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A Study of the Effect of COVID-19 Tax Incentives on Zambia's Construction Sector Business Performance

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Abstract
On 11 March 2020, the World Health Organization (WHO) declared COVID-19 as a global pandemic. This pandemic is having serious negative effects on global trade, domestic economies, employment, and generally, on our way of life. Therefore, many countries have had to come up with economic stimulus packages to support businesses and individuals, especially those most severely impacted by the pandemic, including Zambia. Although relief packages have been put in place in Zambia, it remains unfounded whether the measures have been effective to the extent of facilitating positive business growth, especially in the Zambian construction sector. Hence, this research will be an investigative study on the effectiveness of the relief incentives In Zambia particularly in the construction sector. The main aim of the study was to investigate the effectiveness of the relief incentives in Zambia particularly in the construction sector. The study was anchored on the Theory of Determinants of Investment and the Neoclassical Theory. In achieving this objective, the methodology that was employed in the study involved the use of a survey using questionnaires with a sample size of 40 construction companies in Lusaka District as the respondents were interviewed using a simple random sampling method that guaranteed that the sample used was not biased. The analysis of the data involved Statistical Package for Social Sciences (SPSS) software. The study established that tax relief incentives in Zambia's construction sector have been effective and encouraging business growth. In addition, the tax relief incentives in Zambia have a positive impact on the construction sector. The study also establishes that among the multiple options to enhance the effective progressivity of their tax systems Zambia has used the Tax waiver as the most effective one. The study recommends that the Zambian government review the coherence of its tax relief incentive programs to eliminate inconsistencies between goals, criteria, and instruments, among other recommendations.
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1. Introduction

The global spread of COVID-19 has destabilized economies, with the construction industry among the hardest hit due to its reliance on labor and supply chains. Zambia, like many nations, introduced tax incentives aimed at cushioning this vital sector from the pandemic's fallout. This study delves into these measures' efficacy, aiming to illuminate their role in the sector's endurance and potential paths toward recovery.

In response to the COVID-19 pandemic's profound economic impacts, governments worldwide, including Zambia, have implemented fiscal measures to stabilize economies and support affected sectors. Tax incentives, while beneficial in attracting investment and promoting economic growth, require careful design to avoid adverse fiscal outcomes (Granger, 2013; McDonald et al., 2020). The pandemic has necessitated economic stimulus packages globally, with Zambia introducing an 8 billion kwacha package and specific tax relief measures aimed at mitigating the economic downturn (Deloitte Africa Tax & Legal, 2021; Policy Monitoring and Research Centre, 2020). Such interventions have contributed to a gradual recovery in Zambia's GDP, underscoring the significance of targeted fiscal policies in crisis management. This study examines the role of COVID-19 related tax incentives in supporting Zambia's construction sector, a key contributor to the national economy.

1.1. Statement of the Problem

The COVID-19 pandemic has severely impacted global economies, necessitating governmental interventions to cushion affected sectors. Zambia's construction sector, crucial for its economy, experienced significant disruptions, leading to the introduction of tax incentives aimed at mitigating these effects (OECD, 2020; World Bank, 2021; Zambia Revenue Authority, 2020). Despite these efforts, the true effectiveness of the tax incentives in promoting recovery and ensuring sector resilience is not fully understood. This study aims to bridge this gap by evaluating the impact of tax incentives on Zambia's construction sector, offering insights for optimizing future economic and fiscal strategies.

2. Literature Review

2.1 Introduction

The literature review explores various studies conducted globally on tax reforms and incentives, particularly in response to the challenges posed by the COVID-19 pandemic. These studies investigate the impact of tax policies on economies, revenue generation, and growth, with a focus on diverse regions such as Europe, the USA, Africa, and specifically Zambia. The literature encompasses research by organizations like the OECD, which emphasizes the importance of comprehensive tax policy strategies for post-pandemic recovery. Additionally, studies in the USA offer guidance on inclusive and growth-friendly tax measures, while research in Italy evaluates the effectiveness of green fiscal reforms. In an African context, scholars examine the implications of the COVID-19 pandemic on revenue generation, emphasizing the challenges faced by poor countries and the potential for increased domestic revenue mobilization. Furthermore, the literature delves into the Zambian tax landscape, detailing existing tax incentives and their implications for the construction sector. The review critically assesses the strengths and weaknesses of these studies, providing valuable insights into the global discourse on tax policies in the wake of the pandemic.

2.2 Overview of COVID-19 Tax Incentives in Zambia

In response to the global COVID-19 pandemic, governments around the world, including Zambia, implemented various economic stimulus packages and relief measures to mitigate the adverse effects on businesses and individuals. The Zambian government, recognizing the impact of the pandemic on its economy, introduced several tax relief measures to support businesses, including those in the construction sector. This section provides an overview of the specific tax incentives implemented in Zambia in response to the COVID-19 pandemic.

1. ***Economic Stimulus Package:*** The Zambian government approved an 8 billion kwacha economic stimulus package, which was financed through a COVID-19 bond. The package was allocated for the payment of retirees, contractors, and suppliers. This initiative aimed to inject liquidity into the economy and provide financial support to key sectors, including the construction industry (PMRC, (2020).
2. ***Financial Relief for Businesses:*** As part of the economic measures, the government allocated K2.5 billion in financial relief for businesses. This financial support was intended to help businesses navigate the economic challenges posed by the pandemic, ensuring their continued operations and promoting overall economic stability (ZRA, 2017).
3. ***Bank of Zambia's Medium-Term Refinancing Facility:*** The Bank of Zambia introduced a K10 billion Medium-Term Refinancing Facility, available to eligible commercial banks and non-bank financial institutions. This facility allowed financial institutions to restructure, refinance, or extend credit to businesses and households impacted by COVID-19 on more favorable terms. The objective was to ensure that businesses had access to credit during challenging times.
4. ***Tax Relief Measures by Zambia Revenue Authority (ZRA):*** The Zambia Revenue Authority (ZRA), acting on behalf of the government, implemented various tax relief measures to alleviate the financial burden on businesses. These measures include:
   - Suspension of export duty on copper ores and concentrates.
   - Suspension of export duty on precious metals.
   - Suspension of export duty on crocodile skin.
   - Deductibility of input VAT on imported spare parts.
   - Refund or remission of excise duty on ethyl alcohol.
   - Waiver of penalties and interest.
   - Suspension of import duty.
   - VAT zero-rating of medical supplies.
5. ***Objective of Tax Relief Measures:*** The tax relief measures introduced by the ZRA were designed to provide immediate financial relief to businesses, stimulate economic activities, and safeguard employment. By suspending certain duties, allowing VAT deductibility, and providing waivers, the government aimed to reduce the financial strain on businesses, particularly in sectors like construction.

In general, Zambia responded to the challenges posed by the COVID-19 pandemic by implementing a combination of financial stimulus packages and tax relief measures. These initiatives were intended to support businesses, including those in the construction sector, and facilitate economic recovery during a period of global uncertainty.

2.3 COVID-19 Tax Incentives around the World

The unprecedented challenges posed by the global COVID-19 pandemic prompted governments across the world to implement a range of fiscal measures, including tax incentives, to mitigate the economic impact on businesses and individuals. These measures were aimed at providing immediate relief, stimulating economic activity, and supporting sectors severely affected by the crisis. This discussion examines the diverse approaches taken by various countries in response to the pandemic, highlighting key examples from Europe, Africa, North America, Asia, and Oceania.

European Union

In the European Union, a substantial EUR 1.7 trillion relief package was pledged to stabilize the region's economy. Germany, a leading economy within the EU, implemented significant measures, including providing EUR 250 billion in loans to support companies. Additionally, Germany reduced its Value Added Tax (VAT) from 19% to 16%, demonstrating a multifaceted strategy to address economic challenges (Nicola, 2020).

Africa - South Africa, Kenya, Namibia

African nations, including South Africa and Kenya, implemented tax relief measures to counter the economic impact of the pandemic. South Africa introduced the Disaster Management Tax Relief Bill and Disaster Management Tax Relief Administration Bill 2020, allowing for the delay of remittances without penalties or interest. Kenya, on the other hand, provided 100% tax relief for low-income earners and reduced tax rates across various categories. Namibia's approach included a stimulus package with low-interest loans for farmers and agri-businesses, along with grants for formal and informal workers who lost their jobs (World Economic Forum, 2020).

North America - United States and Canada

In North America, the United States implemented the CARES Act, offering tax incentives such as the Paycheck Protection Program (PPP) to support small businesses. Tax credits were introduced for employee retention, and employer payroll tax deferrals provided additional financial flexibility. Similarly, Canada introduced the Canada Emergency Wage Subsidy (CEWS) to assist employers facing revenue declines, coupled with extended tax filing deadlines and various tax credits to support businesses and individuals (Internal Revenue Service, 2020; Government of Canada, 2020).

Asia - India

In India, the response to the pandemic included extending tax filing deadlines, reducing interest rates on delayed tax payments, and easing compliance requirements. The government allowed businesses to carry forward losses for an extended period, providing much-needed flexibility during challenging economic circumstances (Economic Times, 2020)

Oceania - Australia

Australia implemented measures such as the JobKeeper Payment, offering wage subsidies to businesses affected by the pandemic. Tax payment deferrals and temporary full expensing of capital assets were introduced to further support businesses. These comprehensive measures showcased Australia's commitment to protecting jobs and maintaining economic stability (Australian Taxation Office, 2020).

The global response to COVID-19 through tax incentives reflects the dynamic and varied nature of economic challenges faced by countries. From Europe to Africa, North America, Asia, and Oceania, governments have implemented a mix of relief measures to support businesses and individuals. The diversity of approaches underscores the importance of tailored strategies that consider each country's unique economic circumstances, demonstrating the need for adaptability and innovation in crafting effective fiscal policies during times of crisis.

2.4 Zambia's Construction Sector

Zambia's construction sector plays a vital role in the country's economic development, contributing to employment generation, infrastructure development, and overall economic growth. The sector encompasses a wide range of activities, including residential and commercial construction, infrastructure projects, and real estate development. Understanding the dynamics of the construction sector is crucial for evaluating the effectiveness of tax incentives during the COVID-19 pandemic.

Contributions to the Economy: The construction sector in Zambia has historically been a significant contributor to the nation's Gross Domestic Product (GDP) and job creation. The sector's contributions extend beyond the direct impact on construction-related industries, influencing various interconnected sectors such as manufacturing, transportation, and services.

Challenges Faced by the Construction Sector: Despite its importance, Zambia's construction sector faces challenges, including fluctuations in commodity prices, regulatory hurdles, and sometimes limited access to financing. These challenges can affect the sector's ability to thrive and contribute optimally to the country's economic development.

Impact of COVID-19 on the Construction Sector: The onset of the COVID-19 pandemic introduced unprecedented challenges for Zambia's construction industry. The sector experienced disruptions in the supply chain, labor shortages, and a slowdown in project implementation due to lockdowns and restrictions. This created a pressing need for government intervention to support the industry and ensure its resilience during these challenging times.

Government Measures and Tax Relief Incentives: In response to the economic impact of the pandemic, the Zambian government took proactive measures to support businesses, including those in the construction sector. The introduction of an 8 billion kwacha economic stimulus package, financed through a COVID-19 bond, was a significant step. This package was directed towards the payment of retirees, contractors, and suppliers within the construction sector.

Tax Relief Measures Specific to Construction: The tax relief measures introduced by the Zambian government, through the Zambia Revenue Authority (ZRA), targeted specific aspects relevant to the construction sector. The suspension of export duty on copper ores and concentrates, precious metals, and crocodile skin aimed to facilitate export-oriented activities within the sector. Additionally, the deductibility of Input Value Added Tax (VAT) on imported spare parts and the suspension of import duty were measures intended to ease the financial burden on construction businesses, allowing for smoother operations.

Research Focus on the Construction Sector: Given the sector's significance and the unique challenges posed by the COVID-19 pandemic, this research focuses on assessing the effectiveness of tax relief incentives on the growth of the construction sector in Zambia. By evaluating the impact of specific measures, such as VAT zero-rating on medical supplies and the suspension of penalties and interest, the study aims to provide valuable insights into the sector's resilience and potential for growth amidst challenging circumstances.

Understanding the intricacies of Zambia's construction sector and its response to government interventions during the pandemic is crucial for formulating effective policies that ensure the sector's sustained growth and contribute to overall economic recovery.

2.5 Review of similar studies

A good number of studies concerning Tax reforms and Tax incentives have been conducted since the outbreak of the COVID-19 pandemic. This study reviews some studies and what they established as follows:

2.5.1. Outside Africa

In 2021 the OECD Policy Responses to Coronavirus (COVID-19) conducted a research titled ‘Tax and fiscal policies after the COVID-19 crises. The research established that The COVID-19 pandemic has caused a significant deterioration in public finances, adding to pre-existing strains from long-term structural challenges including population aging, climate change, rising inequality, digitalization, and automation. This report, originally prepared for G20 Finance Ministers and Central Bank Governors at the request of the Italian G20 Presidency, the study considers the challenges and opportunities of developing public fiscal policy strategies as countries seek to “build back better”. The report focused in particular on how tax policy can be designed comprehensively so that fiscal systems can deliver a balance of equity, growth and sustainability, highlighting some of the key considerations that policymakers should take into account to ensure optimal tax policy design and the successful implementation of tax reform.

Ruud de Mooij et al (2020), conducted a study in the USA to guide tax policy reforms after economies have recovered from the COVID-19 crisis and fiscal consolidation becomes imperative. The focus was on identifying tax measures that can boost revenue mobilization in a way that is both inclusive and growth-friendly. The study established that countries have multiple options to enhance the effective progressivity of their tax systems, reduce key tax distortions to growth, exploit corrective taxes to support a green recovery and adjust tax designs to cope with an increasingly digitalized economy after the pandemic.

Gilbert (2015), carried out a study concerning a Conceptual Framework for Measuring the Effectiveness of Green Fiscal Reforms in Italy. The paper established that economic theory is clear on the process for designing efficient environmental policies: eliminate energy production and consumption subsidies and use a Pigouvian fee to send appropriate signals through the market on the optimal use of different energy sources. Beyond that policy prescription, several choices remain use of revenues, costs of administration, monitoring and oversight, and other practical issues. The study recommended that policies can be assessed along several non-environmental dimensions including potential for raising revenue, efficiency and distributional implications, broader economic impacts (e.g. economic growth, labor market outcomes), and political feasibility. The paper viewed several green fiscal reforms throughout the world through these various dimensions.

2.5.2. In Africa

According to Fjeldstad and Therkildsen (2020) in their study called ‘Implications of the COVID-19 pandemic for revenue generation in poor African Countries’ they established that In the aftermath of the COVID-19 pandemic, the need in poor countries in Africa for more revenue is obvious and growing, also because aid agencies are quite stingy in helping them in this crisis. The pandemic’s negative impact on revenues is especially pronounced in countries that are most dependent on international trade, tourism, and petroleum exports. The researchers concluded that the good news is that sub-Saharan African tax collectors have performed almost as well as their peers in much wealthier Latin America and substantially better than in South Asian countries. Increased domestic revenue mobilization (DRM) is possible depending on a country’s specific situation and political economy. However, it will not be easy because the Sustainable Development Goals in poor countries are strongly under-financed. The progress and sustainability of the SDGs will increasingly depend on poor countries’ revenues.

Estian & Wallace, 2013 conducted a study to investigate the impact of tax incentives on stimulating investment in South Africa. The purpose of this paper was to provide a framework and potential methodology of the analysis of tax incentives in South Africa. As incentives are often specific and targeted, the precise methods needed to analyze the effectiveness of incentives may well differ among types of incentives. However, by positing a framework for evaluation based on basic economic principles, the researcher believed that transparency, accountability, and rigorous evaluation of individual incentives or regarding the choice of incentives may be enhanced. The study classified different tax incentives, concerning their acceptability in the economic literature and with an indication of their occurrence in South Africa. The cost of tax incentives to manufacturing in South Africa is estimated by sector of economic activity, indicating a sizeable drain on the national budget, and a multiplier analysis of current tax incentives is undertaken.

2.5.3. In Zambia

Mvula's paper on Country Experience - Tax Incentives (2020) established that Current Tax Incentives in Zambia are
specified under the tax code, and they include:

- For the mining and energy industries
- the extended tax loss carry forward periods are ten years (5 years for other sectors), For some sectors/investments, accelerated capital expenditure depreciation rates of 100% and 50% on plant, machinery, equipment, and buildings
- Investment and development allowances (manufacturing and farming respectively). Reduced corporate income tax rates to 10% on revenue from agriculture and agro-processing, and 15% on income from non-traditional exports (standard rate 35 percent).
- Five-year tax holidays on approved priority sector activities (e.g. Manufacturing and Tourism) approved investment under the Zambia Development Agency Act). Zero Withholding tax rates on payments of interest and dividends
- Interest paid to individuals arising from deposit and savings accounts held with financial institutions
- Dividends paid by mining companies
- Five-year holiday on dividends paid by farming companies.
- Indirect tax incentives – Reduction or exemption on import duties and import VAT.

The study also reviewed that, Previous Tax Incentives Zambia have been streamlining the incentives that were/are linked to approval under the ZDA Act from 2012 to date due to, among other reasons:

- Footloose investments.
- Lack of proper sunset provisions.
- Overlap of incentives.
- Over incentivized regime (long priority sector/product list, long duration for incentives)
- Results/impact of incentives not clearly identifiable
- Poor/lack of monitoring of incentive mechanism

Some of the incentives that have been removed include

- Tax holidays of 5 or 3 years on small and micro enterprises that were granted based on one’s location.
- 5-year tax holidays from the year of returning a taxable profit with an additional 5-year period for a reduced tax rate on privileged zones/ sectors.
- Five-year tax holidays on WHT deductions on dividends.
- Five or three-year tax holiday on income earned by small and micro enterprises.
- Five-year tax holiday from the year of returning a taxable profit with an additional 5 year period for a reduced tax rate on privileged zones/ sectors.
- Zero-rating of Value Added Tax on supplies made to companies operating in privileged economic zones.
- Removal of provisions that granted discretion to the Minister in awarding additional tax incentives, where an investment was more than USD 10 million (to promote investment).

The investigation also discovered that tax incentives are outlined in the tax code and handled by the IRS. The Zambia Development Agency certifies incentives-eligible investments and informs taxpayers of the applicable regime, while the Tax Administration must still certify the qualifying incentives (sometimes this is a source of misunderstanding). The ZDA Act contains a clawback mechanism that allows tax benefits to be suspended or withdrawn if an entity fails to meet its employment and training commitments. Ad hoc monitoring operations of the Ministry of Finance were carried out, for example, in 2013. The ZDA is authorized by law to monitor investments and revoke investment licenses if a business violates the investment license's terms. The study reviewed that the Government has undertaken studies in the past 5 years aimed at reviewing and assessing the tax incentive regime to reform the regime to meet developmental challenges and align with best practices. Tax Expenditure Reporting has been done but not made public from the studies undertaken. The study recommended that regionally, under the Southern African Development Community (SADC) there is an undertaking by members' countries to stop harmful tax competition and to have consensus on having a common approach in the application and treatment of tax incentives (e.g minimum tax rates, use of tax holidays).

Fumpa-Makano (2019) investigated tax exemptions and tax expenditures in Zambian corporate taxation. The study established that Zambia, like most African countries, has an abundance of natural resources, according to the report. Corporations take these resources and earn handsomely from their investments. Zambia, while being wealthy in natural resources, does not receive a fair portion of its riches and is now regarded as a poor country. This paper presented the findings of a desk research conducted in January-February 2019 to better understand Zambia's tax system (incentives/exemptions) for corporate entities doing business in Zambia or planning to do so. According to the findings, Zambia's tax exemptions are extremely generous, favoring large corporations. The tax regime offers a 5 years tax-free period supposedly to allow a company sufficient time to set up and stabilize its operations. Thereafter, tax payment is staggered in percentages up to 10 years, provided a company made profits in that fiscal year. In years 6 to 8, only 50 percent of profits are taxable while 75 percent of profits are taxable in years 9 and 10. Because of weak institutional capacity (for monitoring and policy/law enforcement), coupled with widespread corruption, this tax landscape leaves Zambia at the mercy or goodwill of corporate entities to truthfully declare their production and profits, upon which the tax regime is based. It is estimated that Zambia loses over US$4.5 billion annually through tax evasion and tax avoidance. The sad reality is that this situation is unlikely to change anytime soon, and there is very little hope to curb illicit financial flows as long as the current tax regime and institutional roles remain as stipulated in national laws.

2.6 Critique of Existing Literature

The literature examined above contributes significantly to the understanding of tax reforms, incentives, and their implications, particularly in the context of the COVID-19 pandemic. A critical evaluation reveals both strengths and limitations in the existing body of knowledge.

Strengths:

One notable strength of the literature lies in its global perspective, encompassing studies conducted outside Africa, notably by renowned organizations such as the OECD. This inclusive outlook ensures a comprehensive understanding of tax policies and incentives on a worldwide scale, offering insights that can inform global economic strategies.

Additionally, the literature provides valuable policy recommendations. For instance, the OECD research emphasizes the need for comprehensive tax policy strategies. This focus on guiding policymakers on achieving a balance of equity, growth, and sustainability adds practical value to the theoretical discussions within the literature.

Furthermore, the studies exhibit diversity in their approaches, incorporating various research methodologies. From comprehensive policy reviews, as seen in the OECD research, to empirical studies like Ruud de Mooij et al. (2020), this diversity strengthens the overall robustness of the body of knowledge.

In recognizing the unique challenges faced by African countries, studies like Fjeldstad and Therkildsen's (2020) offer insights specifically tailored to the African context. This focus contributes to a more context-specific understanding of tax policies, providing relevant information for policymakers in the region.

Limitations:

However, certain limitations are evident within the existing literature. There is a notable scarcity of empirical evidence in studies focused on African countries. While Fjeldstad and Therkildsen (2020) and Estian (2013) offer valuable insights, the absence of concrete empirical outcomes of implemented tax reforms and incentives in African nations limits the depth of understanding.

Moreover, some studies, such as Gilbert's (2015) conceptual framework for measuring the effectiveness of green fiscal reforms, date back several years. The lack of recent data may undermine the relevance of findings, especially considering the evolving dynamics of economic and environmental challenges.

The studies on Zambia provide specific insights into the country's tax incentives. However, caution is warranted in generalizing these findings to broader regional contexts. A more nuanced understanding of tax policies across different African nations is crucial for a comprehensive and accurate portrayal of regional variations.

In certain studies, assumptions in impact assessments are notable. For instance, Ruud de Mooij et al. (2020) assume that implemented tax measures can boost revenue mobilization inclusively. However, the actual impact may vary, and a critical examination of these assumptions is essential for a more accurate reflection of outcomes.

Lastly, while the existing literature forms a robust foundation for understanding the complexities of tax reforms and incentives, there is a clear need for more empirical evidence, updated data, and a nuanced understanding of regional variations. Researchers should strive for a more comprehensive and context-specific approach to enhance the applicability and effectiveness of policy recommendations in diverse economic and geographical settings.

3. Theoretical and Conceptual Framework

The study integrates the Theory of Determinants of Investment and the Theory of Economic Stimulus to examine the impact of tax relief incentives on the Zambian construction sector during the COVID-19 pandemic. The Theory of Determinants of Investment highlights risk and return as critical factors influencing investment decisions, suggesting that investments are viable when anticipated returns exceed the cost of capital plus a risk premium. This theory underscores the importance of designing tax incentives to promote productive investment without distorting resource allocation. It also aligns with examining the pandemic's economic impacts and the strategic role of tax policies in encouraging investment and recovery.

Furthermore, the Theory of Economic Stimulus emphasizes the importance of targeted fiscal measures, such as tax relief, in stimulating economic growth, especially during crises like the COVID-19 pandemic. It suggests that tax incentives can enhance consumer spending and business investments, thus alleviating economic downturn impacts. This theory is especially relevant in assessing the Zambian government's tax relief measures during the pandemic, including the suspension of export duties and VAT zero-rating on medical supplies.

The conceptual framework of the study delineates the relationship between tax relief incentives (TRI) and business growth in Zambia's construction sector, identifying TRI as the independent variable and business growth as the dependent variable. It explores how TRI's perceived efficiency impacts business growth, considering the direct influence of tax relief on investment, job creation, and financial stability. The framework also examines the strategies businesses employ to leverage tax incentives effectively.

INDEPENDENT VARIABLES **DEPENDENT VARIABLE**

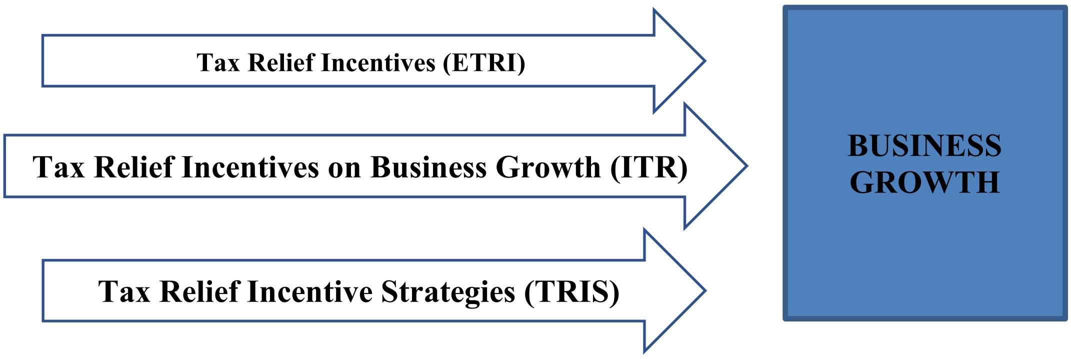

Figure 3.1: Conceptual Framework

This approach aims to provide a comprehensive understanding of the effectiveness of tax relief incentives in promoting business growth within Zambia's construction sector amidst the pandemic, taking into account the nuances of economic theories and the specific context of the study.

4. Methods

4.1 Research Design and Data Collection

A descriptive research design guides this study, focusing on primary data obtained from construction companies in Lusaka through structured questionnaires. This design is selected for its effectiveness in exploring the nuanced impacts of tax policies on sectorial dynamics.

4.2 Population and Sampling

Targeting employees from approximately 45 construction companies, the study employs Slovin's formula to derive a sample size of 40, ensuring representativeness with a minimal margin of error. Simple random sampling enhances the reliability of findings by providing all companies with an equal chance of selection. The formula is as shown below;

$$\boldsymbol{n = \frac{N}{1 + Ne^2}}$$

Whereas:
n = no. of samples
N = total population
e = error margin / margin of error

$$n = \frac{45}{1 + 45(0.05)^2}$$

$$n = \frac{45}{1 + 45(0.0025)}$$

$$n = \frac{45}{(1.1125)}$$
$$n \approx 40.36$$

Therefore, the population (N) considered was 45 and the margin of error (e) was 0.05, the sample size (n) was approximately 40.36. Since the sample size must be a whole number, it was typically rounded up to the nearest whole number. Therefore, the sample size (n) was 40.

4.3 Data Analysis

Data analysis is conducted using SPSS, emphasizing frequencies and percentages to elucidate the data's implications on the construction sector's response to tax incentives. This approach enables the clear presentation of results, facilitating actionable insights.

4.4 Ethical Considerations

The study prioritizes ethical research practices, including respondent anonymity and voluntary participation. Permissions were secured from involved companies, with a commitment to avoid any emotionally or psychologically distressing inquiries.

4.5 Validity and Reliability

To ensure the accuracy and consistency of our study on the impact of tax relief incentives in Zambia's construction sector during COVID-19, we emphasized both validity and reliability in our research methodology. Validity was addressed through a thorough literature review and the use of a theoretical framework to guide the design of our survey instruments, ensuring that we accurately captured the phenomena under study. Reliability was enhanced by adopting standardized data collection procedures, using a structured questionnaire, and conducting a pilot test to refine the survey instrument. Statistical analyses were performed using SPSS to guarantee transparent and reproducible results. These methodological steps, underpinned by rigorous design and analysis techniques as outlined by Creswell and Creswell (2018), aimed to produce reliable and insightful findings on the effectiveness of tax relief incentives in fostering business growth within Zambia's construction sector amidst the pandemic.

5. Results

5.1 Effectiveness of tax relief incentives in Zambia

5.1.1 Knowledge of companies about Tax Relief Incentives in Zambia

When it comes to tax relief incentives in Zambia, the respondents were questioned about if their company has the necessary understanding. They had the choice of saying they strongly agreed, agreed, or weren't sure. Only 9 (25.7%) of the 35 respondents were unsure, whereas 16 (45.7%) strongly agreed and 10 (28.6%) agreed. The bulk of results show that businesses in the construction sector are well aware of Zambia's tax incentives, as shown in figure 5.1 below.

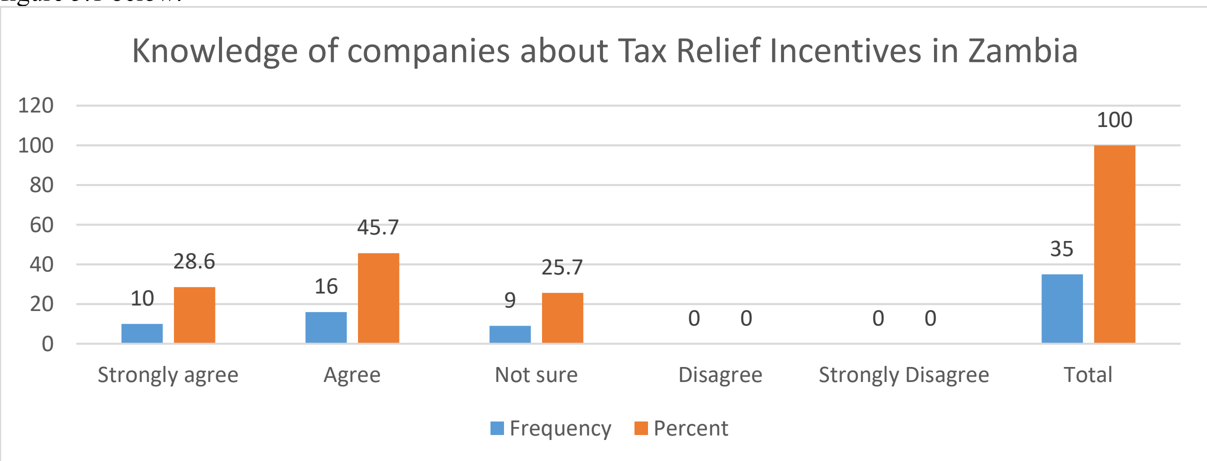

Figure 5-1 Knowledge of companies about Tax Relief Incentives in Zambia

5.1.2 Tax audit after the introduction of Tax Relief incentives in Zambia

After the implementation of Tax Relief incentives in Zambia, the respondents were asked to indicate if their companies had ever been the subject of a tax audit by choosing either no or yes. Out of the 35 respondents, 14 (or 40%) stated that their companies had previously undergone audits from the time the incentives were first implemented. As shown in figure 5.2 below, the majority of 21 respondents, or 60%, said that their companies had never been audited before the introduction of the incentives.

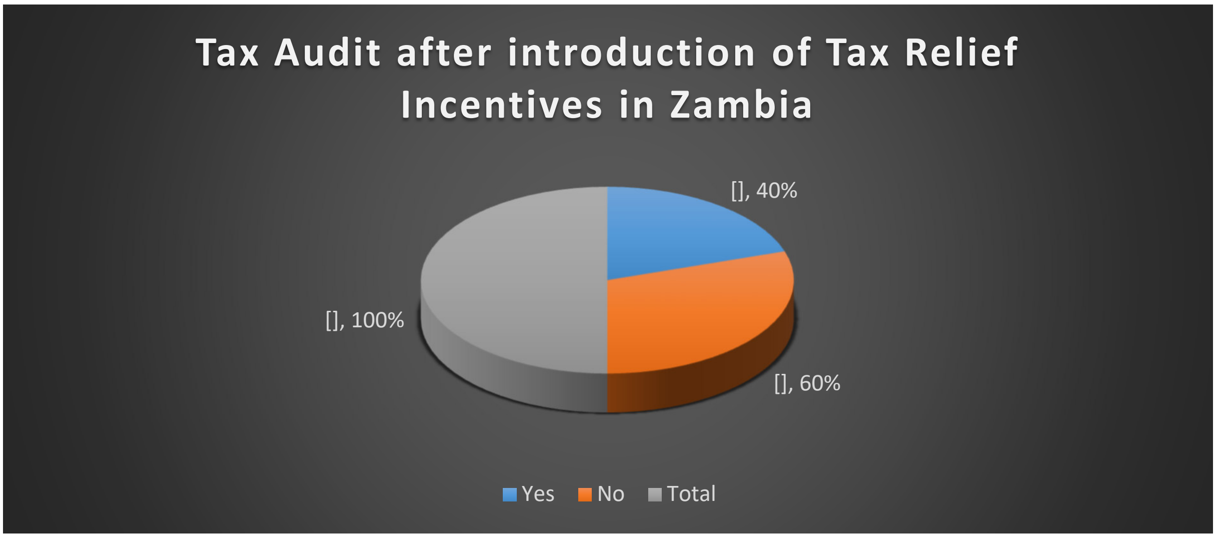

Figure 5-2 Tax audit after the introduction of Tax Relief incentives in Zambia

5.1.3 Company's declared income amount for tax returns

Whether or if their company's claimed income amount for tax returns significantly increased following the Tax Relief incentives program was a question posed to the respondents. The respondents had the choice to concur, say they were unsure, or disagree. Out of the 35 respondents who took part in the sample, 12 (or 34.3%) agreed that their businesses had seen an increase in profits, while 14 (or 40%) were unsure and 9 (or 25.7%) disagreed. As can be seen from the table below, the majority of construction companies are unsure if their company's declared income amount for tax returns significantly increased after the Tax Relief incentives program, suggesting that they were not paying attention and therefore did not notice any changes during the period.

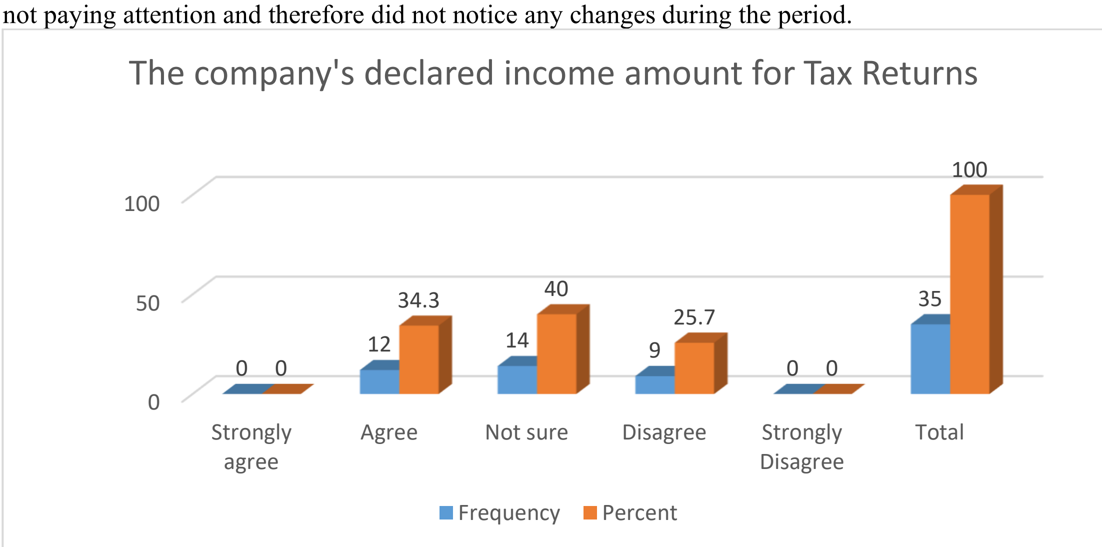

Figure 5-1 Company's declared income amount for tax returns

5.1.4 Contribution of Relief incentives program has greatly contributed to state revenues

In response to the statement that the company believes the successful implementation of the Relief incentives programme has significantly increased state revenues, the respondents were asked to strongly agree, agree, state they were unsure, or disagree. The company believes the programme is successful and has increased business growth. Only 35 of the 40 surveys collected had responses, and of those 35, 2 (5.7%) highly agreed and 14 (40%) agreed, 18(51.4%) were not sure and only 1(2.9%) disagreed. As can be seen from the figure below, the majority of the respondents agreed implying that most companies in the construction sector are of the view that the successful implementation of the Relief incentives program has greatly contributed to state revenues, hence the Company thinks the program has been effective and brought growth in business.

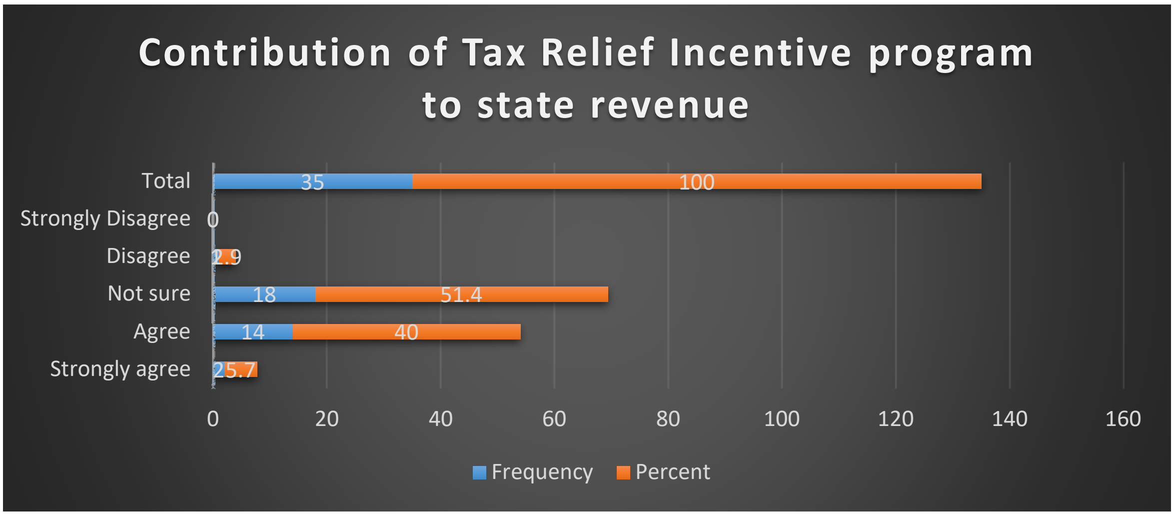

Figure 5-2 Contribution of Relief incentives program has greatly contributed to state revenues

5.1.5 Profit and Revenues for companies after the introduction of Tax Relief incentives in Zambia.

When asked if their company's profit and revenue levels were generally high or rarely high following the introduction of tax relief incentives in Zambia, respondents gave different answers. Of the 35 people surveyed, 10 (28.6 percent) said that their company's profit and revenue levels were generally high, while 25 (71.4%) said that their company's profit and revenue levels were rarely high. The majority's response that earnings were rarely high during this time period suggests that corporations profited from the incentives, but not to a greater extent.

Table 5-1 Profit and Revenues after the introduction of Tax Relief incentives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mostly high	10	28.6	28.6	28.6
	Rarely high	25	71.4	71.4	100.0
	Total	35	100.0	100.0	

Source: Researcher, 2022

5.1.6 Company views on Tax Relief incentives in Zambia concerning business growth.

The respondents were asked to strongly agree, agree, not sure, disagree, and strongly disagree to the statement that their companies views the Tax Relief incentives in Zambia as encouraging business growth. Out of the 35 respondents, 2(5.7%) strongly agreed, 30(85.7%) agreed, 3(8.6%) were not sure, however, no company disagreed or strongly disagreed to the statement above. With the majority agreeing, it is an indication that indeed Tax Relief incentives in Zambia is encouraging business growth.

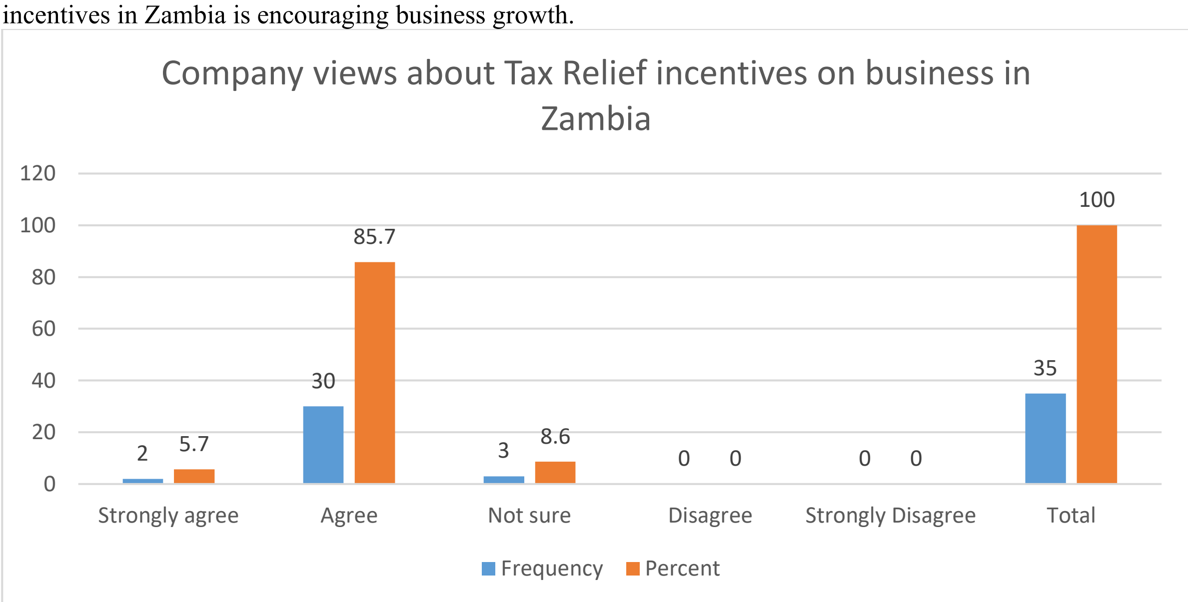

Figure 5-3 Company views on Tax Relief incentives in Zambia concerning business growth

5.2 The impact of tax relief incentives on the growth of business in Zambia

5.2.1 Perceptions of companies on Tax Relief Incentives and Knowledge on Tax Policy

The respondents were asked to strongly agree, agree, not sure, disagree or strongly disagree to the statement that their companies perceive that the Tax Relief incentives has led to increased awareness/ knowledge about the tax policy. Out of the 35 respondents, no one strongly agreed but 6 (17.1%) agreed, 25 (71.4%), 4 (11.4%) disagreed and no one strongly disagreed. As shown in figure 5.6 below, the majority were not sure whether their companies perceive that the Tax Relief incentives has led to increased awareness/ knowledge about the tax policy.

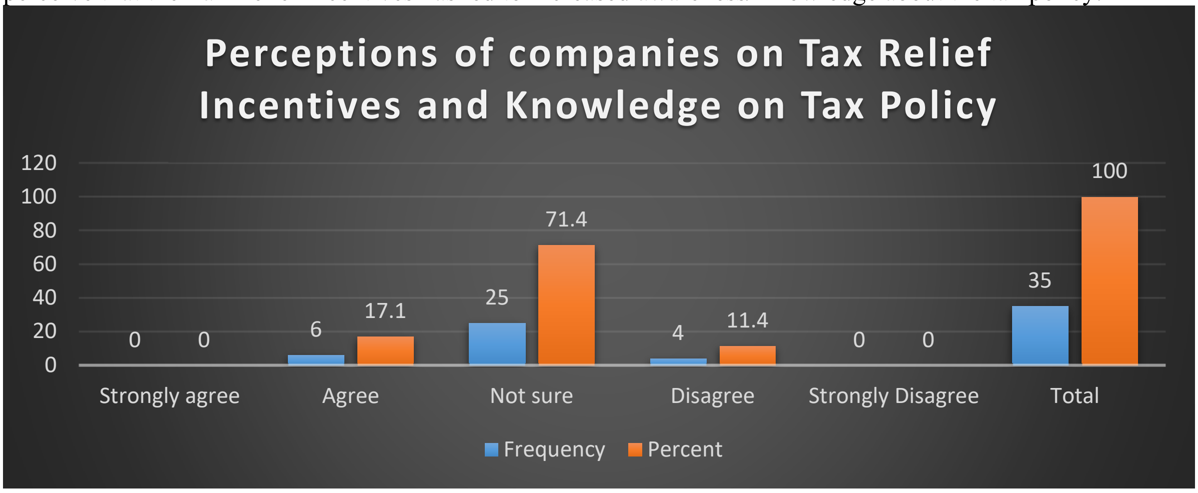

Figure 5-4 Perceptions of companies on Tax Relief Incentives and Knowledge on Tax Policy

5.2.2 Impact of Tax Relief Incentive on taxpayers' attitude

Respondents were asked to rate the statement that, from the perspective of a taxpayer, the company believes that the tax relief incentive has generally had a negative impact on taxpayers' attitudes as well as on the growth of business as strongly agree, agree, not sure, disagree, or strongly disagree. 29 (82.9%) of the 35 respondents disagreed, no one strongly agreed, no one agreed, 6 (17.1%) were unsure, and no one strongly disagreed. As shown in figure 5.7 below, the majority of respondents disagreed, which suggests that businesses in the construction industry do not strongly agree, agree, are unsure, strongly disagree, or agree a proof that tax reduction incentives have a favourable effect on the construction industry.

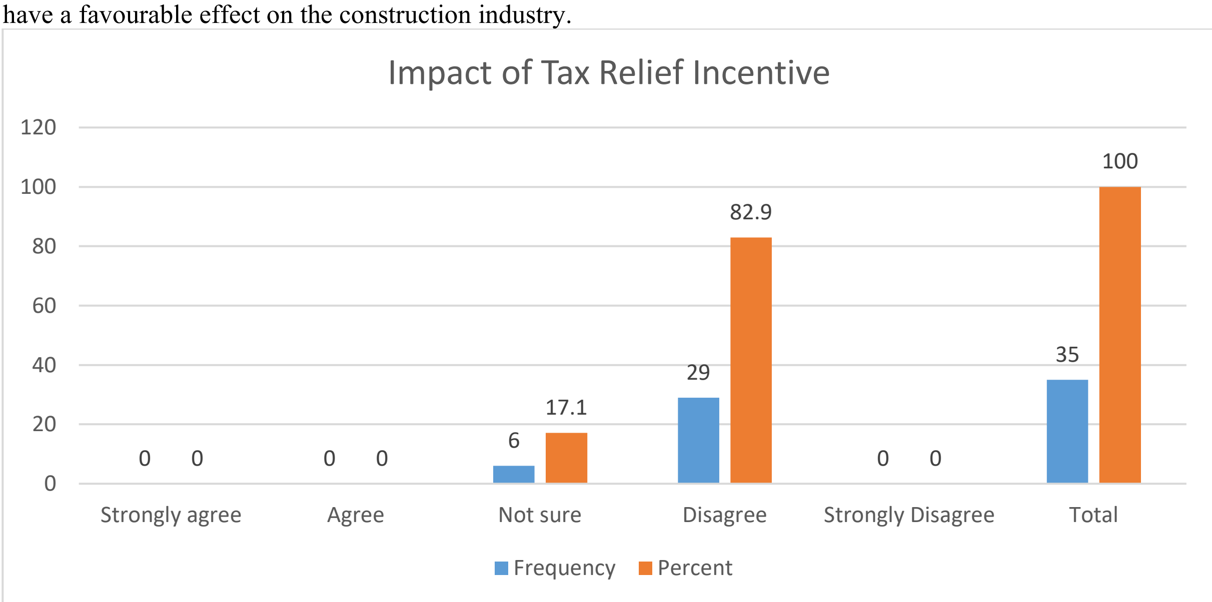

Figure 5-5 Impact of Tax incentive

5.3 Effectiveness of tax relief incentive measures applicable for Zambian construction sector.

5.3.1 Effectiveness of suspension of VAT

Respondents were asked to strongly agree, agree, not sure, disagree or strongly disagree to the statement that the suspension of Input VAT on imported spare parts now deductible has been effective. Of the 35 respondents, no one strongly agreed, 2 (5.7%) agreed, 23 (65.7%) were not sure, 10 (28.6%) disagreed and no one strongly agreed. As can be seen in the figure below were not sure. This implies the companies in the construction sector do not know whether the suspension of Input VAT on imported spare parts now deductible has been effective.

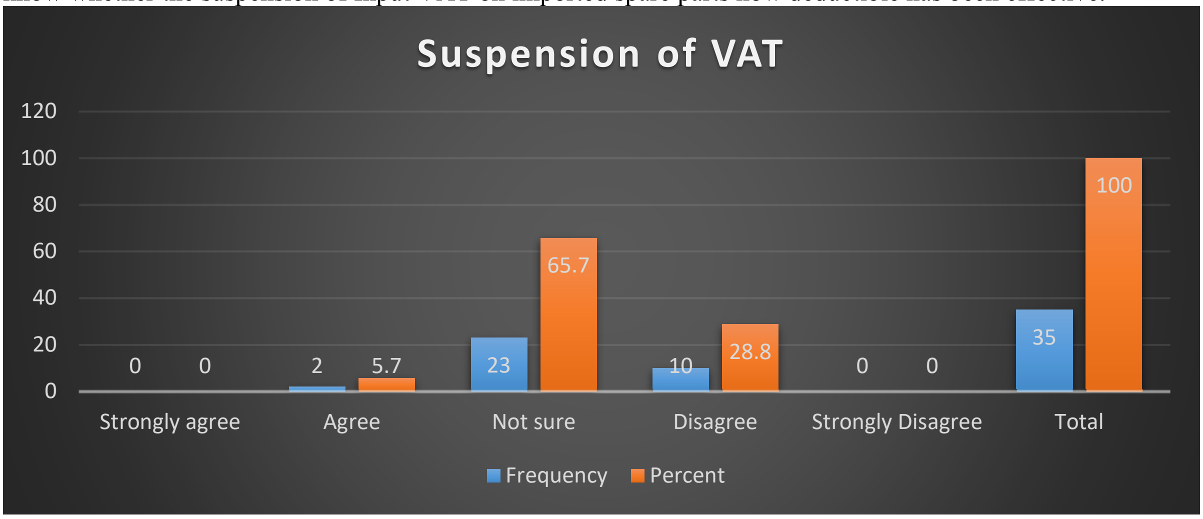

Figure 5-6 Suspension of VAT

5.3.2 Effectiveness of suspension of Waiver of penalties and interest.

Respondents were asked to strongly agree, agree, not sure, disagree or strongly disagree to the statement that the suspension of Waiver of penalties and interest has been effective. Of the 35 respondents, 2 (5.7%) strongly agreed, 28(80%) agreed, 5(14.3%) were not sure and no one disagreed or strongly disagreed. As shown in figure 5.9 below, the majority of the companies agreed that there has been a suspension of waiver penalties and interest on companies in the construction sector and the suspension has been effective.

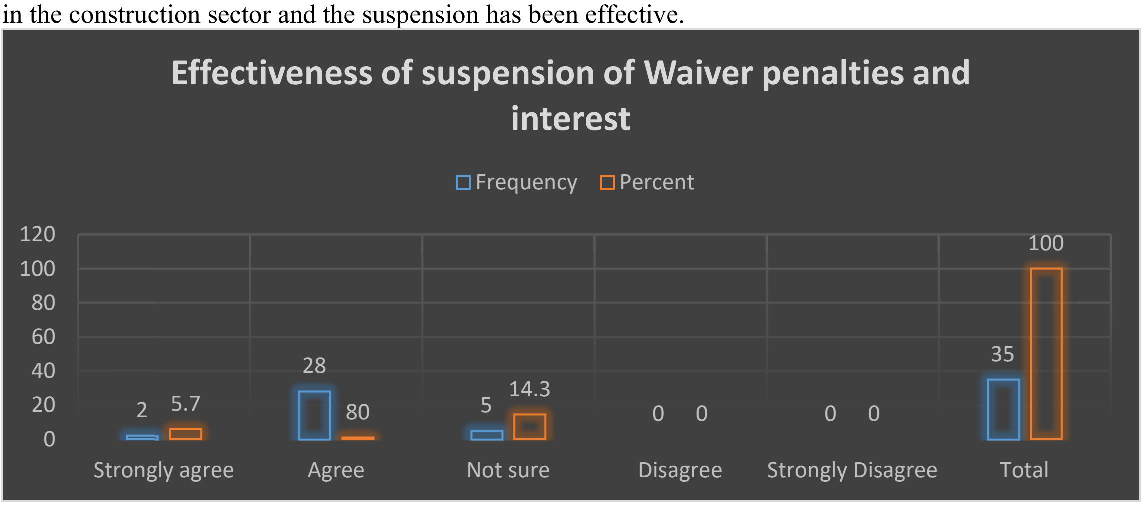

Figure 5-7 Effectiveness of suspension of Waiver of penalties and interest

5.3.3 Effectiveness of suspension of import duty

Respondents were asked to strongly agree, agree, not sure, disagree or strongly disagree to the statement that the suspension of import duty has been effective. Of the 35 respondents, no one agreed or strongly agreed. However, 16 (47.7%) were not sure, 19 (54.3%) disagreed and no one strongly disagreed. The majority disagreed, this implies that the suspension of import duty has not been effective.

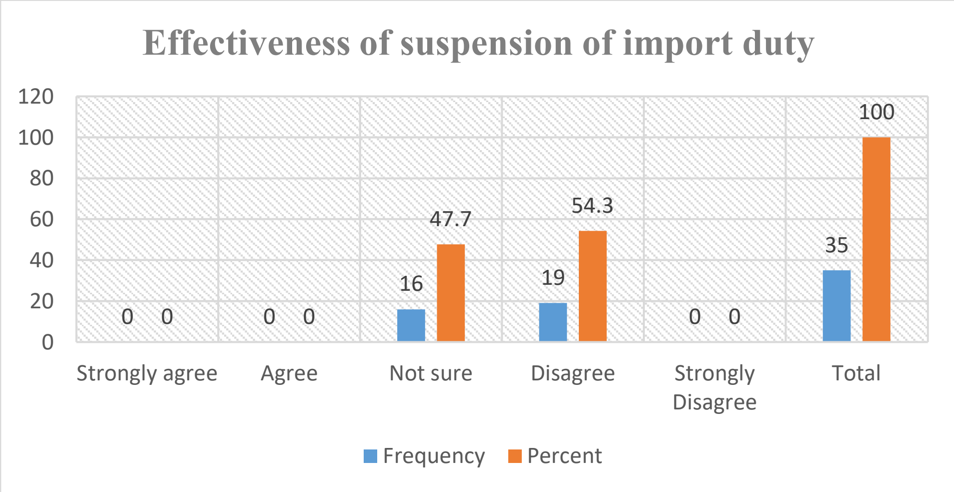

Figure 5-8 Effectiveness of suspension of import duty

5.4 Correlation Matrix

A correlation matrix was done between the incentives that were identified like Effectiveness of suspension of VAT, the Effectiveness of suspension of Waiver of penalties and interest, and Effectiveness of suspension of import duty versus business performance.

Table 5-2 Correlations

		SID	WAIVER	VAT
SID	Pearson Correlation	1	-.082	.283
	Sig. (2-tailed)		.639	.100
	N	35	35	35
WAIVER	Pearson Correlation	-.082	1	.038
	Sig. (2-tailed)	.639		.829
	N	35	35	35
VAT	Pearson Correlation	.283	.038	1
	Sig. (2-tailed)	.100	.829	
	N	35	35	35

The correlation matrix presented in Table 5.2 provides insights into the relationships between various tax relief incentives and business performance in the Zambian construction sector. The matrix includes correlations between the effectiveness of suspension of VAT, suspension of waiver of penalties and interest, suspension of import duty, and business performance.

Starting with the Pearson correlation coefficients, it can be observed that:

1. There is a weak positive correlation (0.283) between the effectiveness of suspension of VAT and business performance. Although the correlation is not statistically significant at the 0.05 level (p = 0.100), it suggests a potential association between the effectiveness of VAT suspension and improved business performance.
2. The correlation between the effectiveness of suspension of waiver of penalties and interest and business performance is negative but very weak (-0.082). Furthermore, this correlation is not statistically significant (p = 0.639), indicating no meaningful relationship between these variables.
3. Similarly, the correlation between the effectiveness of suspension of import duty and business performance is also very weak (0.038) and statistically insignificant (p = 0.829).

In general, the correlation matrix suggests that there may be a slight positive relationship between the effectiveness of suspension of VAT and business performance in the Zambian construction sector. However, no significant correlations were found between the effectiveness of suspension of waiver of penalties and interest, suspension of import duty, and business performance. These findings imply that the effectiveness of tax relief incentives, particularly VAT suspension, may have some influence on business performance, but further analysis and contextual understanding are required to draw definitive conclusions.

6. Discussion of Findings

6.1 Effectiveness of Tax Relief Incentives

The implementation of tax relief incentives in Zambia, following the COVID-19 outbreak, has been met with considerable awareness within the construction sector. A significant majority of businesses recognize these incentives, although their direct impact on reported income for tax returns remains ambiguous for many. Nonetheless, there's a consensus on the program's success in fostering company growth and enhancing state income, albeit the financial gains were not maximized by all firms. This observation aligns with OECD's (2021) emphasis on designing tax policies that balance equity, growth, and sustainability. The mixed results underscore the nuanced effects of tax incentives on economic activities, echoing findings by Fumpa-Makano (2019) regarding the cautious optimism surrounding tax regimes in Zambia.

6.2 Impact on Sectorial Growth

Contrary to expectations, the majority of businesses do not perceive tax relief incentives as directly beneficial to the construction sector's growth. This scepticism highlights the complexity of translating tax policy into tangible economic advancements. However, the broad consensus suggests a positive influence on business operations, supported by evidence of increased employment opportunities. The intricate relationship between tax incentives and sectorial growth necessitates a deeper investigation, taking cues from the Theory of Determinants of Investment, which advocates for a risk-and-return assessment in investment decisions.

6.3 Strategic Tax Relief Incentives for the Construction Sector

The study evaluated specific tax relief strategies applicable to Zambia's construction sector, revealing a mixed understanding of their effectiveness. Among the strategies, the suspension of penalties and interest emerged as the most acknowledged and effective measure, corroborating Ruud de Mooij et al.'s (2020) assertion on the potential for tax incentives to adapt to post-pandemic economic structures. The findings suggest a cautious approach in employing tax incentives, with a clear preference for measures that offer immediate financial relief and operational flexibility to businesses.

7. Conclusion

The study investigated the effectiveness of tax relief incentives on the growth of businesses in Zambia, with a specific focus on the construction sector during the COVID-19 pandemic. Through the analysis of various indicators and correlations, several conclusions can be drawn regarding each research objective.

7.1 Objective 1: Investigate the effectiveness of Tax Relief incentives in Zambia.

The findings reveal that businesses in the Zambian construction sector are well aware of the tax relief incentives introduced by the government in response to the COVID-19 pandemic. However, there are mixed perceptions regarding the impact of these incentives on business operations.

7.2 Objective 2: Determine the impact of Tax Relief incentives on the growth of business in Zambia.

While some respondents believe that tax relief incentives have contributed to increased state revenues and business growth, others remain uncertain about the effectiveness of these measures. Additionally, there are concerns about the impact of tax relief incentives on taxpayers' attitudes, with a majority expressing disagreement with the notion that these incentives have had a negative impact.

7.3 Objective 3: Determine effective Tax Relief incentive strategies applicable for the Zambian construction sector.

The effectiveness of specific tax relief measures, such as the suspension of VAT and waiver of penalties and interest, varies among respondents. While some perceive these measures as effective, others remain unsure or disagree with their impact on business performance. Importantly, the correlation analysis suggests a weak positive relationship between the effectiveness of VAT suspension and business performance, highlighting the potential influence of this incentive on the construction sector.

8. Recommendations

1. **Enhanced Awareness and Education:** There is a need for increased awareness and education initiatives to ensure that businesses in the construction sector fully understand the benefits and implications of tax relief incentives. This can help mitigate uncertainty and improve compliance.
2. **Monitoring and Evaluation:** Government agencies should establish robust monitoring and evaluation mechanisms to assess the effectiveness of tax relief measures in real-time. Regular audits and feedback mechanisms can help identify challenges and areas for improvement.
3. **Tailored Incentive Strategies:** Recognizing the diverse needs of businesses in the construction sector, policymakers should consider implementing tailored incentive strategies that address specific challenges and opportunities within the industry. This may involve targeted relief measures or sector-specific support programs.

Further Research: Given the complexity of tax policy and its impact on business growth, further research is

warranted to explore the long-term effects of tax relief incentives on the Zambian economy. Longitudinal studies and comparative analyses can provide valuable insights into the effectiveness of incentive programs over time.
In general, while tax relief incentives have the potential to stimulate business growth in Zambia's construction sector, their effectiveness depends on various factors, including awareness, implementation, and sector-specific considerations. By addressing these challenges and implementing targeted strategies, policymakers can maximize the positive impact of tax relief incentives and support sustainable economic recovery amidst the COVID-19 pandemic.

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