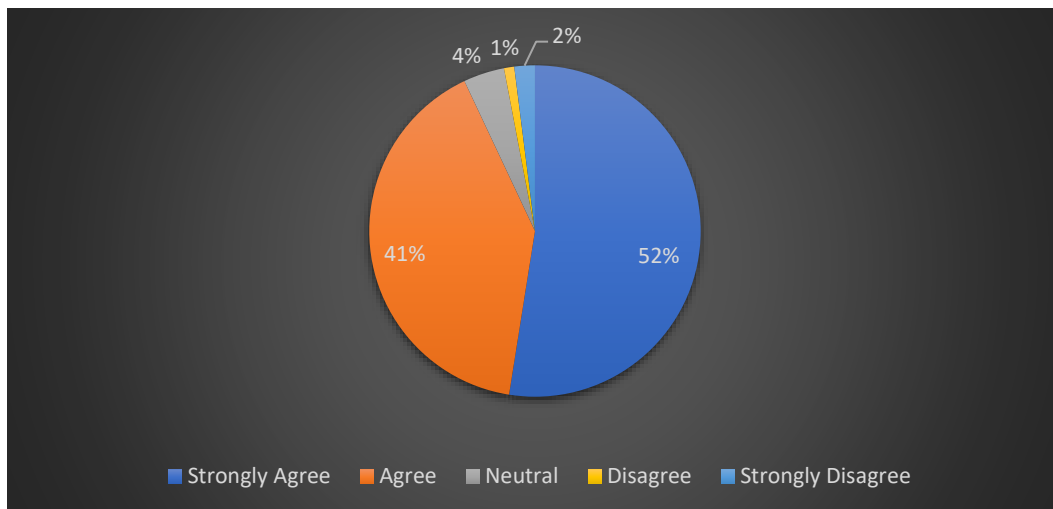
**Table 5.7** and **fig 5.7** above articulates on the questionnaire where Strongly agree scored 8 respondents representing 4% of the sample, Agree scored 3 respondents representing 1% of the sample, Neutral scored 10 respondents representing 5% of the sample, Disagree scored 55 respondents representing 28% of the sample and finally Strongly Disagree scored 124 respondents representing 62% of the sample.

Broadening the tax base will have far reaching positive effects on tax revenues

Table 5.8

Strongly agree	105	52%
Agree	81	41%
Neutral	8	4%
Disagree	2	1%
Strongly disagree	4	2%

Fig.5.8



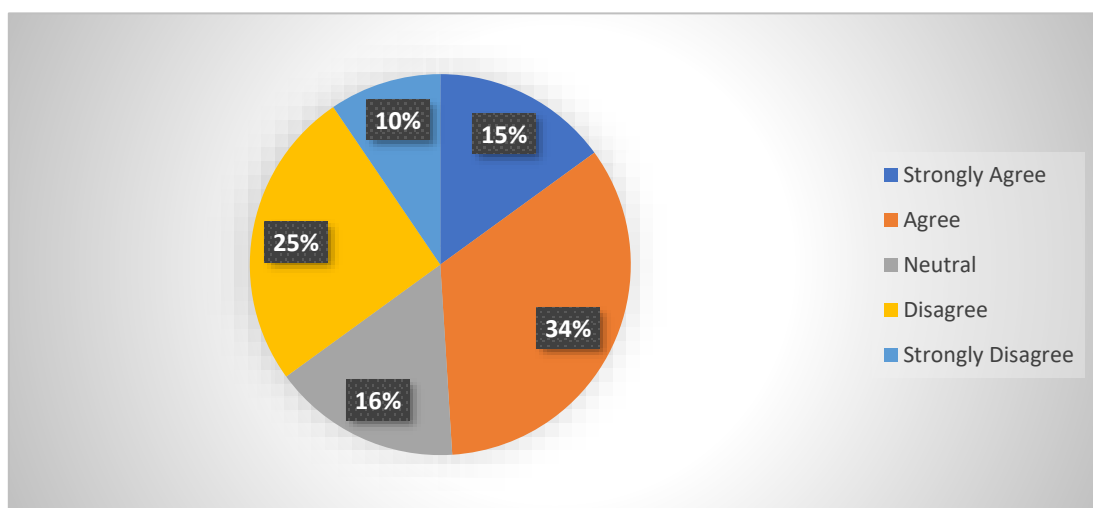
**Table 5.8** and **fig 5.8** above concurs each other about the questionnaire above that strongly agree scored 105 respondents representing 52% of the sample, Agree scored 81 respondents representing 41% in the pie chart. Neutral scored 8 respondents representing 4% of the pie chart, Disagree scored 2 respondents representing 1% of the pie chart, strongly disagree scored 4 respondents representing 2% of the pie chart.

I have been registered to pay tax for the development and grow the economy of Malawi

Table 5.9

Strongly agree	30	15%
Agree	68	34%
Neutral	32	16%
Disagree	51	25%
Strongly Disagree	19	10%

Fig5.9



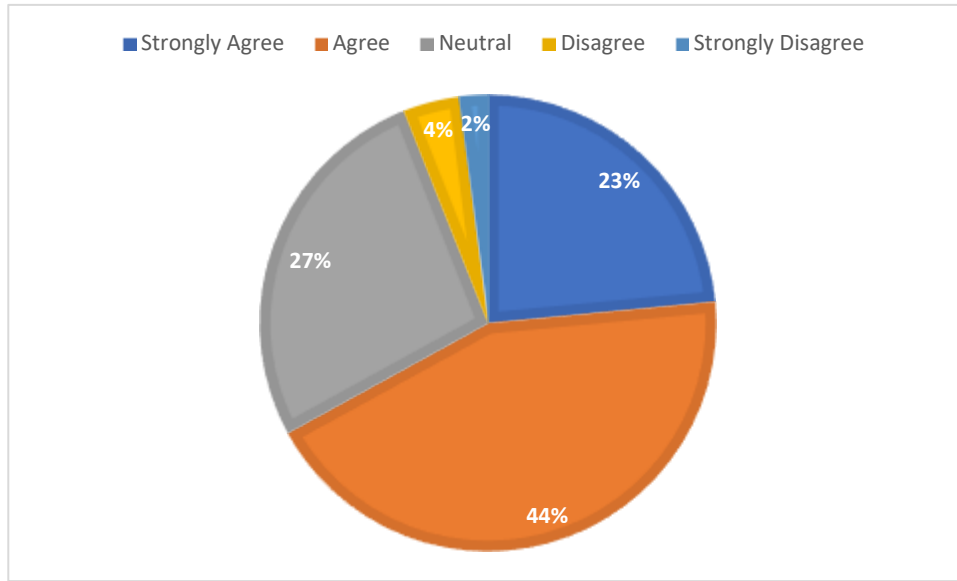
**Table 5.9** and **fig 5.9** above presents the feedback from the respondents in scores and agrees in fig 5.9 that Strongly agree scored 30 respondents, representing 15% of the sample Agree scored 68 respondents, representing 34% of the sample, Neutral scored 32, representing 16% of the sample Disagree scored 51 respondents, representing 25% of the sample and finally Strongly Disagree scored 19 respondents, representing 10% of the sample.



(9) Tax payers frequently pay tax

Table 5.10

Strongly agree	47	23%
Agree	87	44%
Neutral	54	27%
Disagree	8	4%
Strongly disagree	4	2%



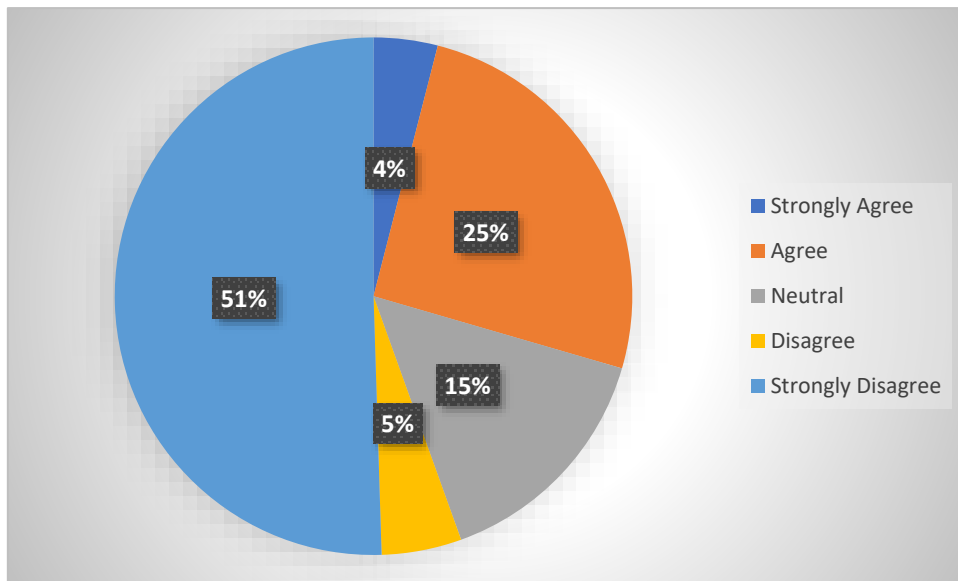
Table, 5.10 above strongly concurs with the fig5.10 above where the strongly agreed scored 47 respondents representing 23% of the sample, Agree scored 87 respondents ,representing 44%, and Neutral scored 54 respondents ,representing 27% of the sample ,Disagree scored 8 ,representing 4%and finally Strongly disagree scored 4representing 2% of the sample.

(6) Do tax officials give assistance on tax related issues when need be?

Table 5.11

Strongly agree	8	4%
Agree	51	25%
Neutral	30	15%
Disagree	10	5%
Strongly Disagree	101	51%

Fig 5.11



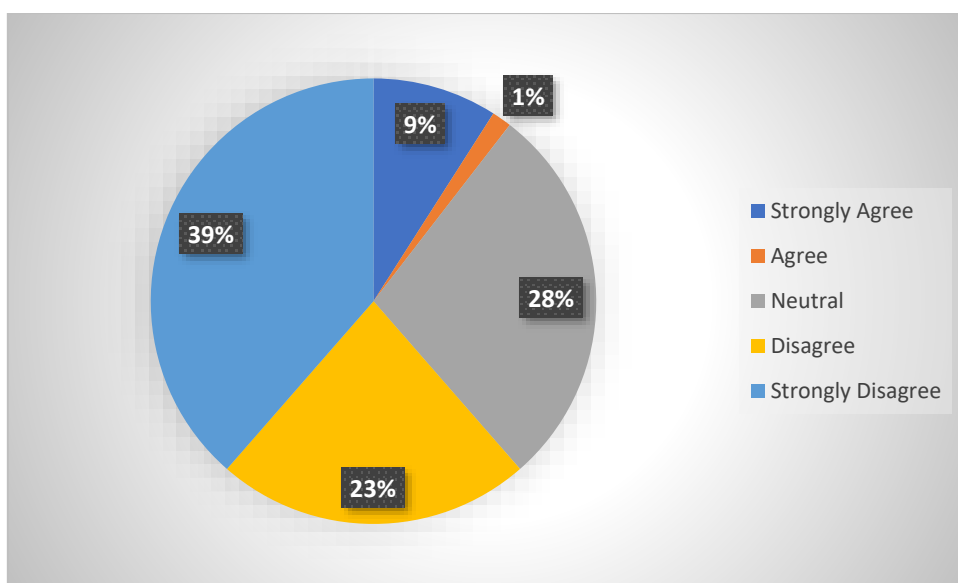
On the questionnaire above both Table 5.11 and fig 5.11 agree on that; Strongly Agree scored 8 respondents representing 4% of the sample, Agree scored 51 respondents representing 25% of the sample, and Neutral scored 30 representing 15% of the sample, Disagree 10 representing 5% of the sample. Finally strongly agree scored 101 respondents representing 51% on the sample.

There are no challenges faced by tax payers in tax submission

Table 5.11

Strongly agree	19	9%
Agree	3	1%
Neutral	49	28%
Disagree	48	23%
Strongly Disagree	81	39%

Fig 5.11



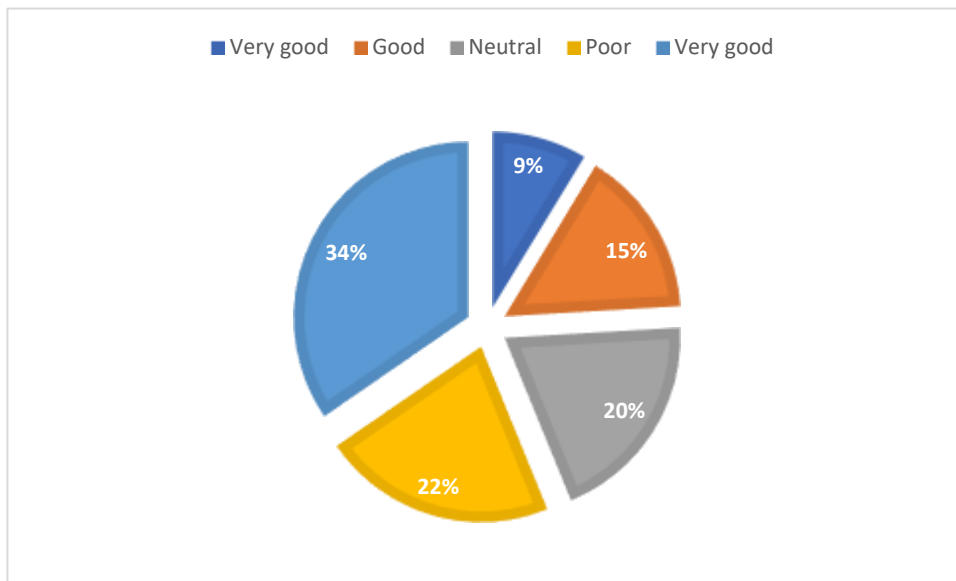
On the **table 5.11** and **Fig 5.11** above further agrees and concurs that Strongly agree scored 19 respondents representing 9% of the sample ,agree scored 3 respondent representing 1% of the sample ,Neutral scored 49 respondents representing 28% of the sample Disagree scored 48 respondents representing 23% of the sample and finally disagree scored 81 respondents ,representing 39% of the sample.

(7) In your opinion, how can Malawi tax systems be rated?

Table: 5.12

Very good	14	9%
Good	25	15%
Neutral	32	20%
Poor	35	22%
Very poor	94	34%

Fig: 5.12



**Table 5.12** and **Fig 5.12** both agrees and concurs about the Malawi's Tax system this very good scored 14 respondents representing 9%, Good 25 respondents representing 15%, Neutral scored 32 respondents represent 20%, poor scored 35 respondents representing 22% and finally very poor scored 94 respondents representing 34% of the sample.

(8) Aggressive awareness campaign and education on tax related issues by or through business tax professionals do encourage informed sectors register for tax and pay tax sector respectively and according

Table 5.13

Strongly Agree	66	
Agree	48	
Neutral	46	
Disagree	5	
Strongly disagree	25	

Fig 5.13

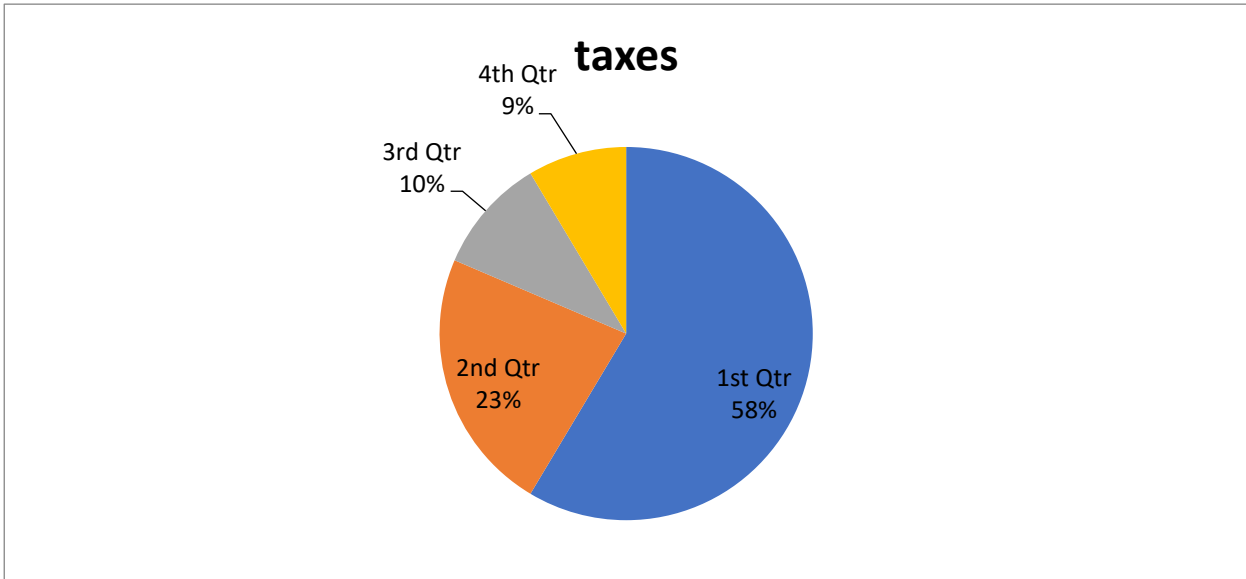


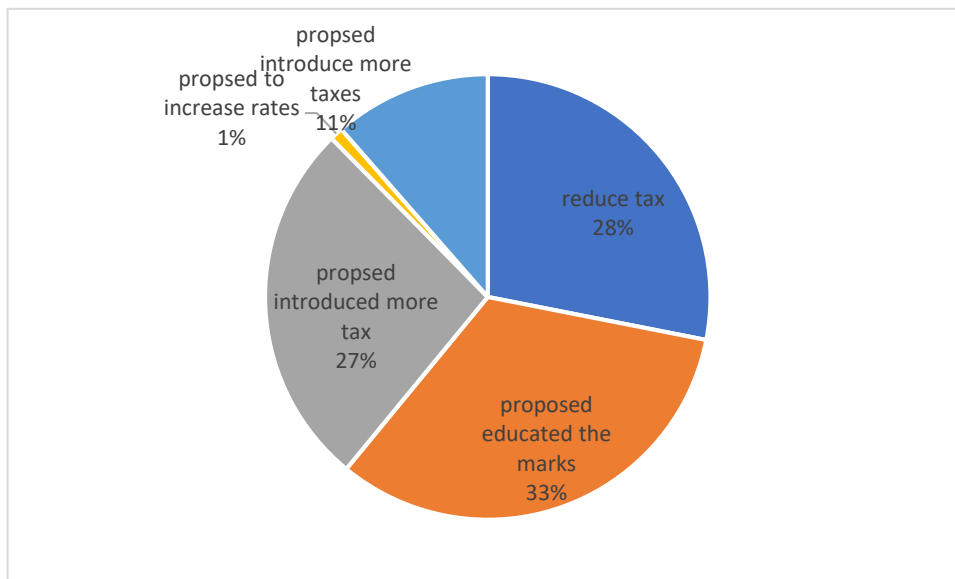
Table 5.13 and Fig5.13 articulates that on the aggressive campaign in this context those who responded strongly agree scored 66,agree scored 48 Neutral scored46,Disagree scored 5 and finally a Strongly disagree scored 25 of the sample

(9) What should be done to increase the revenue collection within the informal sector?

5.14

Reduction of tax rate	83	28%
Increase tax rate	25	
Introduce more taxes	30	
Educate the public importance of paying tax	72	

Table 5.14 articulates on what should be done to increase the revenue collection within the informal sector in this 83 respondents proposed reduction of tax rates,25 respondents proposed increase tax rates,30 respondents proposed introduce more tax,72 respondents proposed Educate the public on the importance of paying tax.



9. Government expenditure induces economic growth

Table 5.14

Strongly agree	75	37%
Strongly Disagree	69	35%
Not sure	56	28%

Fig 5.14

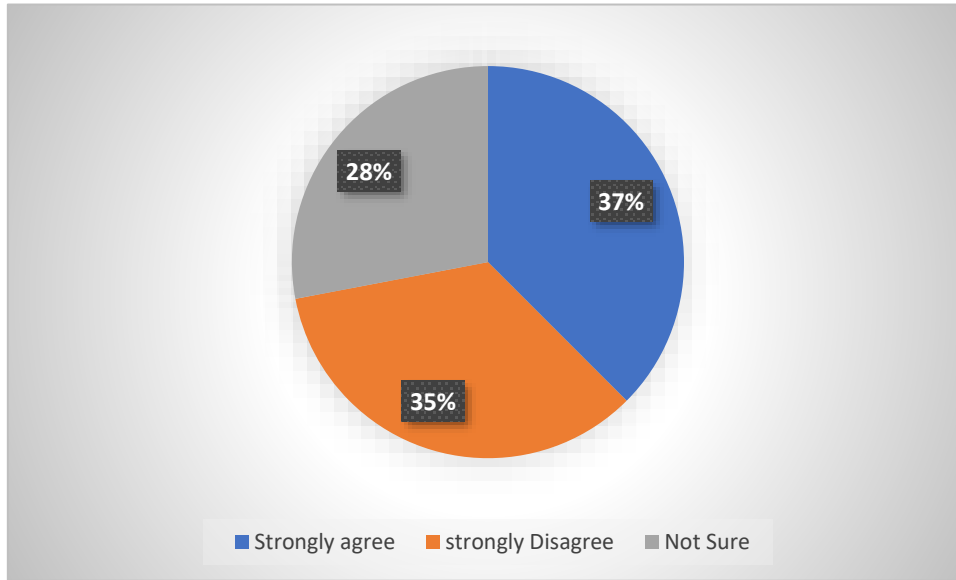


Table 5.14 wanted to know if the government expenditures induce economic growth in this it was articulated by means of the following scores, where strongly agree scored 75 representing 37 % of the sample, strongly disagree scored 69, representing 35% of the sample, and not sure scored 56 representing 28% of the sample.

**SECTION D**

1. What should the government

Table5.15

Reduce tax	59	28%
Educate the public	69	33%
Introduce more tax	56	27%
Increase tax rates	2	1%
Introduce more tax	24	11%

Fig. 5.15

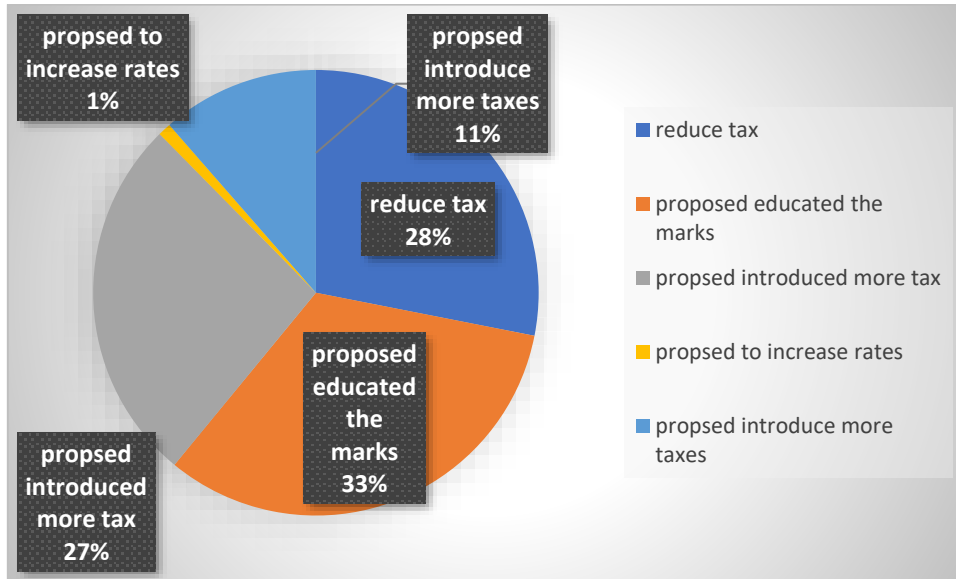


Table 5.15 above provides a solution from various respondents who were grouped according to the despondence rate and percentages. According to the table 5.15 above and the fig 5.15 Reduce tax scored 59 respondents representing 28% of the sample, Educate the public on the significance of tax scored 69 respondents representing 33% of the sample, Proposed introduce more taxes scored 24 respondents representing 11% of the sample, 2 respondents proposed to increase the taxes representing 1% of the sample introduction of more taxes scored 56 representing 27% of the sample.

**SECTION D**

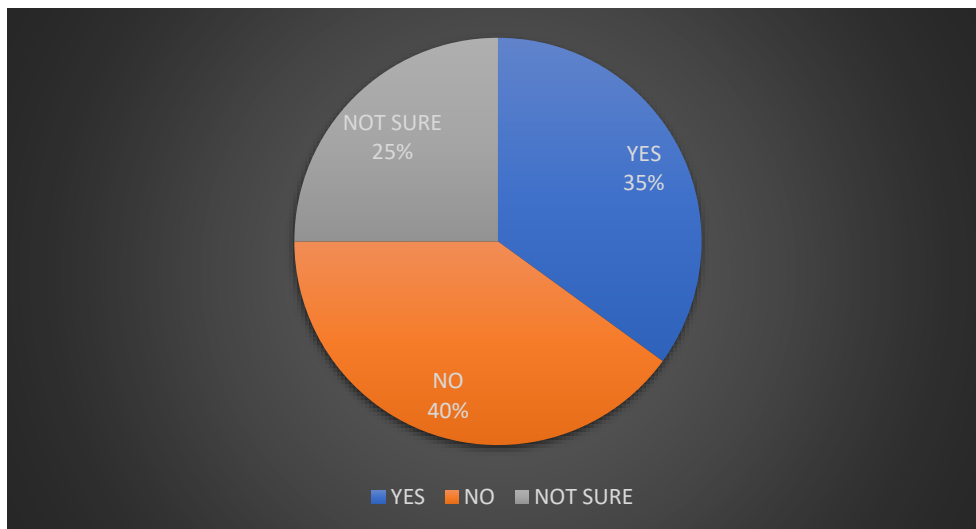
Tax compliance has been a challenge in many societies and sectors.

Are there any tax stimulated tax payers to pay voluntarily?

Table 5.16

Yes	70	35%
No	80	40%
Not sure	50	25%

Fig 5.16



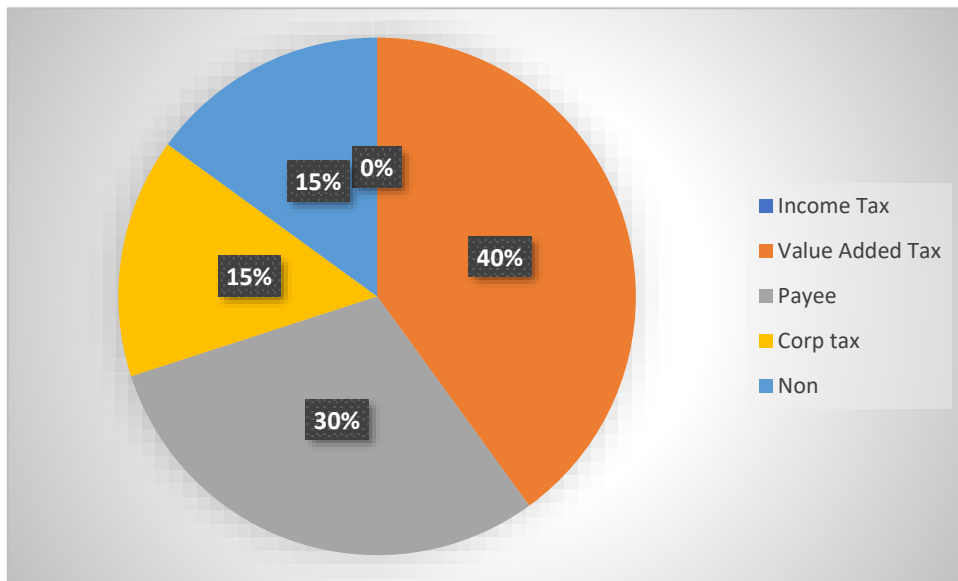
From the table 5.16 and the fig 5.16 above articulates the issues of the tax compliance in this sample we had Yes this scored 70 respondents representing 35% of the sample ,No scored 80 representing 40% of the sample and finally Not sure scored 50 respondents representing 25% of the sample.

(12) What is the most tax type that tax more revenue

According to the respondents

Table5.17

Income Tax	0	0%
Value added Tax(vat)	80	40%
Payee	60	30%
Corp tax	30	15%
Non	30	15%



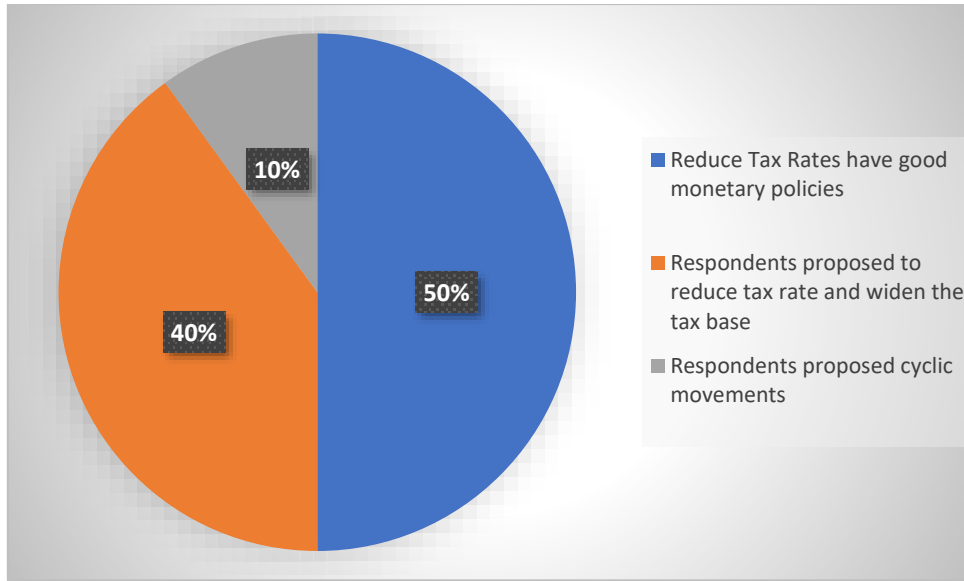
(13) What should the government do reduce the adverse effects of tax payers tradeoffs?

The following were the response

Table 5.18

Reduce tax rates and have good monetary policies	100 respondents	50%
Respondents proposed to reduce tax rate and widen the tax base	80	40%
Respondents proposed cyclic movement of monies	20	10%

Fig 5.18

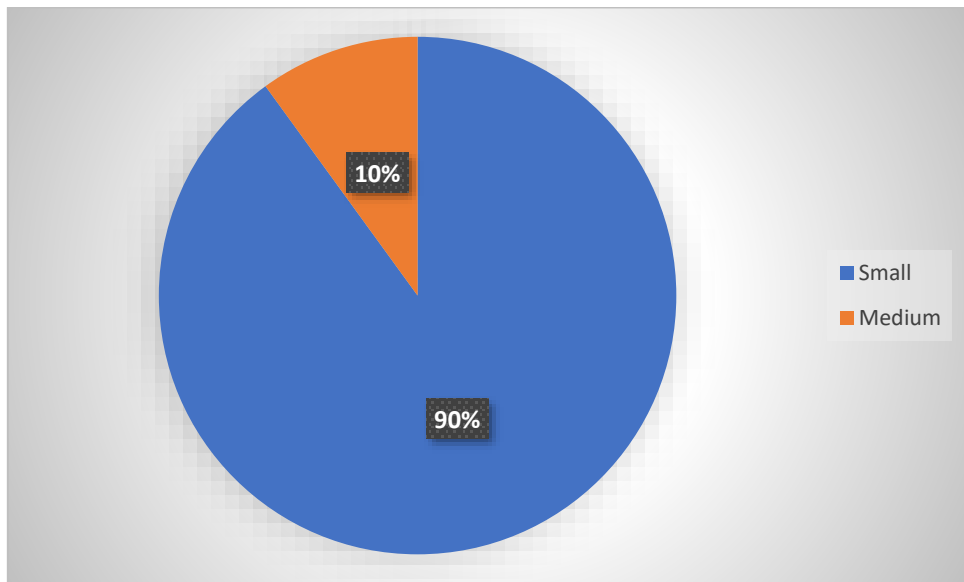


**SECTION E**

Economic development are programs policies or objectives that seeks to improve the economic wellbeing and the quality of life for the society

What is the rate of infrastructural development out of Tax revenue?

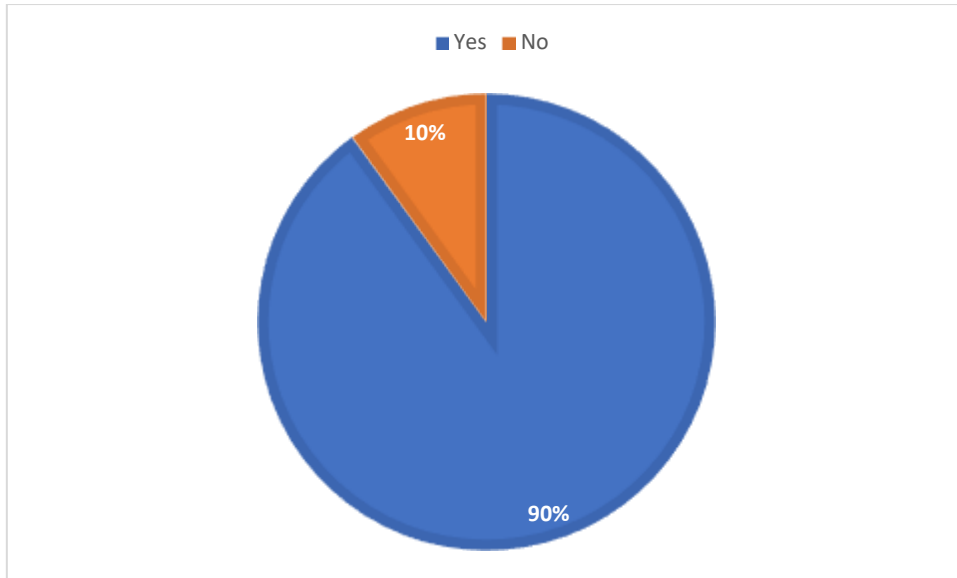
Small	180 Respondents	90%
Medium	20 Respondents	10%



(10) Will the introduction of new taxes bring change?

Yes	180 Respondents	90%
No	20 Respondents	10%

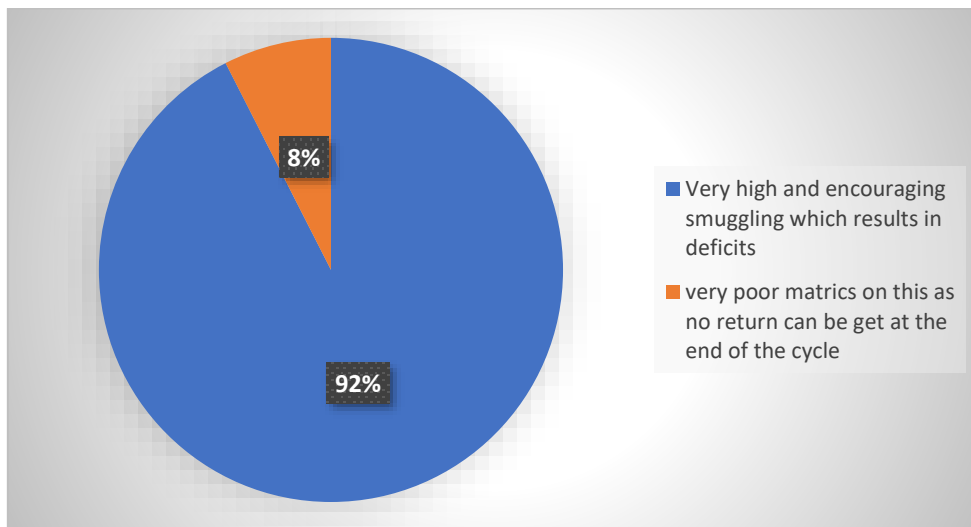




From Table the above tries to answer the impacts of new taxes to the sample however yes scored 180 respondents representing 90% of the sample and No scored 20 representing 10% of the sample. From the sample proves positive results as many may afford to pay tax.

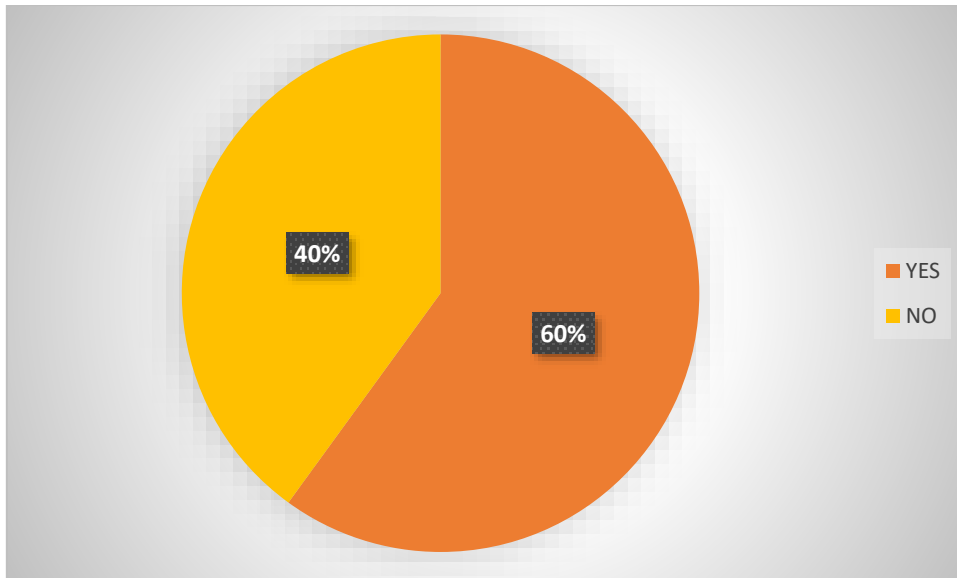
(11) what are your per captions of taxes in Malawi

Very high and encourages public to run away hence encouraging smuggling which results in deficits	185 respondents	92%
Very poor matrices on this as no return can be get at the end of the cycle	15 respondents	8%



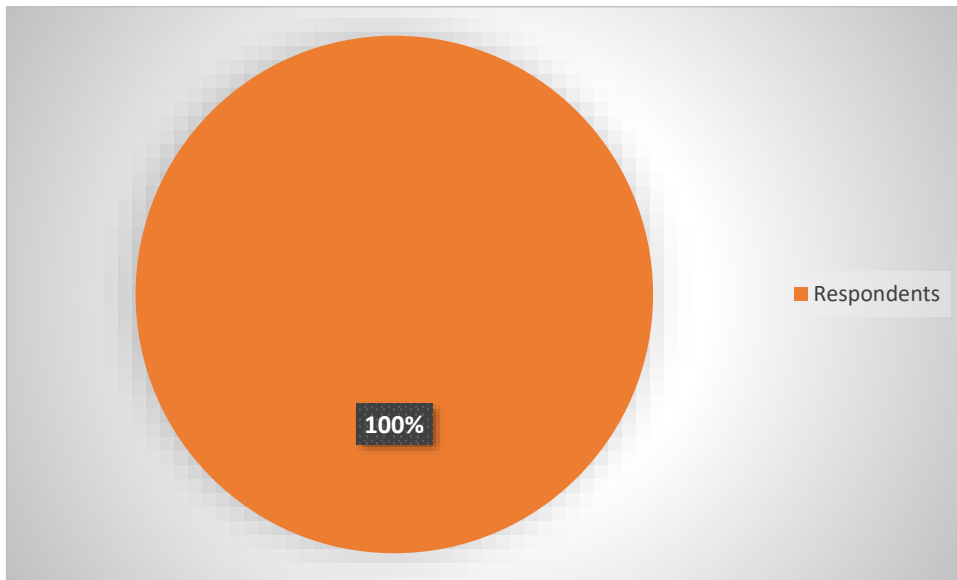
From the Table and the pie chart above of the sample stipulates very high tax rates scored 185 respondents representing 92% of the sample and very poor matrices on this as no return can be get at the end of cycle scored 15 respondents representing 8% of the sample.

(12) To what extent do you deal the introduction of new taxes will induce foreign direct investment?



As many will participate due to due to the reason of affordable taxes and improves trade attendances as there will be balance of trade this encourage the power of purchase of buyers in such inducing FDI.

18) Are introduction of new taxes and the provision of tax holidays not contradicting?



**USER TESTIMONIAL COLLECTED FROM THE RESEARCH**

User testimonials are typically used to capture personal experiences and opinions. In the context of your research topic, "Examining the Effects of Widening the Tax Base on Economic Growth in Malawi, a Case Study at Machinga Boma," hypothetical sample testimonials illustrate the potential sentiments or viewpoints that individuals in Machinga Boma might express based on the research findings. Here are some sample "testimonials" that reflect these hypothetical sentiments:

1. John K., Business Owner:

"I've witnessed a positive transformation in Machinga

Boma since the tax base expansion.

As a business owner, it's been great to

see improved infrastructure and more

customers coming in. It feels like our local

economy is thriving."

2. Grace M., Local Resident:

"The effects of tax base expansion are a mixed bag.

While there are some improvements in our area, like new roads and better services, there are also concerns about the increased tax burden. It's essential that the benefits reach everyone in the community."

3. Sarah J., Community Leader:

"Our community has high hopes for the future thanks to tax base expansion. We see opportunities for job creation and more investments. It's a step in the right direction for our local economy."

4. William S., Farmer:

"I appreciate the efforts to boost economic growth through tax expansion, but we need to be cautious. We don't want small farmers like me to bear the brunt of increased taxes. It's important that policies are fair and considerate of everyone."

5. Linda P., Retiree:

"I'm not convinced that widening the tax base will lead to significant economic growth. We've seen these promises before, but things haven't changed much for retirees like me. I hope this research proves me wrong."

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#### 4: CONCLUSION

Tax base broadening can be one of the measures that can facilitate fiscal balance. In addition to these fiscal measures may lead to reallocation effects of resources across section towards the highest value. Economic use resulting in increased efficiency and potentially raising the overall size of the economy. (Gale et al, 2015).

This proposal therefore contains background of the study, problem statement, research objective, Research question, Scope of the study. Significance of the study, Literature review, conceptual framework, Research time table, Research budget and bibliography.

The limited tax base and the growing demand for public services attributed to the rise in population, COVID-19, cyclones Anna, Kenneth, Batsirai, Cyclone Gombe and the deadly cyclone Freddy, Russia/Ukraine wars, devaluation and scarcity of currency has led to a rapidly growing government fiscal deficit in the past years from 29.27% to 55% leading to an increase in the government of 88% in the government deficit (World Bank 2020). This is worrisome to the already fragile economy of Malawi as this may have led to the crowding out of private investments. This rise in public debt is an indication that Malawi needs to rethink the parallel strategies and create better domestic resources mobilization by the public debt and meet the obligation of supplying the public goods and services to the citizenry. Given the rising government expenditure trends in Malawi from 2013, 2020 Malawi need to raise its tax revenues to fund the activities of its government. It is the duty of the public finance experts to figure out how to design revenue systems that's in both efficient by minimizing the distortion in the household and business distribution of the burden fairly.

Figuring out how to best raise revenue has been a central concern for the public sector expert at least since Adam Smith denoted an entire book of the nations (1776) to the revenue of the sovereign included his famous dictum that the taxes are party pays should be proportional to the revenue enjoyed under the protection of the state David Ricardo himself a student of Smithian classical thought and an important nineteenth century figure in the History of the Macro economic theory titled his most famous book principles of political economy and taxation. It is therefore a concern for public finance experts to explore means of expanding the revenue base, without punitive of the same indication the thin cow phenomenon so that everyone pays tax (Rosen, 2010).

In the past 5 decades the Malawi tax system has under gone policy forms with varying objectives, either in the short or long term. The objectives were to increase revenue generating base.

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## APPENDIX

### 1. Questionnaire

DMI St Eugene

Letter of introduction

#### Examining the effects of widening Tax Base on Economic Growth in Malawi

Thank you very much for taking some of your precious time to respond to this questionnaire. The University of Malawi is conducting a study on **the effects of widening Tax Base on Economic Growth in Malawi**. The main aim of the study is to establish the link between the tax bases and economic growth in Malawi.

This is to seek your consent to respond to a few questions that will assist the study team to make conclusions and decisions that will have a bearing on solving the problem of worsening budget deficits in Malawi for a long time emanating from the need to expand public service delivery in an environment of dwindling tax revenues. Kindly note that you have been chosen randomly to assist in this important endeavor. The interview will take between 10 to 15 minutes of your precious time which is highly valued. The results will be reported as a group and not an individual. Be assured that your participation in this study will not deprive you of any benefits you enjoy in any way from any public or nongovernmental organization.

The research is a requirement towards the completion of the Master's Degree in Business Administration (MBA) Finance and International Business (FIB) administered by DMI St. Eugene University of Zambia. You do not have to provide your identity such as name or contact details. All the data and information that will be collected will be handled with utmost level of confidentiality. Once again, I would like therefore to thank you in advance for taking your time to fill the questionnaire.

If you have any questions, please do not hesitate to call +919894800386, or +919171771726 or DMI St. Eugene University of Zambia, Management Studies department and ask for Professor Glory Jerin or Dr. Arun Kumar.

Sincerely,

Tim Nawasha

**Study Coordinator.**

## SECTION A

### 1.13 Research Budget

The main costs of the research are as follows:

Item	Amount[MK]
Transport	700,000
Communication	2,000,000
Stationery and Printing	1,500,000
Contingency	800,000
<b>Total</b>	<b>5,000,000</b>

**Table4. Research Budget**

1. Transport was needed as the researcher was required to travel to meet the participants from their respected business places and homes.
2. Cost of communication mostly includes cost of airtime for communication with various participants as well as internet usage. The activities include; data collection, analysis and project review.
3. Procuring of software, books, and Printing, photocopying and binding costs
4. Contingency costs

## SECTION B

You will now tackle questions relating to the tax regime of Malawi.

On a scale of 1-5, kindly indicate what best represents your views on Malawi's tax regime (Scale: 1 = strongly agree, 2 = agree, 3 = neutral; 4 = disagree; 5 = strongly disagree)

1. Malawi's tax regime is complicated and difficult to understand

Strongly agree	agree	neutral	disagree	Strongly disagree

2. The tax system in Malawi is accommodative of the growth and development needs

Strongly agree	agree	neutral	disagree	Strongly disagree

3. Very few Malawians pay taxes because government fails to get ahold of other SMMEs

Strongly agree	agree	neutral	disagree	Strongly disagree

4. Malawi's high tax rates discourage me from complying to tax laws of the country

Strongly agree	agree	neutral	disagree	Strongly disagree

5. Given a chance I would rather pay no taxes

Strongly agree	agree	neutral	disagree	Strongly disagree

(5b) In 5 above, provide the reasons for not complying with tax laws of the country

6. Tax revenue in Malawi does not do the intended work

Strongly agree	agree	neutral	disagree	Strongly disagree

7. Government expenditure in Malawi is not dependent on tax revenues

Strongly agree	agree	neutral	disagree	Strongly disagree

8. The budget deficit needs to be financed as soon as possible

Strongly agree	agree	neutral	disagree	Strongly disagree

9. The tax base in Malawi cannot be widened

Strongly agree	agree	neutral	disagree	Strongly disagree

10. Widening Malawi's tax base will have no effect on tax revenues

Strongly agree	agree	neutral	disagree	Strongly disagree

11. Broadening the tax base will have far reaching positive effects on tax revenues

Strongly agree	agree	neutral	disagree	Strongly disagree

Issues on tax complacence

12. I have been registered to pay tax for the development and grow the economy of Malawi

Strongly agree	agree	neutral	disagree	Strongly disagree

13. Taxpayers frequently pay tax

Strongly agree	agree	neutral	disagree	Strongly disagree

14. Do tax officials give assistance on tax related issues when need be?

Strongly agree	agree	neutral	disagree	Strongly disagree

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15. There are no challenges faced by taxpayers in tax submission

Strongly agree	agree	neutral	disagree	Strongly disagree

16. In your opinion, how can Malawi’s tax system be rated

Very good	good	neutral	Poor	Very poor

17. Aggressive awareness campaign and education on tax related issues by or through business’ tax professionals do encourage informal sector register for tax and pay tax respectively and accordingly

Strongly agree	agree	neutral	disagree	Strongly disagree

18. What should be done to increase the revenue collection within the informal sector?

	Reduction of tax rates	Increase tax rates	Introduce more taxes	Educate the public the importance of paying taxes

**SECTION C**

9. Government expenditure induces economic growth

a)  Strongly agree

b)  Strongly disagree

c)  Not sure

10. What should be done so that government expenditure should realize its full potential of economic growth?

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**SECTION D**

Tax compliance has always been a challenge in many societies and sectors.

11. Is there any tax rate that stimulates taxpayers to pay tax voluntarily?

- a)  Yes                      b)  No                      c)  Not sure

If Yes. Give reason \_\_\_\_\_  
 \_\_\_\_\_

If No. Explain \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

12. What is the most tax type that yield more revenue?

- a)  Income Tax    b)  Value Added Tax (VAT)    c)  Pay As You Earn(PAYE)  
 d)  Withholding Tax    e)  Corporate Tax    f)  Non Residence Tax  
 g)  Fringe Benefit Tax

13. What should the government do to reduce the adverse effect of taxpayer trade-offs

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SECTION E**

Economic Development are programs, policies or objectives that seek to improve the economic wellbeing and quality of life for the society.

14. What is the rate of infrastructural development out of tax revenue?

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

15. Will introduction of new taxes bring the desired revenue collection?

- a)  Yes    b)  No

If Yes. Explain \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

16. What are your perception of tax rates in Malawi?

\_\_\_\_\_  
 \_\_\_\_\_

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17. To what extent do you feel the introduction of new taxes will induce Foreign Direct Investment?

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18. Are introduction of new taxes and the provision of tax holidays not contradicting?

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*Thank you for sparing your time to respond to this questionnaire*