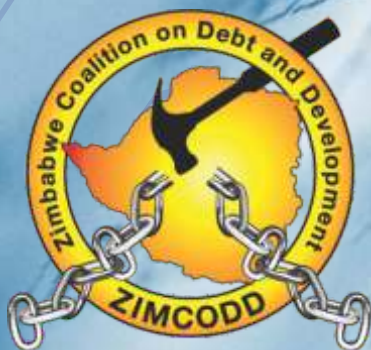


Zimbabwe's Tax System: Opportunities and Threats for enhancing Development in Zimbabwe



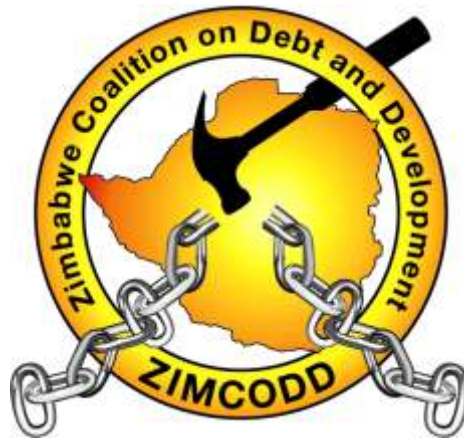
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Investing in People for Social and Economic Justice

Zimbabwe Coalition on Debt and Development



Investing in people for social and economic justice

Zimbabwe's Tax System: Opportunities and Threats for enhancing Development in Zimbabwe

About ZIMCODD

The Zimbabwe Coalition on Debt and Development (ZIMCODD) is a socio-economic justice coalition established in February 2000 to facilitate citizens' involvement in making public policy and practice pro people and sustainable. ZIMCODD views Zimbabwe's indebtedness, the unfair global trade regime and lack of democratic people-centred economic governance as root causes of the socio-economic crises in Zimbabwe and the world at large. Drawing from community-based livelihood experiences of its membership, ZIMCODD implements programmes targeted at;

- Educating the citizen
- Facilitating policy dialogue among stakeholders
- Engaging and acting on socio-economic governance at local, regional and global levels

ZIMCODD's headquarters are in Harare with a regional office in Bulawayo

Vision

Sustainable socio-economic justice in Zimbabwe through a vibrant people based movement.

Mission

To take action in redressing the Debt burden and Social & Economic Injustices through formulation and promotion of alternative policies to the neo-liberal agenda

Objectives

- To raise the level of economic literacy among ZIMCODD members to include views and participation of grassroots and marginalised communities.
- To facilitate research, lobbying and advocacy in order to raise the level of economic literacy on issues of debt, trade and sustainable development;
- To formulate credible sustainable economic and social policy alternatives;
- To develop a national coalition, and facilitate the building of a vibrant movement for social and economic justice.

ZIMCODD is a member of the Southern Africa Peoples' Solidarity Network (SAPSN) and currently hosts the SAPS Secretariat since 2003.

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List of abbreviations

AFRODAD	African Forum and Network on Debt and Development
BEAM	Basic Education Assistance Module
CGT	Capital Gains Tax
CIT	Corporate Income Tax
CRF	Consolidated Revenue Fund
FDI	Foreign Direct Investment
FDS	Final Deduction System
GDP	Gross Domestic Product
IMF	International Monetary Fund
LEDRIZ	Labour and Economic Development Institute of Zimbabwe
MMCZ	Minerals Marketing Cooperation of Zimbabwe
MNC	Multinational Corporation
MSE	Medium to Small Enterprises
NBCZ	National Business Council of Zimbabwe
NDF	National Development Fund
NECI	National Economic Conduct Inspectorate
NSSA	National Social Security Authority
PAYE	Pay As You Earn
SAPSN	Southern African Peoples Solidarity Network
SEZ	Special Economic Zones
VAT	Value Added Tax
WB	World Bank
ZCTU	Zimbabwe Congress of Trade Unions
ZEPARU	Zimbabwe Economic Policy Analysis Research Unit
ZIMASSET	Zimbabwe Agenda for Sustainable Socio Economic Transformation
ZIMCODD	Zimbabwe Coalition on Debt and Development
ZIMRA	Zimbabwe Revenue Authority
ZINARA	Zimbabwe National Road Administration
ZMDC	Zimbabwe Minerals Development Com
ZNSA	Zimbabwe National Statistics Agency
ZRP	Zimbabwe Republic Police

Definition of key terms

Capital Gains Tax- is a tax levied on capital gain arising from the disposal of a specific asset. The Capital Gains Tax is calculated at a rate of 20% of the capital gained determined in accordance with the Capital Gains Tax Act [Chapter 23:01]

Corporate Tax- refers to a tax imposed on entities that are taxed at the entity level in a particular jurisdiction and imposed on net profit. This tax is levied in terms of the Income Tax Act [Chapter 23:06].

Customs and Excise Duty- are taxes levied on imported goods. The tax is levied within the Customs and Excise Act [Chapter 23:02] which requires that goods be cleared on arrival at a port of entry.

Pay As You Earn- is a tax that is based on remuneration. The employer deducts tax from your salaries or pension earnings before paying you the net salary or pension. It is levied in terms of the Income Tax Act [Chapter 23:06]

Presumptive Taxes- are taxes that were introduced to broaden the revenue base in view of the increasing informal business activities. The selected sectors from which presumptive taxes can be collected are: transport and commuter operators, hairdressing, informal traders, small scale miners, cross border traders, operators of restaurants, cottage industry and commercial waterborne vessels.

Value Added Tax- is an indirect tax on the supply of goods and services by registered operators and is charged each time a transaction or supply or import occurs. VAT is governed by the VAT Act [Chapter 23:12] which was adopted in 2004.

Road Tolls- these are levies that are charged on motorists at designated toll gates as motorist drive along. They are charged in terms of the Toll Road Act [Chapter 13:13].

Carbon Tax- this is levied on motorists whose vehicles produce gas that pollute the atmosphere. It is paid when motorists buy fuel for their vehicles.

Mining Royalties- they are charged and collected from all the mineral bearing products obtained from any location and disposed by a miner or on his behalf. They are charged in terms of the Mines and Minerals Act [Chapter 21:05].

Tobacco Levy- the levy is charged on the value of the crop sales at a fixed rate. The 5% tax is imposed on tobacco sold at auctions and a 6% levy is also imposed on buyers and growers.

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Executive summary

The research focused on Zimbabwe's tax system. It gives the historical context of taxation tracing the major changes in the types, structures and administration of taxes from the pre-colonial era up to 2014. An analysis on the performances of the various tax heads administered by Zimbabwe Revenue Authority (ZIMRA) is given whilst the impact of the various tax incentives and exemptions on social and economic development is discussed. The study also looks at the governing frameworks with regards to taxation and how these have permitted revenue leakages from the system. An analysis of the informal sector in which the revenue authority has failed to tap the potential resources is also discussed.

Key findings

The study revealed that the current taxation system is regressive in nature hence inequitable and unfair. It is regressive in the sense that it is the poor who bears the brunt of taxation. The poor and the vulnerable are contributing a greater chunk of their incomes to the national fiscus through Value Added Tax (VAT) and Pay As You Earn (PAYE). VAT and PAYE alone contributed more than 50% of total revenues. The result is a subsidized state where the poor sustain the few rich. The hard hit as a result of the regressive taxation system are the women and children especially those in the rural areas. A critical analysis of the contribution of PAYE and Corporate tax shows that tax on labour is based on gross earnings while tax for the corporate sector is based on net earnings. Corporate Tax contribution to the national fiscus is around 15%, which is less than PAYE's contribution. The regressiveness of PAYE is seen when wages that are below the Poverty Datum Line (PDL) are taxed. VAT is flat and fair in principle but it has regressive effects as those who earn low salaries have a greater proportion of their incomes going to VAT as compared to those who earn higher salaries.

There is lack of transparency and accountability in the administration and management of tax revenues regardless of the fact that there are Constitutional provisions on transparency and accountability. Transparency and accountability are compromised by a number of factors that include the involvement of too many revenue collecting agents and failure of collecting agents to remit resources into one purse/account. In the mining sector there are various collecting agents that collect revenue before the revenue reaches the Treasury. In addition, lack of transparency and accountability in specific sectors like the mining sector is also attributed to lack of provisions on transparency and accountability in the governing legislations (Mining Minerals Act). The lack of institutional capacity in terms of adequate staff and lack of investigative and intelligence skills has also militated against transparency and accountability.

Due to the lack of development from tax money, the tax payers have a negative perception on revenue authorities hence they have developed a culture of non-compliance. The tax payers do not see anything meaningful coming out of tax payments in terms of development. Lack of voluntary tax compliance culture among tax payers is also due to the fact that there are no stiffer penalties for those who default. There is also lack of political will to craft symmetrical tax policies.

The study further revealed that the lack of development is as a result of recurrent expenditures which are consuming a greater proportion of national resources. About 70% of the budget is channelled towards the wage bill thereby choking potential resources for social and economic development. A trend analysis of government expenditures showed that there has been a decline in social protection expenditure. In 2014 the education sector received 19,4% and the health sector received 6,6% which is below the Abuja and Dakar declarations respectively. Cuts on social sector spending have resulted in worsening poverty levels, lack of access to potable water, access to health care services and a deteriorating education system let alone infrastructure. Essential clusters in the social services sector continue to rely on donor funding.

In a bid to attract Foreign Direct Investment (FDI), Special Economic Zones (SEZs) have been created and a number of tax incentives and exemptions have been given to companies in those zones. This has contributed to the loss of potential revenues (Corporate Tax) as the companies are exempted from paying tax and at the same time workers who work for companies in the SEZ are taxed. The situation has also been further aggravated by the failure of some of the companies to honour their social responsibilities.

Potential tax payers lack knowledge on registration documents, the processes involved and the legislations with regards to taxation resulting in tax evasion, avoidance and non-compliance. The registration of a business is cumbersome and lengthy. It takes 9 different processes and a minimum of 90 days to fully register a company. This permits tax evasion and avoidance as the potential tax payers take advantage of the situation.

Recommendations

- Strengthen and clarify the links between revenue and expenditure: Positive public perceptions of government, public institutions and services may increase tax compliance and revenues. ZIMRA on its part should undertake some programmes to educate the public on the importance and consequences of paying taxes and to instil a voluntary tax compliance culture.
- Build taxpayer profiles: analysing citizens' attitudes and perceptions towards tax issues would allow ZIMRA to develop its own taxpayer profiles. This could provide information on, for example which groups of citizens are most resistant to paying tax and which groups would be the most easily convinced of the benefits of taxation. Insights into the various socioeconomic and institutional factors influencing tax morale can also inform the efforts of revenue authorities, business and civil society to develop and target taxpayer literacy and education campaigns.
- Understanding the informal sector better: taxing the informal sector has been a challenge for ZIMRA. Efforts to better understand the profile and perceptions of small traders, for example, could help to engage them and establish a dialogue on tax issues thereby contributing to a “culture of compliance”. The government should extend technical support to the sector as merely taxing them without the necessary support will result in the suffocation and subsequent extermination of the sector. There is need for the simplification of the compliance and registration systems so that this becomes less burdensome to the new taxpayers.¹

¹The Sunday Mail, Zimra moves to the informal sector, 29/06/14

- Increase the transparency and accountability in tax policy making and implementation: these measures would reduce opportunities for corruption. Citizens' perceptions of public officials, especially tax officials, can influence attitudes towards taxation (*e.g.* being asked or expected to pay bribes). There is need for transparency and accountability in the awarding of contracts to MNCs so as to minimise revenue leakages. This can be achieved through thorough involvement of the Parliament. Transparency and accountability mechanisms can also be enhanced by ensuring that these MNCs remain transparent and accountable to the government and the communities in terms of their revenues.
- Constitutional legal frameworks- align various legislations to the constitution, stiffer penalties for defaulters, relevant legislations must have provisions on transparency and accountability, the legislative framework to reduce the number of collecting agents so as to enhance transparency and accountability.
 - Social responsibilities by the corporate sector must be legislated so that the vulnerable will benefit from economic activities in their communities. There is need to legislate the declaration of Earnings from activities and tax obligations of which failure will result in punishments through legal proceedings.
- Should have progressive tax policies that guarantee social and economic benefits to the individual tax payers in terms of social service delivery. There is also need to harness resources from all sectors and plug all tax loop holes as well as desisting from luring FDI that grants tax holidays and tax breaks to MNCs at the expense of communities and citizenry social and economic rights.
- ZIMRAs capacity in terms of human and financial resources has to be enhanced especially in the area of forensic auditing and investigations.
- There is need to do away with the structural approach to problem solving which fosters consumptive budgets. The government needs to carefully consider the roles of the ministries present and determine the ministry relevant to the problem being faced to avoid wastage of resources through duplication of projects and programmes and financing these structures. The wage bill should be reduced and priority should be given to social protection expenditure.
- Upholding the set penalties for tax defaulters particularly the corporate sector. The application of tax laws and penalties should be symmetrical and non selective, that is, the rule of law should also be observed. There is also need for equitable application of the tax laws to all. The public sector needs to be taxed in the same way the private sector is being taxed. This should include parastatals, new farmers, etc.

Specific Recommendations to Civic Organisations

- Continue with the building and strengthening of a movement around tax justice to better engage with policy makers for progressive taxation policies;
- Demand for corporate responsibility from the private sector to honour tax obligations and environment policies;
- ZIMCODD should work with various coalition members in order to foster a culture of voluntary tax compliance; and
- There is need for further interrogation on effectiveness and efficiency of the legal and institutional frameworks with regards to the system in Zimbabwe.

1. Introduction

1.0 Background

Taxation is as old as humanity and remains a critical aspect of peoples' daily lives.² It forms the basis of state funding. It is a predictable and sustainable way of raising resources for development unlike external sources that have conditions attached to them. In Zimbabwe, a number of taxes are levied on the citizens and the tax money is used for financing national and local government budgets. The government further appropriates the resources to various ministries which conduct different programmes and projects for national development. Tax payers have a wider range of expectations after they have paid their taxes. These fall broadly under social and economic needs. This baseline study is a critical component of ZIMCODD's advocacy strategy on tax justice that focuses on tax system and development in Zimbabwe. It identifies key tax justice issues and constitutes an entry point for the coalition and its membership and networks to engage on tax systems for poverty reduction and national development. Tax justice concept is a relatively new area for most of civic organisations in Zimbabwe and lack of knowledge capacity and strategic interventions on tax justice issues have major stumbling blocks for citizen's engagement on tax policy issues. Tax justice entails that tax systems must be fair, progressive and benefiting the tax payers. Essentially, this study sought to determine the extent to which Zimbabwe's tax system is just.

1.1 Problem definition

The problem that the research attempted to address is the failure of tax payers to benefit from the taxes they pay. It is the responsibility of the government to provide essential services and development to the people, failure of which results in poor social and economic development that can manifest in deteriorating health, education and service delivery systems as well as infrastructure. As an illustration of this, health received 7.1% of total votes in 2014 and 6.6% in 2015, against the Abuja Declaration where at least 15% of the budget should go towards the health sector (LEDRIZ, 2014). Furthermore, primary and secondary education received 18.5% of total votes in 2014 and 19.4% in 2015, against the the Dakar Declaration where at least 20% of the National Budget should be allocated towards education.

As such, Zimbabwe's taxation system is unfair and has failed to bring about the expected positive impact on social and economic lives of the tax payers. Lack of social and economic development has impacted negatively on the majority of tax payers who are the poor and vulnerable living in rural areas. (According to the population census conducted in 2012, more than 70% of Zimbabweans live in the rural areas.) The taxation system is unfair as it fuels the poverty cycle by taking more from those who have little and taking less from those who have more. These problems are caused by weak legal and institutional frameworks governing taxation and lack of requisite knowledge on the part of tax payers themselves. The other problem at hand is the failure to deal with perennial budget deficits. Zimbabwe recorded a Government Budget deficit equal to 1.9% of the country's gross domestic product (GDP) in 2013 and 1.3% in the previous year.

²Afrodad, 2012

1.2 The Importance of the study

By analysing the Zimbabwean tax system, the study ascertains whether the system is fair and equitable or not. An ideal taxation system is one that is fair and equitable. It will be fair and equitable in the sense that it will be based on the ability to pay principle. The study will be used as an advocacy tool on tax justice by ZIMCODD and its networks. Its utility will be in the campaign for tax justice focusing on the enhancement of the people's social and economic rights as enshrined in the country's Constitution as well as development.

Benefits of paying taxation must also lead to social and economic development, hence this study is also paramount as it shows the extent to which taxation is essential for national development. After paying taxes, tax payers expect some developments in various sectors. Therefore, this research is also important as it has determined the extent to which tax money has brought development and the subsequent impact of social and economic lives of the tax payers. It offers recommendations that will help the government to come up with mechanisms that ensure that tax payers benefit from the taxes they pay.

Taxation has proved to be one of the main tools to raise resources domestically. It is the biggest source of long term finance for sustainable development and it is stable and predictable thereby allowing for long term fiscal planning. The study explores the complexities associated with various tax heads as financing mechanisms and the impact of tax holidays and incentives on social and economic development.

In a bid to do away with heavy reliance of external sourcing, ZIMCODD hopes to utilise the study as a tool for instilling voluntary tax compliancy culture among the tax payers. A country with tax compliant citizens has the potential to mobilise resources domestically for its development needs and reduce the burden and effects of external debts. The study has also identified some gaps and weaknesses that will be taken up with various relevant authorities for improvement.

Zimbabwe has been labelled an informal economy, as more than 80% of the population is employed in the informal sector. According to the Small to Medium Enterprises (SME) Survey conducted in 2012, it is estimated that about US\$ 7.4 billion is circulating in the informal sector. About 5.7 million jobs have been created from 2.8 million small businesses, while 800 000 small businesses had employed 2.9 million people.³ This study examines the convolutions associated with the failure to tap potential resources from this sector.

A number of researches on taxation have been undertaken by various stakeholders ranging from academics to local and regional civic organisations. ZIMCODD has conducted a similar study to compliment the already existing knowledge on taxation in Zimbabwe by including the voices of the citizens. This justifies the study as some studies focused on the regional outlook, some being academic (interrogating specific tax theories) while others focused on specific sectors such as the extractives industry alone.

1.3 Study Objectives

- To establish the extent to which the governing frameworks promote transparency and accountability in the collection and administration of taxes in Zimbabwe;

³<http://www.herald.co.zw/7bn-circulates-in-informal-sector/> (04 April 2014)

- To investigate the progressiveness of Zimbabwe's tax system; and
- To determine the extent to which Zimbabwe's tax system is enhancing national development.

1.4 Study Methodology

The study was basically hinged on the following research methods:

- **Literature review:** The research team reviewed the work that others have already done on tax systems. The researchers analysed reports on taxation by different stakeholders, tax related policies at national and international level, academic literature, online sources, newspaper articles and data, among other critical tax documentation. Data from institutional websites was also reviewed. The literature reviewed includes : journal article, ZIMRA Websites, Partner work on tax justice (AFRODAD Research on tax and development, Christian Aid Tax Manual of 2012, Tax Justice Network - Africa), Newspaper articles, Government Publications (Acts of Parliament and National Budget Statements) etc.
- **Field research:** Purposive and random sampling was used to draw the respondents from the sampling frame. A total of 35 respondents (out of this, 6 were key informants). The study utilised interviews (both structured and unstructured) with key informants who were drawn from workshops organised by ZIMCODD and its partners notably AFRODAD. These include Ministry of Finance and Economic Development and ZIMRA officials, research institutions (such as LEDRIZ) who attended and made presentations on tax issues. Other respondents were drawn from ZIMCODD's cluster sectors during workshops, training sessions and committee meetings. Observations by the researchers were also vital.
- **Case studies:** These were offered on specific sectors in order to make the audience understand the issues discussed better. The case in point is the revenue collection in the mining sector, special economic zones, informal sector, tax incentives etc. The case studies are on tax incentives, VAT-figures from other countries in the region, compliance (other countries and faith based sector), challenges in taxing the informal sector, revenue collection in the mining sector, ZRP case, Tollgates etc.

1.5 Limitations

The major limitation on this study was the failure to access statistics from ZIMRA and Ministry of Finance and Economic Development due to the bureaucratic nature of government ministries and related departments. The team failed to interview officials from ZIMRA and Ministry of Finance and Economic Development. These statistics include potential revenue lost through tax holidays, exemptions and incentives, number of companies on tax exemptions among other critical statistics. More data on revenue leakages was not accessed which could have assisted in the analysis of the impact of the illicit outflows on the economy. The study could have also been more informative had it been complemented by a detailed analysis of specific legal instruments like the new Income Tax Act. This however could not be done due to the agreed scope of this study.

2. Governing Frameworks

2.0 Overview of the Legal and Institutional Frameworks

In Zimbabwe revenue collection and management is governed by a number of Constitutional and legal provisions. The legal framework consist of the country's Constitution, Public Finance Management Act [Chapter 23: 19], Value Added Tax Act [Chapter 23: 12], Customs and Excise Duty Act [Chapter 23: 02], Capital Gains Act [Chapter 23: 01], Income Tax Act [Chapter 23: 06], Revenue Authority Act [Chapter 23: 11], Estate and Duties Act [Chapter 23: 02], Mines and Minerals Act [Chapter 23: 05] and the Toll Road Act [Chapter 13:13]. Each tax head is governed by an Act of Parliament and supported by various Statutory Instruments. This section focuses on the Constitution, the Public Finance Management Act and the Income Tax Act, other specific legislations will be referred to under their respective sections. The various institutions relevant to revenue collection are governed by specific legislations.

2.1 Legal and Constitutional Instruments

2.1.1 The Constitution

The Constitution is the supreme law of Zimbabwe. All the other Acts of Parliament are premised on it as it broadly sets the direction and tone on taxation and other issues. Issues of taxation in the Constitution are dealt with in Chapter 17 which focuses on Finance. Section 298 is on the guiding principles of public finance management. These principles are the guidelines on all aspects of finance in Zimbabwe including taxation. As enshrined in the constitution these guiding principles are as follows;

- 298(1) (a) there must be transparency and accountability in financial matters*
- (b) The public finance system must be directed towards national development and in particular-*
 - (i) The burden of taxation must be shared fairly*
 - (ii) Revenue raised nationally must be shared equitably between the central government and provincial and local tier of the government and*
 - (iii) Expenditure must be directed towards the development of Zimbabwe and special provisions must be made for marginalised groups and areas.*
- (c) The burden and benefits of the use of resources must be shared equitably between present and future generations.*
- (d) Public funds must be expended transparently, prudently, economically and effectively*
- (e) Financial management must be responsible and fiscal reporting must be clear and*
- (f) Public borrowing and all transactions involving the national debt must be carried out transparently and in the best interest of Zimbabwe.*
- (2) No taxes may be levied except under the specific authority of the Constitution and an Act of Parliament.*

The Constitution emphasises the issues of transparency and accountability in public resources management. The notion that tax burden must be shared fairly is congruent with the equity principle. In reality, there is no

fairness in the sharing of the tax burden in Zimbabwe. It is the poor who are bearing the brunt of taxation because they are contributing the greatest percentage to total national revenues. Essentially, money from taxes must be directed towards the development of Zimbabwe but the research findings showed that the special proportions for the marginalised groups are insignificant. There is reduced expenditure on social and economic development.

Chapter 17(302) of the Constitution provides for the establishment of Consolidated Revenue Fund (CRF) into which must be paid all fees, taxes and borrowings and all revenues of the Government. Revenues raised by the government must be deposited into this fund. If all the revenues are deposited into one account, transparency and accountability is enhanced. Too many state purses result in a situation whereby it becomes difficult to account for the national resources and that becomes a breeding ground for corruption. There have been reports and allegations that some government departments were not remitting the funds they collect to the national purse. Section 303 focuses on the withdrawals from the CRF for government expenditures which must be authorised by the Constitution or by an Act of Parliament. The Act of Parliament must prescribe the way in which the withdrawals are to be made and how the money should be held and invested.

2.1.2 Public Finance Management Act

The Public Finance Management Act is the premier legislation regarding public finance. It spells out how resources are to be raised, controlled, managed and expended by the government through the national budget. It also provides for financial statements reporting, loans and guaranteeing functions of the government, auditing issues, general treasury matters and financial misconduct. The specific tax rates are enshrined in the specific tax Acts for the various taxes. Below are some provisions that are relevant to taxation as enshrined in the Public Finance Management Act.

2.1.2.1 Control and Management of Public Resources

Part II of the Public Finance Management Act focuses on the control and management of public resources. Section 6 authorises the Treasury to manage and control public resources. According to Section 6:

- (1) *The Treasury shall, subject to this Act and any other enactment—*
 - (a) *Manage the Consolidated Revenue Fund;*
 - (b) *Determine the manner in which public resources shall be accounted for; and*
 - (c) *Exercise a general direction and control over public resources.*

Therefore the Treasury/Ministry of Finance has the prerogative to manage the CRF and it is the principal institution regarding taxation. It is the duty and mandate of the Ministry of Finance to manage all the government revenues. All the tax rates and structures are determined by the Ministry of Finance. Through ZIMRA, the Ministry of Finance collects taxes and other charges that are deposited into the CRF. It also devises means and ways that public resources, including tax money, can be accounted for and controlled.

2.1.2.2 Powers of the Minister

Section 7 is on the duties and powers of the Minister responsible for finance. According to this section:

- (1) *It shall be the duty of the Minister;*
 - (a) *To develop and implement a macroeconomic and fiscal policy for Zimbabwe and he or she shall, for that purpose*
 - (i) *Supervise and monitor the finances of Zimbabwe*
 - (ii) *Coordinate international and inter-governmental financial and fiscal relations;*
 - (b) *To advise the Government on the allocation of public resources between Ministries, reporting units, public entities, constitutional entities and any programmes of Government independent of the foregoing.*

The section gives the powers regarding public finance to the Minister of Finance. In terms of Section 7 (a) it is the responsibility of the Minister to set tax rates for various tax heads, to determine what to be taxed and what is not to be taxed. The minister of finance must come up with economic policies for Zimbabwe's development. He or She supervises and monitors finances in Zimbabwe. This is done through various organisations such as ZIMRA, Zimbabwe National Road Administration (ZINARA) and local authorities. In terms of Section 16 of the Act, all revenues should be paid into CRF, as mentioned earlier.

2.1.3 Income Tax Act

This Act levies tax on both individuals and corporates. It includes levies from labour, pensions, interest, dividends, trade and investment. In 2014, the new Income Tax Act (Chapter 23:06) replaced the old one which was first enacted in 1967. In terms of levying incomes Section 6 states that, '*There shall be charged, levied and collected throughout Zimbabwe for the benefit of the Consolidated Revenue*'. Implied is that revenues shall be collected and be deposited into the CRF.

2.1.3.1 Calculation of Income Tax

In terms of the calculation of income tax, section 7 states that, "*The income tax with which a person is chargeable shall, subject to section fifty, be calculated in accordance with the charging Act by reference to—*

- (a) *the taxable income of the person in the year of assessment; and*
- (b) *the appropriate rates of income tax fixed by the charging Act relating to that year; and*
- (c) *the credits to which the person is entitled in terms of the charging Act relating to that year.*

2.1.3.2 Exemptions

Section 14 states that, "*There shall be exempt from income tax the amounts specified in the Third Schedule.* Some of the exemptions include exemptions on petroleum operators and affiliates from certain taxes (Section 35) and exemptions of holders of specific mining leases from certain taxes (Section 36).

2.1.3.3 Residence Based Taxation

One of the key changes contained in the new legislation is the migration to residence based taxation system. The old Income Tax Act used the "source based principle" where tax was levied on income originating from

Zimbabwe only. The new system taxes residents on income earned worldwide, as is the case in South Africa, United States and other countries.

2.2 Institutional Framework and Capacity of Revenue Authorities

The Ministry of Finance is the principal actor with regards to taxation. However, revenue collection in Zimbabwe is the sole responsibility of ZIMRA which was established in terms of the Revenue Authority Act. There are also some other institutions that collect taxes in different sectors on behalf of ZIMRA. Road tolls are collected by ZINARA and some mining fees and taxes are collected by Minerals Marketing Corporation of Zimbabwe (MMCZ), Reserve Bank of Zimbabwe (RBZ) and The Chamber of Mines. ZIMRA also receives some legal, technical and political support from a number of institutions.

2.2.1 Ministry of Finance and Economic Development

The Ministry is empowered by the Constitution and the Public Finance Management Act to oversee the taxation system in Zimbabwe. These legislative frameworks give the ministry a number of specific functions to perform. Some of these functions have been alluded to in the above sections. However, the overall functions of the Ministry are as follows:

- To manage the CRF, the National Development Fund (NDF) and the public debt portfolio;
- Formulate and administer the National Accounting Policy;
- Formulate and administer the National Budget;
- Design and implement up to date and effective systems of internal checks and controls;
- Mobilise financial resources to finance Government Programmes;
- Facilitate and participate in the negotiations related to domestic and international mobilisation of resources;
- Collect revenue due to Government, in particular through ZIMRA;
- Analyse the performance of public enterprises and advise on matters of financial policy;
- Carry out macro-economic reviews and recommend policies that promote macro-economic stability necessary for sustainable economic growth and development;
- Give policy guidelines to the RBZ;
- Administer the National Economic Conduct Inspectorate (NECI);
- Administer the Zimbabwe National Statistics Agency (ZNSA).

These functions are carried out through the administration of a number of pieces of legislation and various parastatals. The parastatals under the Ministry include ZIMRA, RBZ, Infrastructure Development Bank of Zimbabwe (IDBZ), Zimbabwe Economic Policy and Research Unit (ZEPARU), Insurance and Pension Commission and Securities Commission.

In the Ministry, the issues of taxation are dealt with in the department on Finance and Taxation which focuses on domestic and international finance as well as revenue and tax policy. In a bid to enhance accountability, there is an Internal Audit Department that reports directly to the Secretary of the Ministry.

2.2.2 ZIMRA

ZIMRA focuses on revenue collection and was established in 2001 in terms of the Revenue Authority Act (Chapter 23:11).⁴ It succeeded the Department of Customs and Excise. ZIMRA administers a number of legislations for each tax head. Its responsibilities are:

- Assessing, levying and collecting revenue from various taxes;
- Advice to central government on revenue collection matters and facilitation of trade and travel;⁵
- Issuing and controlling of tax revenue certificates;
- Administering regulations pertaining to import and export exchange control;
- Licensing and controlling premises used for manufacture of goods under rebate; and

ZIMRA comprises of the Investigation and International affairs as well as the Internal Audit Divisions which are critical institutional components of the agency among other divisions. It has managed to decentralise its operations by establishing offices throughout the country for effective monitoring of tax revenue collection points. It now has offices in Harare, Bulawayo, Gweru, Mutare and other towns across the country. This is in line with the tax principle of convenience where tax collection should be to the convenience of both the payer and the collector.

Zimbabwe, being influenced by the global thinking, that tax reform was the way to go, also adopted some tax reforms. The country has been working hard to improve its capacity to collect revenue. The revenue collection challenges could best be understood in the broad tax reform initiatives of the 1990s pushed by the International Monetary Fund (IMF) and the World Bank (WB). The main purpose of the reforms was to revamp and strengthen revenue administration, enhance voluntary compliance and the tax base and address corruption induced revenue leakages. For Zimbabwe, the following are the key changes brought up as a result of the reform drive:

- The establishment of the revenue authority (ZIMRA) to protect the revenue collection systems from political interference.
- The adoption of VAT systems to escape tax evasion associated with the sales tax.
- Shifting from Income Tax Returns to Final Deduction Systems (FDS). In this case PAYE is deducted by the employer in a bid to reduce compliance costs by simplifying taxpayer registration, filling and payment, audit, collection enforcement and appeals.

2.2.3 The Role of the Parliament and its Portfolio Committees

The Parliament plays a watchdog role in Zimbabwe's taxation system that is backed by the country's laws. The parliament approves policy on taxation as well as the usage of the national resource through the national budget. The study confirmed earlier researches that the parliamentarians themselves are often not familiar with the issues of taxation hence they just rubberstamp proposals from the ministry without performing the due diligence required. It is therefore critical that the capacity of the parliament to play its role in this regard be enhanced. The main Parliamentary Portfolio Committees relevant to issues of taxation include the Public Accounts Committee and the Budget, Finance and Investment Promotion Committee. The functions of these committees involve investigations, monitoring, and evaluation and make recommendations on public finance issues. Their effectiveness is however in doubt as they have recommendation powers only, leaving the executive to take or not to take action.⁶ This weakens the oversight role of the legislature.

⁴Zhou G and Madhekeni A, p51

⁵Mataruse O, ZIMRA Investigation Unit Official presenting at AFRODAD Tax Transparency Workshop, Harare, 28/05/14

⁶Chadambuka Z.T. A Critical Review of the Legal Framework of the Public Loan Contract and Debt Management System in Zimbabwe, ZIMCODD Publication, 2009

2.2.4 ZIMRAs Relations with other Stakeholders

The ideal situation is that the Ministry should develop tax policies with the input from the revenue authorities. Tax policy analysis within the revenue authorities should actually be complimentary to that in the ministry.⁷ Separation of responsibilities is critical to avoid unnecessary conflicts. The study showed that there are no major conflicts between ZIMRA and the Ministry of Finance even during the inclusive government era.

There is also an obvious working relationship between the revenue authorities and the various key institutions that support the work of the former. These include the Ministry of Justice (to deal with tax payer fraud protection and prosecution), the Central Bank, the Customs Department and other tax collection entities such as social security, regional and local governments.⁸ There is however, need to formulate and institutionalise agreements for an enhanced exchange of information between revenue authorities and these various entities. Recently ZIMRA garnished the Harare City Council accounts of \$42 million owing. This has sparked sour relations with the council as this threatens social service delivery. Thus proper relations should exist among these key stakeholders.

2.3 Lack of Transparency and Accountability

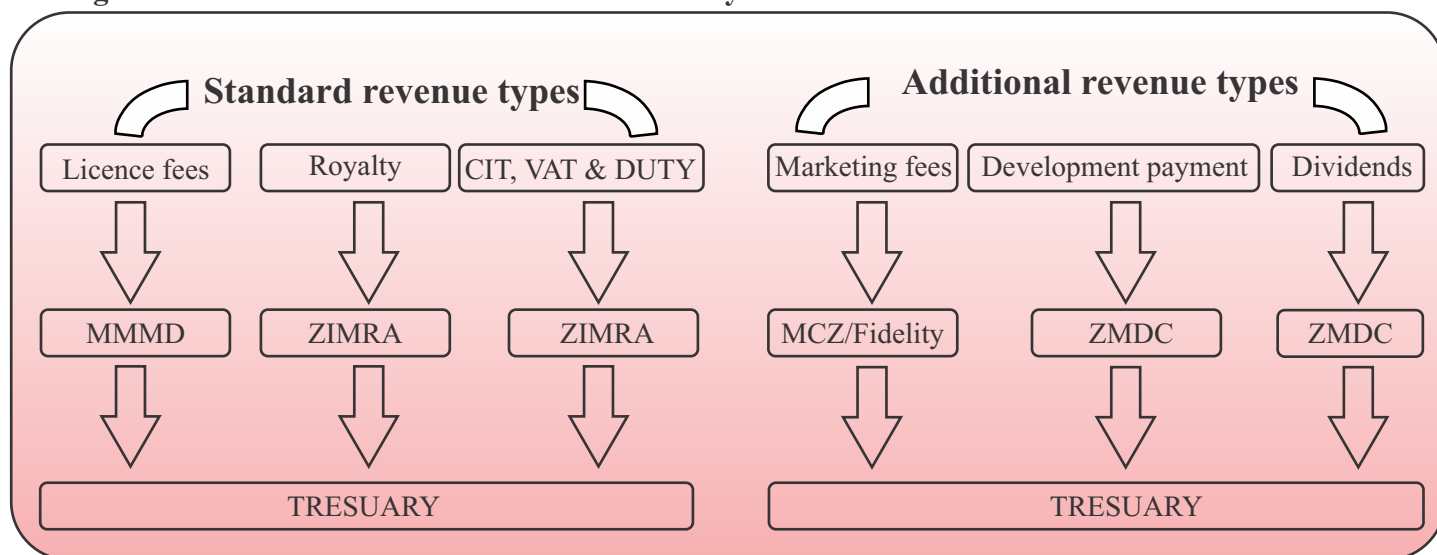
Although the constitution explicitly states that there must be transparency and accountability in the administration of national resources, in practice this is not the case. The tax collection systems and the management of resources is structured in a way that makes it difficult to have openness and accountability on the part of tax stakeholders. Some government departments do not disclose their financial statements as they argue that it would compromise national security. The Parliament and its Portfolio Committees do not exercise due diligence regarding the collection, and management of public funds. The institution does not take cases of corruption and mismanagement of public funds seriously especially in cases where the offenders are politically connected. Most of the cases are swept under the carpet. There is no transparency on the awarding of contracts to foreign countries wishing to invest in the country. The negotiations of the terms and tax exemptions given to these interested investors is done behind closed doors thereby breeding a ground for corruption and tax evasions as well as avoidance.

2.3.1 Too Many Institutions in Revenue collection

The study revealed that there is no transparency and accountability with regards to revenue collection in particular in the mining sector. There are too many revenue collection institutions involved thereby making it difficult to trace where exactly there are revenue leakages.

⁷Ibid
⁸Ibid

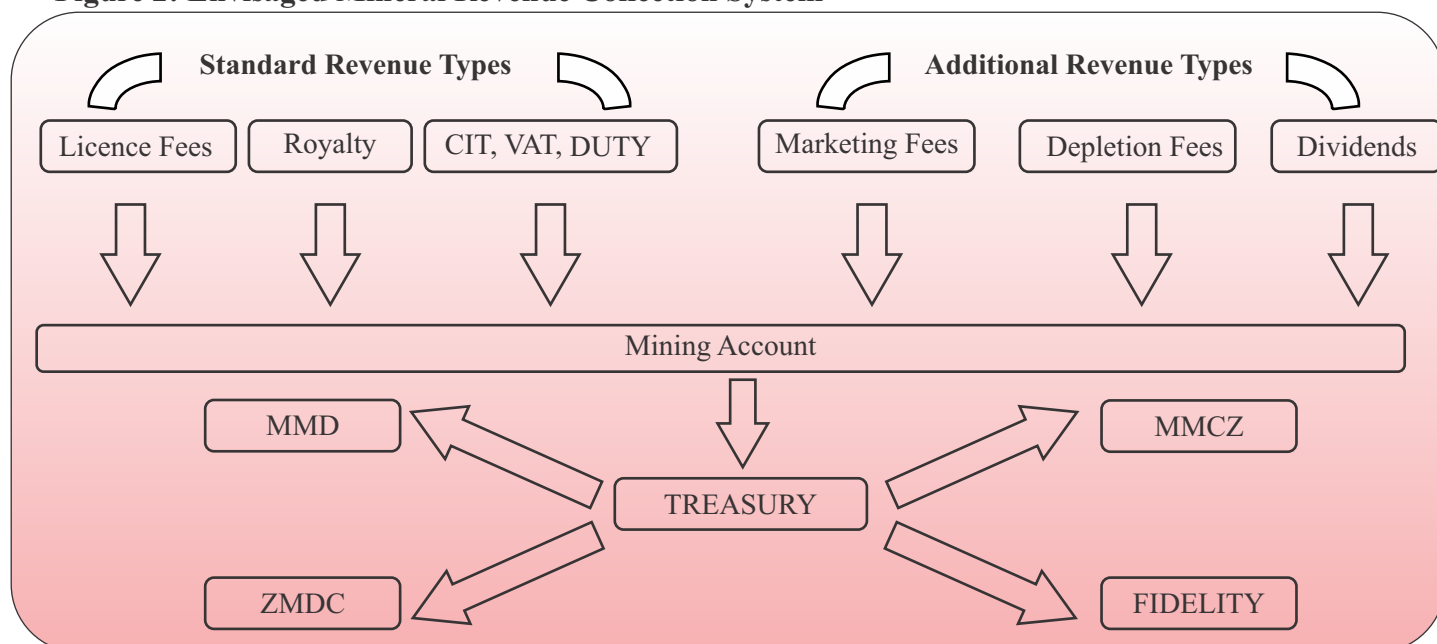
Figure 1: Current Mineral Revenue Collection System



From the figure above it can be seen that there are various institutions that are involved in the collection of revenues in the mining sector.⁹ This situation is not healthy for transparency and accountability. However, the government is currently planning to introduce a centralised mining revenue account, in a bid to monitor income from its minerals as well as improve accountability and transparency within the mining sector. The account will be controlled at the highest revenue collection level by ZIMRA. Revenue such as mining royalties, licence fees, marketing fees, taxes and dividends will be deposited into the account.¹⁰ There has been much suspicion around the revenue that the mining industry is contributing to the Treasury. The government could not even predict how much it would receive from the sector. The mining companies themselves have not been so transparent and accountable while the various revenue handling agents have also been accused of the same. The country's mining sector has the potential to attract US\$12 billion in FDI.¹¹ In 2010, Zimbabwe's mineral exports were US\$1,7 billion and US\$719,9 million in 2013 making a contribution of 71% of the total income for that year.¹²

The diagram below shows a proposed revenue collection system that minimises the number of participants.

Figure 2: Envisaged Mineral Revenue Collection System



⁹Ibid
¹⁰Mukarati L et al, The Sunday Mail, Govt gets tough on miners, 29/06/14
¹¹Farawo T, opcit
¹²Ibid.

2.3.2 Reporting in the Mining Sector

Furthermore, of importance to note is the issue of adequate financial reporting in the extractives industry. The mining companies have not been transparent and accountable in their contribution to Zimbabwe's revenue. Though Mbada Diamonds took a step in trying to enhance transparency and accountability, through a statement it published indicating that it has surpassed the \$1 billion dollar threshold in total revenue within 4 years of operations, it is important to note that the statement did not clarify on the exact taxes paid as there are many tax heads. Government advances were also not indicated and the statement failed to show production and export volumes of the diamonds. The Minister of Finance complained that in 2013 no dividends from diamond sales were remitted into the state coffers. Out of the seven mining companies, (namely Anjin Investments, Diamond Mining Company, Gye Nyame, Jinan Mining Private Limited Kusena and Marange Resources and Mbada diamonds) it is only Mbada Diamonds that has managed to declare publicly its mining revenues as of June 2014.

Suspicion has been ruling supreme as it has not been clear when the various taxes had been made, who had handled how much and who accounts to whom. Therefore transparency and accountability has been lacking in the whole process. The Ministers of Finance have been complaining that they did not know how much money has been accruing from various collection agents into the CRF.

The Law Enforcement Agents: Zimbabwe Republic Police (ZRP)

ZRP is one of the critical institutions in the revenue collection processes. It is only sad that the institution continues to be accused as the channel for the revenue leakages at various levels. There have been accusations that the police deprive the government of the potential revenue through diverting roadblock fines into their pockets. Speaking before the Parliamentary Portfolio Committee on Budget and Economic Development on 23 June 2014, ZIMRA leader Mr Gershem Pasi accused the police of corruption in the process of fining road users. He argued that the figures that reach his office are not consistent, sometimes US\$3 million, sometimes US\$7 million per month, being collected from the roadblocks. Of course the accusations have attracted counter accusation from the police. This indicates that the working relations between the two critical institutions that are supposed to be complimenting each other in enhancing

2.4 ZIMRA Accountability Mechanism

More often than not, countries lose valuable resources due to lack of accountability mechanisms within the national revenue authorities. The recommended best practice is that there is need for institutionalised reporting to the Board of Directors, the Ministry of Finance, Parliament, Auditor (Comptroller) General's Office, national anti-corruption body among other key stakeholders in this regard. There is also need for the establishment of an internal anti-corruption unit and an external fiscal fraud department as well as an internal audit unit. These are important in anticipation of corruption incidents in the revenue collection process.¹³ As noted above, the Investigation and International affairs as well as the Internal Audit Divisions are critical institutional components of ZIMRA in a country like Zimbabwe where corruption and revenue leakages are rampant.

¹³Mann J. A, p7

ZIMRA has been producing timely reports on revenue collection and performances for members of the public through their website. The revenue authority is also praised for disseminating information to the public. In terms of reporting from other stakeholders, the study has revealed that some institutions do not publish their accounts. However, some respondents urged ZIMRA to improve on the information dissemination strategies especially with regards to taxpayers' registration procedures. The relevant registration documentation needs to be easily accessible and user friendly. The case below highlights this concern.

2.5 More Education and Dissemination of Critical Information Needed

The research discovered that traders and the general public lack knowledge on key tax issues that relate to registration requirements, procedures and specific legislations. For instance respondents in the Arts sector are not aware of the various tax benefits they are supposed to enjoy if they are registered with ZIMRA. Data from interviews with informal traders revealed that the traders are aware that they are supposed to register with ZIMRA but they lacked information on the registration requirements, process and procedures.

“We know as traders that we need to pay taxes to the government for social and economic development. As much as we want to contribute to the national fiscus, we do not know how to register our businesses. We feel ZIMRA is not doing enough to disseminate information on how we can register with them. We need to know the documents required and where to get them. But before we even register, the government need to put the necessary infrastructure in place that is proper shelter and pavements” - said an informal trader in furniture business at Glenview Area 8.

For a new business to be registered with ZIMRA one has to have a bank account, complete a number of registration forms such as REV 1 form and given a BPN and the ITF 12B which is a return for provisional tax payments. Operators will also require a Tax Clearance Certificate form (the ITF 263) which is issued by ZIMRA once a trader has met all the stipulated obligations which include submission of tax returns and remittances of tax due. The process is cumbersome and complicated for a small and new trader with limited capital, knowledge and networks. It is critical to simplify the process of registering companies. At the moment it takes 90 days and 9 processes to fully register a company. The process is rigorous as the institutions involved are in different places. There is need for the Government to simplify the registration process and centralising it (i.e. putting all the required institutions and information in one place), increasing the availability of key registration documentation and disseminate information to potential tax payers.

3. Tax systems in Zimbabwe

3.0 An Overview of Zimbabwean Tax System

3.1 Pre-independence era

Taxation is not contemporary in the Zimbabwean context and it remains a critical tool for development. During the traditional era, societies paid taxes (tribute) to their Kings in the form of goods (agricultural produce, goods such as hoes, spears and axes) and services (labour). Taxation was administered by chieftaincies through lineage sub-chieftom leaders. The subjects paid tributes to their immediate leaders who would then forward the tributes to the chiefs and then to the Kings. In any chiefdom, subjects had to pay taxes to a common pool for various purposes including providing for the aged, handicapped and to their Kings. Kings and chiefs would also store some grain that would be shared to the subjects in times of droughts and hunger through the *Zunde RaMambo* concept, a system where the King would keep the various items in a common pool at his homestead and only to distribute them among his subjects according to needs.

During the colonial period, taxation became different in terms of administration and form. Even its functions changed as it became a tool that transferred wealth from the poor indigenous people to sustain the elites who were the white colonial masters. The system became so oppressive and unaffordable. The local people were coerced to pay high taxes to the white colonisers and failure to do so would result in them offering labour as a form of payment. The white masters enacted oppressive laws to coerce the black people to pay taxes. These included the Cattle tax, Dog tax and Hut Tax which was introduced in the 1890s and was doubled in 1904.¹⁴ Essentially, taxes must be used as a means to collect revenue for developmental purposes but the white rulers used it as an oppressive tool that segregated the black majority. The colonial government raised nearly half of its revenue from personal and corporate income taxes that were collected on a pay-as-you-earn system. Since 1966, about two-fifths of the government's revenue came from customs and excise duties and sales taxes, a small portion from investments, and much of the rest from government borrowing.¹⁵

3.2 Post-independence era

The post-independence era saw the government taking concerted efforts to make taxation equitable and achieve social justice. Taxation in this period should be understood in the context of a new government that was not well familiar with taxation systems and a corporate sector dominated by whites who were adept at evading and avoiding tax. The system was relatively regressive as the new government failed to redress some of the rigidities in the tax structures. The first decade witnessed the scraping of oppressive tax laws such as the Dog Tax and the Hut Tax. With the government's policies to redress colonial imbalances in the economy, more blacks were now able to find jobs regardless of colour. The implication of this was a wider tax base. Recurrent droughts forced the government to tax more on the citizens so as to cover up revenue losses due to reduced agricultural activities. Sales taxes on the staple items of food and fuel for the poorest people was removed and extended to travel, hotel accommodation, taxis, telecommunications, and other services. Some of the former

Raftopoulos, B. and Mlambo, A. 2008.
<http://www.britannica.com/EBchecked/topic/657149/Zimbabwe/272822/Labour-and-taxation>

taxes of the white government continued for example the former rates of personal income tax. Since independence, corporate taxes were increased from 35% to 60% at the end of the first decade.¹⁶ Effectiveness in revenue collection in the first decade was compromised by lack of skilled manpower, weak institutional tax collection capacity and the burdensome tax systems that were susceptible to tax evasion.

3.2.1 Economic Structural Adjustment Programme Era (1990-1998)

Economic policies implemented by the government in the second decade had negative implications on taxation in Zimbabwe. For instance the structural adjustment programme resulted in massive unemployment thereby shrinking the tax base as a result of its austerity measures. The formal sector contracted forcing the unemployed to venture into the informal sector in which the government had no mechanisms in place to tap revenue as taxes. The net impact was heavy taxes on the few in the formal sector. This led to increases in imports thereby triggering increases in import duties. Corporate taxes were also reduced to attract investment. During the first and second decades, tax administration was the prerogative of the Department of Taxes and Department of Customs and Excise which were located within the Ministry of Finance only to be succeeded by ZIMRA following the promulgation of the Revenue Authority Act in 2000. In 1998 Zimbabwe adopted the FDS whereby the employer deducts PAYE retreating from the Income Tax Return System which was associated with high tax compliance costs.¹⁷

3.2.2 The Crisis Era (2000-2009)

The period was characterised by macro-economic instability and sour international relations which resulted in international isolation. The corporate sector continued to shrink as a result of political instability and unpredictable legislations that had negative repercussions on investment. At least 500 firms closed during 2000 and 2001 with over 25 000 jobs being lost.¹⁸ There was sky rocketing inflation rates that were fuelled by government's quasi-fiscal activities resulting in an increase in production costs and a slow industrial growth as business was no longer profitable. The tax base continued to shrink thereby forcing the government to source funds externally. In 2004 there was a shift from Sales Tax to VAT which is charged at 15% rate. The arguments for the shift were that VAT is simple to administer and to comply with and reduce evasions. The year 2008 was the worst as a decline in economic activities led to a cumulative decline of nearly 50% in real GDP growth.¹⁹ The consequent effect of this was a sharp decline in revenue collection and a contracted fiscal space. The major revenue challenges during this period were economic mismanagement, capital flight, reduced foreign direct investment, years of excessive money supply creation and quasi fiscal spending by the Central Bank.²⁰

3.2.3 Government of National Unity Era and After (2009-2014)

The introduction of the multi-currency system in 2009 brought some stability to the economy as there was an increase in GDP. Revenue collection also increased to constitute 19% of GDP. The increases in revenue collection were attributed to stabilisation of prices implying that VAT was the main contributor (39% of total collections). Consumer purchasing power was stabilised as inflation fell. Due to measures put in place to resuscitate the manufacturing sector, industrial capacity rose to more than 30%.²¹ The government's efforts to increase revenue collection also failed to deal effectively with the continued national budget deficits. Allegations of corruption remained the main news in both the private and public media. Proceeds from the

¹⁶ibid

¹⁷Zhou G and Madhekeni A, 2013

¹⁸*African Economic Outlook*, 2003.

¹⁹<http://www3weforum.org>

²⁰Zhou G and Madhekeni A, 2013

²¹ibid

mining sector continued to be an area of conflict among the key stakeholders with little information about the actual amounts of revenue coming to the Treasury remaining a mystery. Furthermore, the period also saw the revenue authorities failing to tap the potential revenue from the informal sector. The introduction of toll fees also failed to ease the revenue challenges.

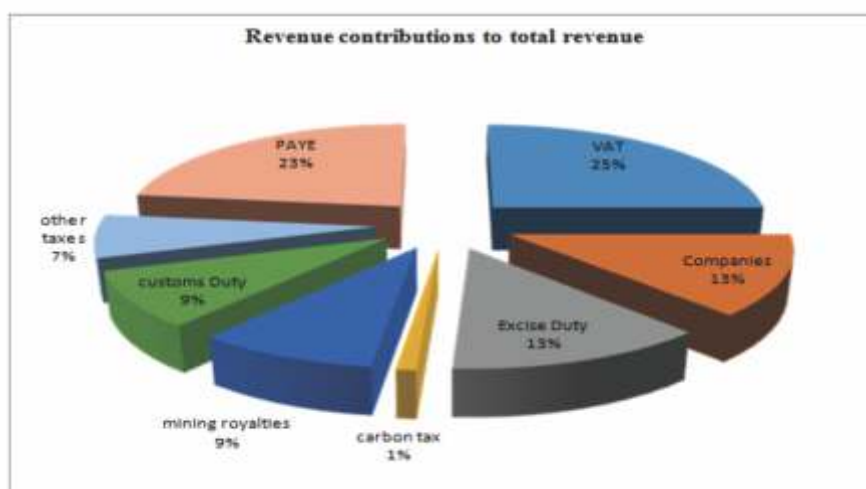
3.3 The Politics of Taxation

Politics normally have implications on the country's tax system. In most cases it is politics that overrides the economic thinking. Economic decisions are made in a political set up and they reflect the ideology of those in power. Tax laws usually favour the few rich (elites) thereby making the tax system regressive. The majority of politicians are business owners who lack the will (political) to craft and implement symmetrical tax laws. They abuse their offices and powers to avoid and evade tax and siphon money out of the country despite the fact that the country needs resources for development. Some of them bribe ZIMRA officials or they may use threats to investigating officers so as to avoid tax. If found on the wrong side, the law is not evenly applied thereby going against the rule of law. As a result of corruption and abuse of power by Zimbabwean ministers, HSBC (an American Bank) made huge profits by allegedly engaging in shady deals of over \$270 million with some Zimbabwean ministers and individuals.²² The names of those involved have been supplied but no action has been taken so far.

3.4 Major Tax Heads in Zimbabwe

Zimbabwe has a number of taxes that are levied on its citizens. The major tax heads are VAT, PAYE, Corporate Tax, Customs and Excise Duty, Capital Gains Tax, Presumptive Taxes, Road Tolls, Carbon Tax, Tobacco Levy and Mining Royalties. In a move to increase revenue, in 2014, the Ministry of Finance introduced a number of taxes and levies that included 5% tax on airtime for voice and data calls, 25% duty on mobile handsets and increased duty on motor vehicles. The contribution of these tax heads to the national fiscus varies, with some contributing more than the others. PAYE and VAT are the largest contributors to total national revenue. Since the 1990s, PAYE had been the highest contributor, accounting for 27 % of total revenues between 1990 and 1995 and 32 % from 1996 to 2000. However, with the introduction of VAT, it assumed the second ranking. The chart below shows the contribution of various tax heads to the national purse in the first quarter of 2014.

Figure 3: Revenue Contributions to Total Revenues



Source: ZIMRA

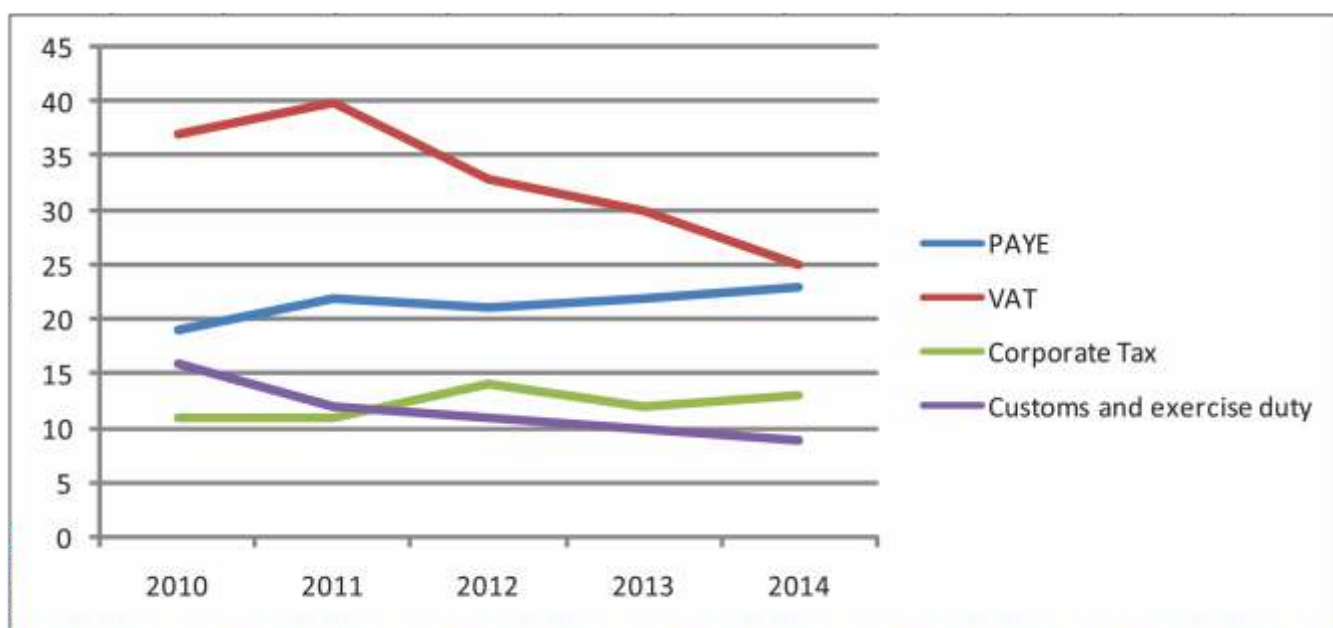
²²<http://www.voazimbabwe.com/content/zimbabwe-money-foreign-currency-offshore-accounts/2634022.html>

VAT and PAYE: Implications for the worker

According to Zimstats, Zimbabwe's unemployment rate currently stands at about 11%. This includes those employed in the informal sector. 13,8% of the population is formally employed and the majority are civil servants. Roughly, the average salary for government employees is \$450 per month. As at 30 January 2014, the Poverty datum line stood at \$511. This means that a family of 5 would need at least \$511 to buy food and non-food items for them not to be deemed poor on a monthly basis. The majority of those in the formal sector earn salaries that fall below the poverty datum line. This implies that those in the formal sector are poor. On a monthly basis, the poor pay a total of \$67.50 as VAT which constitutes 15% of their income. The tax percentage on income for civil servants is greater than for those who earn mega salaries. Comparing this to the few who earn mega salaries, it can be noted that it is the poor who contribute a greater chunk of their incomes on VAT. Currently, non-taxable income is pegged at \$300 and below. There is need to increase the non-taxable bracket to the poverty datum line. Taxing a wage that is below the PDL has regressive effects and negative implications on aggregate demand as the workers have smaller disposable income. This also affects the Buy Zimbabwe Campaign as people will rely on cheap imports.

3.5 Tax head performances

ZIMRA has been commended for surpassing targets regardless of the various challenges to the institution. The graph below shows the trend analysis of the selected tax heads from 2010 to 2014.²³



Source: ZIMRA

The upward and downward trends on the performance of these tax heads are attributed to a number of factors. The salary reviews and bonuses given to employees boosted their purchasing power hence the upward trend in VAT for example. Audits by ZIMRA also improved the level of compliance of clients. The downward trends are as a result of liquidity challenges, reduction in industrial capacity utilisation, lack of credit lines and high cost of borrowing. For Customs and Excise duty the downward trends are attributed to smuggling where importers evade taxes.

²³Statistics to construct the graph were obtained from ZIMRA Annual reports.

3.6 Zimbabwe's Tax System is inequitable and unfair

A closer analysis of the Zimbabwean taxation system shows that the burden of taxation is not shared fairly. In a famous book by Adam Smith entitled *Wealth of Nations*, it was stated that taxation must be equitable. This means that taxation must provide economic and social justice to the people by paying taxes based on one's ability to pay. Equity in taxation entails a progressive taxation structure whereby the rich pay higher taxes than the poor with their level of income. The principle is also enshrined in Section 298 (1) (b) (i) of the country's Constitution. Data from the study revealed that PAYE partly fulfils this as there are various tax rates for different salary levels. Those earning more are taxed more and those who earn less are exempted or lower tax rates are gazetted for them. Since Zimbabwe is now an 'informal economy' where the majority are employed in the informal sector, very few are obliged to pay PAYE. In the first quarter of 2014, PAYE contributed 23% to total revenue. This implies that the workers are heavily taxed as about 15% of the formally employed class are contributing more than 20% of total revenues.

The system is not equitable as the individuals are contributing more than companies. As noted in Figure 4, in the last five years, Company taxes contribution to the national fiscus is less than 15% to total revenue as compared to PAYE and VAT which are above 20%. In addition to PAYE, workers are also obliged to pay compulsory levies such as AIDS Levy and contributions to NSSA. The low contribution of Corporate Tax can be attributed to too many tax holidays and tax exemptions that have been granted by the Government in a bid to attract foreign investors regardless of the fact that Zimbabwe has one of the highest corporate taxes in the world. Some companies are also evading and avoiding taxes, taking advantage of the weaknesses of the governing frameworks. A number of companies have also closed down, contributing to the decline in company tax. Another important observation is that PAYE is charged on gross incomes of individuals and for companies, corporate tax is charged on net incomes (or profit) and losses they make cannot be carried over.

VAT is considered fair as it is flat. However, it is important to note that it has a regressive effect. This is as a result of its non discriminatory nature as tax payers have different incomes. To those who earn more, the proportion of VAT to their incomes is lower than for those with low incomes. The introduction of VAT or increase in the VAT rate has implications for income inequality in society, depending on how the system is structured. In Ghana, the government tried to introduce VAT at the high rate of 17.5% in 1995 but was met with public protest that it was suspended only to be finally reintroduced in 1998 at a lower rate of 10%.²⁴

In general, Zimbabwe's taxation is thus regressive. A regressive tax system is the one that generally benefits the higher sections of the society having higher incomes as they need to pay tax at lesser rates. On the other hand, people with lesser incomes are burdened with higher rate of taxation.²⁵ The tax burden falls heavily on the poor at the expense of the rich. The result is a subsidised state where the poor contribute more than the rich relative to their incomes and they benefit very little from the taxes they pay. This is similar to taxation during the colonial era where tax money was used to sustain the few white settlers. In the rural areas the villagers are still paying taxes for cattle to the veterinary department and some taxes to the rural district councils. Therefore in Zimbabwe, the vast of taxes are contributed by the poor citizens. A critical analysis of the majority tax heads in Zimbabwe indicates that individual and VAT as well as PAYE taxes contribute more to the total revenues of Zimbabwe.

²⁴Tax Justice Network Africa, *Africa Rising?*, Inequalities and essential role of fair taxation, p 45, February 2014

²⁵<http://economicstimes.indiatimes.com/definition/regressive-tax>

4. Tax Challenges

4.0 An Overview of Zimbabwe's tax challenges

Tax leakages from the official economy occur through a variety of channels in Zimbabwe and the world over which include servicing of illegitimate and odious debt, corruption, illicit outflows, tax incentives and informal economies. Many developing countries have used tax incentives to attract international companies including the extractive industries. They include tax exemptions and tax holidays, tax deferrals, de facto control of national infrastructure such as railways, ultra-low royalty rates and excessively generous access to water, land, and timber among other natural resources. In most cases, this is done without any consideration to human and environmental impact. Contracts are usually negotiated and signed between the Multinational Corporations (MNCs) and African governments without the involvement of the ordinary citizens and their parliamentary representatives.²⁶ The study discovered that Zimbabwe has the potential to be self-reliant in its social and economic development as it has abundant natural resources. However, the country is failing to effectively deal with the various ways through which potential revenue is lost.

4.1 Tax Exemptions and Incentives

These are deductions and exclusions from a tax liability, offered as an enticement to engage in a specified activity (such as investment in capital goods) for a certain period.²⁷ In general, tax incentives confer an advantage on the beneficiary while at the same time imposing a cost on the government. The government chooses to forego certain potential taxes for investment. Tax costs on government result in slow social and economic development as there will be inadequate funds for development. These incentives are aimed at promoting investment and they can be tax incentives or non-tax incentives. The administration of non-tax incentives is done by the Ministry of Industry and International Trade, the Industrial Development Corporation and the Zimbabwe Investment Authority. Revenue incentives are administered by ZIMRA and they apply equally to both domestic and foreign investors. The Zimbabwean government has a number of tax incentives both for individuals and the corporate sector. The tax incentives are in the form of tax holidays, reduced tax rates and accelerated depreciation, among other forms.

4.1.1 Income Tax Incentives

Below are tax incentives that can be enjoyed under the income tax revenue head.

- **Build-Own-Operate and Transfer (BOOT) and BOT Arrangements-** The government may engage a contractor for the construction of infrastructure. After a specified period of operation, the ownership is transferred to government. A tax holiday is enjoyed for 5 years and thereafter they are then taxed at 15% for the second five years. Tax holidays under these arrangements are more beneficial to investors than the people at large. The likely results are white elephants as the investors will maximise on production while enjoying the tax holiday. When the holiday expires, investors would have exhausted all the resources. There is need for clarity on who actually in government will own the infrastructure and also the need to put protective measures so that the infrastructure will not be individually owned.

²⁶ibid, p14

²⁷<http://www.businessdictionary.com/definition/tax-incentive>

- **Manufacturing Companies-** Taxable income from manufacturing or processing company which exports 50% or more of its output is taxed at a special rate of 20%.
- **Mining Companies-** All capital expenditure on exploration, development, and operating incurred wholly and exclusively for mining operations is allowed in full. There is no restriction on carryover of tax losses. Taxable income of a holder of special mining lease is taxed at a special rate of 15%.
- **Special Initial Allowance (SIA)-**It is allowed on expenditure incurred on construction of new infrastructure. The allowances are permissible on additions or alterations to existing infrastructure and are also allowed on articles, implements, machinery and utensils purchased for purposes of trade at the rate of 25% of cost from year one.
- **Farmers Special Deductions-** Farmers are allowed special deductions over and above the normal deductions. Examples include expenditure on fencing, clearing and stamping land, sinking boreholes, wells, aerial and geophysical surveys.

4.1.2 V.A.T incentives

- **Services supplied by designated tourist facility operator-** Tourist facility operators conducting business in approved tourism development zones or an operator of a hunting safari is required to charge VAT at 0% for services offered to persons who are not residents of Zimbabwe.
- **Farming inputs and equipment are subject to VAT at 0%-** Most farm inputs such as animal feed, animal remedy, fertiliser, plants, seeds and pesticides and equipment or machinery used for agricultural purposes are zero rated.
- **Deferment of collection of VAT on the importation of capital goods-** The whole amount becomes due within 90 days from the date of deferment.
- **VAT Relief to certain Diplomats and Diplomatic and Consular Missions.**

4.1.3 Tax Exemptions for Special Groups in Zimbabwe: The Elderly

The current tax legislation provides for a number of tax concessions which are meant to provide tax relief to elderly persons. These tax concessions, which are mostly in the form of tax exemptions and credits, are contained in the Income Tax Act [Chapter 23:06], the Finance Act [Chapter 23:04] and the Capital Gains Tax Act [Chapter 23:01]. The constitution also provides for the support and protection of the elderly persons. On capital gains tax, the full amount arising from the disposal of a Principal Private Residence by persons who are 55 years or above on the date of the sale is exempt from CGT. The first US\$1 800.00 that accrues on the sale of any unlisted marketable security is exempt. In addition, pension received from a pension fund or the CRF is exempt from Income Tax.

Tax exemptions on the elderly is a welcome development as the wellbeing of this vulnerable group is enhanced. These exemptions enable the elderly to have more disposable income. However, the elderly are only exempted from capital gains tax of which very few elderly people are engaged in the sale of capital goods. Only a few who are rich are benefiting. For tax exemptions to make any meaningful impact on the elderly, they need to be exempted from taxes such as PAYE and probably VAT.

The Case of Special Economic Zones (SEZs)

These are geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which is physically located within the zone. In terms of budgetary impacts of SEZs, the typical package of fiscal incentives offered to them almost universally includes corporate income tax holidays or reduced tax rates, import duty exemptions, indirect tax abatements etc. The main revenue gains are from personal income taxes (wage bill) and income from import duties and charges on zone output sold into the domestic customs territory. Otherwise income tax holidays are regarded as “giveaways” because they are not useful to foreign affiliates in reducing their home country tax burden. In the case of government run zones, revenue is also derived from fees and service charges and land and building rentals and sales. This is often an extension of tax breaks offered to MNCs by governments but the zones have had a poor record on labour standards as well as their record on displacing indigenous people from their land. In Zimbabwe, the current running economic blue print, the Zimbabwe Agenda for Sustainable Social and Economic Transformation (ZIMASSET), emphasises this concept of SEZs and Manicaland and Bulawayo provinces have been targeted. SEZs have negative implications on tax. Companies in these zones are exempted from tax thereby depriving the country of potential corporate tax while the workers are taxed. The result is that the workers continue to contribute more to the national fiscus than companies.

4.1.4 Tax Competition

This is a process by which nations compete with one another to attract foreign direct investment from MNCs by offering lower tax rates or tax holidays, sometimes in special economic zones.²⁸ Proponents of this tax competition like the IMF, WB among others, argue that lower tax regimes attract the investors who will create employment, revenue for the host country, new technology, infrastructure development and linkages to domestic economy.²⁹ The SADC protocol on Finance and Investment defines 'harmful tax competition' as a situation where the tax systems of a jurisdiction are designed in such a way that they erode the tax bases of other jurisdictions and attract investments or savings which originate elsewhere, facilitating the avoidance of taxes in such other jurisdictions.³⁰

The study has revealed that companies attracted by these tax breaks in Zimbabwe especially the mining companies have poor labour, land and environmental rights record for the local people. There is no meaningful technological transfer as well as other linkages to domestic firms. Zimbabwe is currently in dire need of foreign direct investment and therefore, its bargaining power during contract negotiations is limited hence it succumbs to unfavourable terms.

²⁸Christian Aid, p11

²⁹Ibid

³⁰SADC Protocol on Finance and Investment, Annex 3.

Tax Incentives: Experiences from other Countries

- **Mauritius:** Corporate tax is 15%, but tax credits for global businesses mean an effective rate of 3%. There is no capital gains tax (an increase in the value of an asset that gives it a higher worth than the purchase price) and no withholding tax on individuals.
- **Seychelles:** There is no tax on income or profits for international companies. There is no capital gains tax and the government does not tax interest payments from abroad
- **Dubai:** The Dubai International Financial Centre does not tax income or profits of companies registered there. There are no dividend, royalty or withholding taxes and no exchange controls
- **Singapore:** Though the headline corporate tax is 17%, effective rates are much lower. There is a 75% exemption on the first S\$10.000 of income and 50% on the next S\$290.000
- **South Africa:** Corporate tax is 28%. Capital gains are subject to tax but only 66% of capital gains are included in taxable income. Since April 2012, there has been a 15% withholding tax on dividends
- **India:** Domestic companies are charged a 30% corporate tax, while foreign companies are charged 40%. Capital gains are taxed at the corporate rate. There is no withholding tax on dividends.

4.1.5 Tax incentives and exemption are not beneficial

Though the government of Zimbabwe claims some benefits for tax exemptions and holidays, the majority of the respondents were not supporting the idea. Tax exemptions result in a situation where the government loses a lot of potential revenue. In particular, mining companies are the major beneficiaries as they are exempted from tax payments when doing their exploratory work. They continue to extract resources and dodge paying taxes claiming that they are exploring. In some cases they may undervalue the minerals and claim they are making losses. If they incur losses then they can avoid paying tax since the taxes are not carried over to the next financial year. Tax holidays and exemptions create a situation whereby the resources are exploited in the shortest possible times and nothing will be remitted to the treasury. Lack of deriving benefits result from lack of monitoring, corruption and mismanagement among other factors.

4.1.6 Tax avoidance in the mining sector

The mining sector has been the major culprit when it comes to tax avoidance. Mining companies use various strategies to avoid and evade tax. They usually hire tax experts and advisors to help them evade and avoid tax. Since mining companies are given tax exemptions in their first years of operation, they quickly exploit the mineral resources and then later claim they are operating on losses. In some cases they close down operations, relocate and then bounce back with a new name. A good example of this is the BHP Limited which changed its name to BHP Billiton in 2001 after it merged with Billiton PLC.³¹ ZIMRA has been compelled to garnish the accounts of diamond mining companies in a bid to recover outstanding tax they failed to honour. This move has seen the country's leading diamond miners, Mbada Diamonds, having its four bank accounts raided over tax arrears amounting to \$12 million.³² In addition to this, ZIMRA has also investigated Zimplats and discovered that it had US\$33.8 million of outstanding tax from 2001 to 2011.³³

³¹<http://www.britannica.com/EBchecked/topic/80765/BHP-Billiton>

³²<https://www.newsday.co.zw/2014/11/21/zimra-raids-mining-companies-bank-accounts/>

³³<https://www.newsday.co.zw/2012/09/26/zimplats-to-pay-outstanding-tax/>

As an agro-based economy, scrapping of VAT on agricultural inputs is commendable as this encourages farmers to increase production. However, the challenge is that some farmers import these inputs and then resell the inputs or they import for speculative purposes which does not bring any immediate benefit to the country.

4.2 Illicit Financial Outflows

These involve financial resources that are illegally earned, illegally transferred or illegally utilised. If the acquisition of the resources results in laws being broken, then they qualify for this category. This is a global and continental challenge and Zimbabwe has lost a cumulative of \$12 billion in the last three decades ending 2009. It is estimated that cumulatively, Africa lost US\$865 billion between 1970 and 2008 through illicit outflows and the figure could be more than that. African annual losses are estimated at US\$30 billion by the Global Financial Integrity while the African Union puts it at US\$148 billion.³⁴ It is difficult to measure the losses as the transactions bypass official statistical recordings. Illicit financial flows are facilitated by underpricing, overpricing, misinvoicing and making completely fake transactions, often between subsidiaries of the same multinational companies as well as corruption and secrecy jurisdiction.

4.2.1 Corruption

Tax evasion should be considered as a form of corruption as it allows sections of society to bypass accepted norms and provides one set of rules for the rich and well-connected people and another set for everyone else. The proceeds of tax evasion use many of the same channels as other forms of corruption to move across borders: dummy corporations, shielded trusts, anonymous foundations, and falsified pricing, fake documentation among other tricks. In doing so, there will be support from the bankers, lawyers and accountants.³⁵ It emerged that corruption has manifested in many ways, all depriving the country of its deserved revenue. Politicisation and corruption in ZIMRA was cited by the various stakeholders as one factor that affects the effectiveness of the institution in its role of revenue collection. Some ZIMRA officials accept bribes in return for reduced tax payment by traders at Border posts. According to Transparency International (TI), as at 31 December 2013, Zimbabwe was ranked 157 out of 177 and scored 21 out of 100 on corruption perception indexes.³⁶ This is not a healthy position. On a scale of 0 (highly corrupt) to 10 (very clean), the Corruption Perceptions Index marked Zimbabwe 2.0. This marks an increase in corruption since 1999, when the country ranked 4.1.

4.2.2 Transfer Pricing

The survey revealed that ZIMRA, like any other tax administrator in developing countries, faces the challenges related to transfer pricing. This is a commercial transaction between the different parts of the multinational groups that may not be subject to the same market forces shaping relations between the two independent firms. One part transfers to another goods, or services for a price. The price is known as transfer price. This may be arbitrary and dictated, with no relation to cost and added value, diverge from the market forces. The effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction.³⁷ Transfer pricing is not itself illegal or necessarily abusive. What is illegal and abusive is mispricing also known as transfer mispricing manipulation

³⁴Sharife, K, 2011, p11

³⁵Ibid, p8

³⁶<http://www.transparency.org/country#ZWE>

³⁷<http://www.incometaxindia.gov.in/DIT/File-oper.asp>,

or abusive transfer pricing.³⁸ MNCs have transfer pricing professionals (lawyers, accountants etc.), who can work to develop an effective, integrated global strategy for managing the many complex issues involved with moving goods, services and other intangibles across borders.³⁹ It is not clear how much Zimbabwe might be losing through this way.

4.2.3 Secrecy Jurisdiction

These are commonly known as tax havens and they facilitate tax dodging. It is estimated that there are between 50 and 72 of these tax havens in the world for instance in Mauritius, Switzerland among others where lower tax rates are offered. Companies and wealthy individuals hide their assets and avoid taxes. The havens refuse to effectively exchange information with other countries on tax. Tax Justice Network estimates that the sum of money held “offshore” is around US\$11 trillion hence an estimated annual tax loss of US\$255 billion. Since there are weak transparency and accountability mechanisms in Zimbabwe, it is undeniable that funds from various sectors are also being siphoned to these tax havens across the globe.

4.2.4 Revenue Leakages under Customs and Excise

Ordinary Zimbabweans have also dodged the government in paying what is due. It is estimated that the country is losing about \$120 million annually through smuggling and relaxed duty on fabrics⁴⁰ and from the extractives industry and in 2011 it is estimated that more than \$500 million has been lost through the smuggling of gems.⁴¹ The commonly cited reason is high tax rates. Under the Customs and Excise tax head, the public avoid and evade taxes through:

- Smuggling of goods through undesignated entry points. For example bells of second hand clothes from Mozambique are smuggled into the country through undesignated points along the two countries' borders.
- Under-invoicing: importers pay less duty after declaring false invoices. The traders request two separate invoices from the sellers so that invoices with undervalued goods are used to declare their imports. In this way they pay lower Customs and Excise Duty.
- Under-declaration of goods: failure to declare all goods brought into the country. Transporters are used to hide the goods in buses and trucks so that few goods can be declared therefore lower taxes.
- Under-valuation by officers: This occurs where ZIMRA officials connive with importers and are given and accept bribes from the importers.
- Under-manning of border posts. In some instances there will be no officers to man the border premises, monitor the movements of travellers and inspect their luggage.
- Lack of appropriate technology: the border post are inadequately equipped technologically that some goods are smuggled into and outside the country without being detected at the border post.

4.3 Debt Servicing

The taxpayers' taxes have also been used to service the country's external debt at the expense of the vital social services like health, education and others. Zimbabwe's debt stock currently stands at \$9.9 billion. At continental level, Africa's debt burden is estimated at more than US\$200 billion where African governments

³⁸<http://www.taxjustice.net/topics/corporate-tax/transfer>,

³⁹Jaure, ZIMRA Official, AFRODAD Workshop, Harare, 28/05/14

⁴⁰<http://www.chronicle.co.zw/country-loses-120m-through-smuggling-relaxed-duty-on-fabrics/>

⁴¹<http://www.financialgazette.co.zw/zim-loses-us500m-to-gem-smuggling/>

spend almost US\$14 billion per year on debt servicing. Most of this debt being an odious debt that was contracted by corrupt regimes without the people's knowledge and benefit.⁴² Thus, debt servicing has seen a lot of money leaving the country. Zimbabwe would make quarterly payments of US\$900 000 to the World Bank alone with the amount expected to increase following the improvement in the capacity to pay.⁴³ In 2005 a total of \$134 million was paid to the IMF alone⁴⁴ in debt servicing and \$9 million was also paid to the W B and the African Development Bank.⁴⁵ In the first quarter of 2013, \$77 million was paid to the various creditors with the bulk of it going to China as debt servicing.⁴⁶ All these revenues for debt servicing were meant for social and economic development as Strive Masiyiwa said, "...debt servicing has starved the nation on fuel and other key items..."⁴⁷

4.4 Failure to tap Revenue from the Informal Sector

The informal economy often involve unrecorded, unaccounted for and statistically difficult to verify activities making it challenging to include the sector into the system of national accounts. Africa's untaxed or sometimes under taxed economy is said to have been representing 43% of the GDP in 2002-3.⁴⁸ In the case of Zimbabwe, most of the small to medium enterprises remain outside the tax bracket. According to the FinScope Medium and Small Scale Enterprises (MSE) Survey 2012 Report for Zimbabwe, 65% of the informal sector is estimated to have a turnover of around US\$7.4 billion. The informal sector has an important role in creating employment as there are 2,8 million MSE owners and 2,9 million employees. The notion that US\$7.4 billion is circulating in the informal sector is misleading as it gives the picture that everyone in the sector has the money and need to be taxed. There is need to come up with a model that will levy and tax the sector in a progressive way taking into account the earnings of the people in the sector as it is pointless to tax street vendors who earn less than \$5 per day. Therefore this calls for a baseline study of the sector so as to have detailed information and a clear picture of the sector.

ZIMRA is currently struggling to include the informal sector in the official tax remittance system which now accounts for an estimated 50% of the country's GDP. Against such a situation, most productive activities that are taking place in the sector go untaxed; creating further cracks on Government's tax basket.⁴⁹ ZIMRA Commissioner General Gershem Pasi is quoted as having told the National Business Council of Zimbabwe (NBCZ) that Zimbabwean laws stifle the informal sector. He said that there is need to promote and support the infrastructural development for the informal trade in order to generate revenue for the country.⁵⁰ However, the survey found that the stakeholders acknowledged that the informal sector should be brought into the tax net, of course not withstanding the need for supporting them. Issues to formalise the informal sector must come to the fore rather than just taxing the sector. Proper infrastructure must be constructed first before any move to tax the informal sector.

Given that a large fraction of the Zimbabwean economy operates in the informal economy, the ZIMRA capacity constraints come to the fore. The sector uses money transactions rather than bank accounts hence the

⁴²Ibid, p12

⁴³<http://www.thestandard.co.zw/2013/07/08/zimbabwe-pays-back-imf-debts/>

⁴⁴www.zimeye.org

⁴⁵www.newzimbabwe.com/143-zimbabwe-pays-external-debts

⁴⁶www.zimtreasury.gov.zw/143-zimbabwe-pays-external-debts

⁴⁷www.insiderzim.com/.../2949-masiyiwa-said-gono-starved-the-nation-to-...

⁴⁸Sharife, K. p15

⁴⁹The Zimbabwe Situation

⁵⁰Majaka N., Zim laws stifle informal sector, says Zimra, <http://www.dailynews.co.zw/articles/2014/04/15/zim>

revenue authority has difficulties in monitoring the sector's economic activities. The AFRODAD's 2011 study picked the same challenge.⁵¹ However, there is also need for the individuals and small businesses to be motivated to register and pay tax.⁵² The government has to give incentives like property rights protection, provision of proper space for doing business, infrastructural development and financial and services support. There are gender implications for the taxation of this sector as well, given that women disproportionately work informally, in Zimbabwe.

ZIMRA along with relevant ministries, have agreed on a raft of policy measures whose implementation was imminent. The ministries include those of SMEs and Co-operative Development and Local Government, Public Works and National Housing. The overall strategy of ZIMRA in bringing in the informal sector into the tax net is education of some of the tax payers who may not be fully appreciating their legal obligation.⁵³ The major challenge has been the fact that 85% of the SMEs are unregistered while only 14% of business owners are banked.⁵⁴ This study revealed that while the sector has been filling the gap left by big corporations in providing goods and services, this is not true with regards to tax contributions hence the country is losing out a lot of potential revenue. India and China are good examples of countries with the largest number of SMEs in the world with the sector accounting for 40% of India's labour force and the government provides the necessary support to the sector.⁵⁵

The Case of Siyaso and Mupedzanhamo in Mbare

Siyaso is a hub of informal traders where people produce different goods. The market also sells second hand equipment while Mupedzanhamo is a market for second hand clothes. The two market places are located close to each other in Mbare, Harare. People have been allocated spaces where they conduct their businesses. Traders import bells of clothes from Mozambique and other countries and then sell them in this market. Traders from Siyaso and Mupedzanhamo are unwilling to pay taxes to ZIMRA as they have lost confidence with the usage of their money. Currently they are paying rates to Harare City Council and nothing has been done by the local authorities to develop the areas they work in. Some of the spaces where the informal sector is thriving are owned by a few individuals who receive monthly payments as rents from customers rent from the traders.

These land owners only pay money for their lease to the local authorities. The researchers observed that there are no proper structures constructed by the City Council to protect the traders' belongings. Their main argument is that if the City Council is failing to develop their working areas then what difference will it bring if the taxes are paid to ZIMRA. The respondents acknowledged that they are capable of paying the taxes but they fear that their tax money can be diverted and used by corrupt politicians.

Informal traders who import fishing equipment from South Africa, Zambia and Mozambique, said that they are willing to be taxed only if customs duty is scrapped. They complained that ZIMRA charges 40% of the total value of imports, which they say is exorbitant, therefore they do not see the need to pay other taxes to ZIMRA. This has led them to resort to smuggling and bribing ZIMRA officials at the borders.

Respondents at Siyaso said they are willing to pay tax if the duty on imports is reduced and they proposed a maximum of \$100 on a quarterly basis as taxes. In the event that they pay the taxes they expect the government or the local authorities to develop their working area by constructing proper structures and toilets for them. The researchers observed that indeed the health conditions at the market places are disastrous. Food is also sold in the open space while the items on the market are exposed to direct heat and sometimes rains hence they lose their quality.

They also said that they wanted land so that they can work freely. At the moment a space (they call it a table) meant for one trader is occupied by three traders. The owner of the "table" is liable to pay to the City Council but there are fears that he or she might lend the space to more than three people who will be paying exorbitant fees to the owner. At Mupedzanhamo Market, the current monthly amount for a single table is between \$35 and \$50.

It has also been observed that land for informal activities is owned by a few who receive rents monthly. The land owners only pay their leases to the City council and nothing is remitted to ZIMRA since the land is used for commercial activities.

⁵¹Musarurwa, opcit

⁵²Christian Aid, p10

⁵³The Sunday Mail, Zimra moves in to the informal sector, 29/06/14

⁵⁴Ibid

⁵⁵Ibid

The Case of Glenview Area 8

In Glenview Area 8, a high density residential suburb in Harare, there is also another thriving informal market. The market produces wardrobes, kitchen chairs, sofas, beds, chest of drawers and kitchen units among other furniture items. The area is densely populated by prospective buyers and sellers. Traders said they are not paying any taxes to the government; instead they pay rents to ZANU PF bigwigs. Rents paid range from \$150 to \$200 per month. They also pay \$1 to these bigwigs for each item they sell. Nothing is remitted to ZIMRA hence revenue loses. Respondents said that they will pay tax after the government has constructed proper structures for them. Currently, there are no structures to protect the goods made by the people. The traders also complained of the bad working environment. Business is conducted in swampy areas and the area is not tarred so the moisture from the ground affects their goods which are made of wood.

During rainy seasons, customers find it difficult to walk as the ground will be muddy. The traders want incentives so that they will gain some confidence and comply with tax payments. The area must be developed first, proper buildings must be constructed and pavements built in order to build the traders' confidence that their monies will be used wisely. Traders also said that they are not aware of the tax registration requirements and procedures. If they were to be taxed, the informal traders said they were willing to part away with amounts ranging from \$150 to \$200 on a quarterly basis. Alternatively, they also suggested that ZIMRA can impose a tax on the product and collect its dues when the item is bought.

4.5 Lack of Voluntary Tax Compliance Culture

The study revealed that tax compliance in Zimbabwe is very low. This is in direct contrast to the fact that in some countries, a child grows up knowing that he or she has an obligation to pay tax. Failure to pay tax in other countries has some serious legal, political and social consequences. For instance one can be jailed for years and cannot be elected for a public office if he or she has got a poor tax payment record. This is not the case in Zimbabwe where the citizens have lost confidence in the revenue authorities, since they do not see any meaningful developments after they have paid their taxes. This has led to serious tax evasion and avoidance. Informal traders are non-compliant to taxation as they claimed that they are operating under a harsh environment in which they are exposed to health risks and no proper structures for their business. ZIMRA has adopted a carrot and stick approach to ensure tax compliancy. In a move to enforce voluntary compliance, ZIMRA is now annually honouring compliant tax payers. On paper there are, however, a number of punitive measures for tax defaulters which ought to be symmetrical and applied evenly and non selectively. Some of these measures include:

- The requirement to pay the tax one would have evaded or defaulted and the tax liability can be estimated if there are no clear records.
- A penalty of 100% is levied on defaulted or evaded amounts.
- A penalty of \$30/day for each day the tax returns remain outstanding.
- A penalty of \$25 per point of sale, for each day the registered operator under category C fails to fiscalise.
- Interest at 10% per annum is levied on outstanding amounts defaulted.

- Failure to keep proper records attracts a fine of \$400 or imprisonment for a period not exceeding 12 months or both.
- Additional tax can also be levied in the case where fraud is identified and it does not exceed 100% of the tax evaded.
- The responsible authorities may also face imprisonment of up to 24 months with or without the option of a fine.
- To recover the tax evaded ZIMRA can garnish the bank account of the defaulting taxpayer.

Tax Compliance and the Faith Based Sector

This sector is unique in the sense that it is exempted from tax payments to ZIMRA. However, there have been calls to tax this sector as ZIMRA claims that it makes a lot of money from their congregants. Asked on whether they are willing to pay tax, the respondents said that they are not willing to do so.

They argued that they should be exempted as they conduct a number of activities (that are supposed to be done by the government) with social and economic benefits to the society. The sector contributes to social development through the construction and running of schools, hospitals, training centres children's homes and other charitable organisations. Essentially, all these are the duties of the government, so the fact that these are being provided for by this sector justifies the need for exemptions. Companies that are producing goods and services that promote social and economic development are exempted from VAT, for this reason, the faith based sector argued they should also be spared from certain taxes. In a bid to increase revenue collection, the church pledged to continue instilling voluntary tax compliancy culture among its members (the public).

The study has also discovered that some small retail shops owned by locals and foreigners in Harare are not complying with the tax legislation as they are not registered as VAT operators. These shops are issuing receipts without ZIMRA Business Partner Numbers (BPN) which has the businesses' identification number and is used for all transactions with ZIMRA, including remittances of tax. The fact that the receipts issued by these Chinese shops do not have VAT numbers might suggest that they are not registered with ZIMRA and hence potential revenue losses. In the event that ZIMRA and tax payers fail to agree on tax issues, there is a Fiscal Court of Appeal. The study revealed that the court is slow in hearing cases on taxation.

A situation where tax exemptions would result in social and economic development is commendable. Tax exemptions in trying to attract foreign direct investment, have not resulted in social and economic development. Tax exemptions have benefited a few élites who negotiate with the investing companies as they are given kickbacks so that the investors will be granted tax holidays and exemptions and maybe cover up their deals in evading and avoiding taxes. Companies have been spared on tax payments at the expense of social and economic development. There is need for the government to legislate social responsibility on the part of the corporate sector and scrap tax holidays on mining companies since resources are finite. Furthermore it is critical to enhance the capacity of revenue authorities in dealing with various challenges related to illicit outflows, tapping revenue from the informal sector etc.

5. The Role of Taxation in Zimbabwe's Development Process

5.0 An overview of tax and development in Zimbabwe

Since its establishment in 2001, ZIMRA has enjoyed a record for “surpassing revenue targets”⁵⁶ (except in 2009 and 2013) with the VAT, Customs Duty and Individual Income Tax among high performing revenue heads. For instance in the first quarter of 2014, it exceeded its quarterly revenue collection targets by 2%.⁵⁷ It is however, critical to note that there have been gross allegations of revenue leakages through smuggling, bribery, under-invoicing and under-declarations at the border posts while some analysts actually argue that the level of loss in this regard is yet to be measured.⁵⁸ Respondents complained that there is no development in their respective communities despite the fact that they pay their periodic dues to the government. Development has been frustrated by a consumptive budget. Currently, the wage bill is more than 70% and only 30% of the national budget is for capital expenditure. Clearly this shows that development has been negated by recurrent expenditures. As will be noted, budgetary allocation toward social sectors has been quite volatile, with budgeted funds failing to materialize when revenues are less than expected.

The surpassing of the revenue targets is attributed to a number of fiscal reforms that have been implemented to increase revenue collection and minimise revenue leakages. The average revenue collection as a percentage of the GDP is 29.2%.⁵⁹ This implies that the remaining 70% is accounted for by other means which are unpredictable and unsustainable to the country. Data gathered showed that the respondents agree and are well aware that ZIMRA has in the past managed to surpass its targets but there is no corresponding development in their sectors and are not satisfied in the way the funds are used.

5.1 Social and Economic Development

According to the Economic and Social Inclusion Corporation, social development means investing in people to improve their well-being. It requires the removal of barriers so that all citizens can journey toward their dreams with confidence and dignity. It is about refusing to accept that people who live in poverty will always be poor. It is about helping people so they can move forward on their path to self-sufficiency. Other investments in people that contribute to the economic prosperity of society include youth programs and services, post-secondary education, job creation, promotion of healthy, active living and safe and secure communities.⁶⁰ Economic development involves efforts that seek to improve the economic well-being and quality of life for a community by creating and retaining jobs and supporting or growing incomes and the tax base. Tax money should therefore be utilised on efforts that are meant to foster social and economic development.

⁵⁶Zimbabwe National Budgets Statements 2010, 2011 and 2012

⁵⁷Zimbabwe Situation, Cash exports bleeding economy-Zimra, opcit

⁵⁸Zhou G and Madhekeni A, p51

⁵⁹www.zimra.co.zw/index.php?option=com_content&view=article&id=1245&Itemid=209

5.1.1 Education

The government has not been prioritising critical education schemes like Basic Education Assistance Module (BEAM) which has not been adequately funded. Respondents offered a number of recommendations for this sector. Tax money should also be invested in productive sectors that will create employment for school leavers. More schools should be constructed in rural areas and practical and technical subjects must be valued. In tertiary education, there is need to use tax money to buy latest equipment for practical subjects. A University of Zimbabwe student said, “There must be a match between investment in education and industrial development. Investing in education alone is not meaningful as there is need for a thriving industrial and formal sector that will absorb the graduates and reduce unemployment”.

5.1.2 Health sector

Respondents said that they expect tax money to be used to subsidize the health sector for free or cheap health facilities. They would want to see more hospitals being constructed and drugs being available. Key equipment like ambulances must be properly serviced and obsolete hospital equipment being replaced. A well paid and motivated health staff has to be supported to reduce brain drain in the sector. The respondents also complained that HIV/ AIDS activities have been starved of the national resources and the sector has resorted to assistance from international development partners, which is not predictable and sustainable.

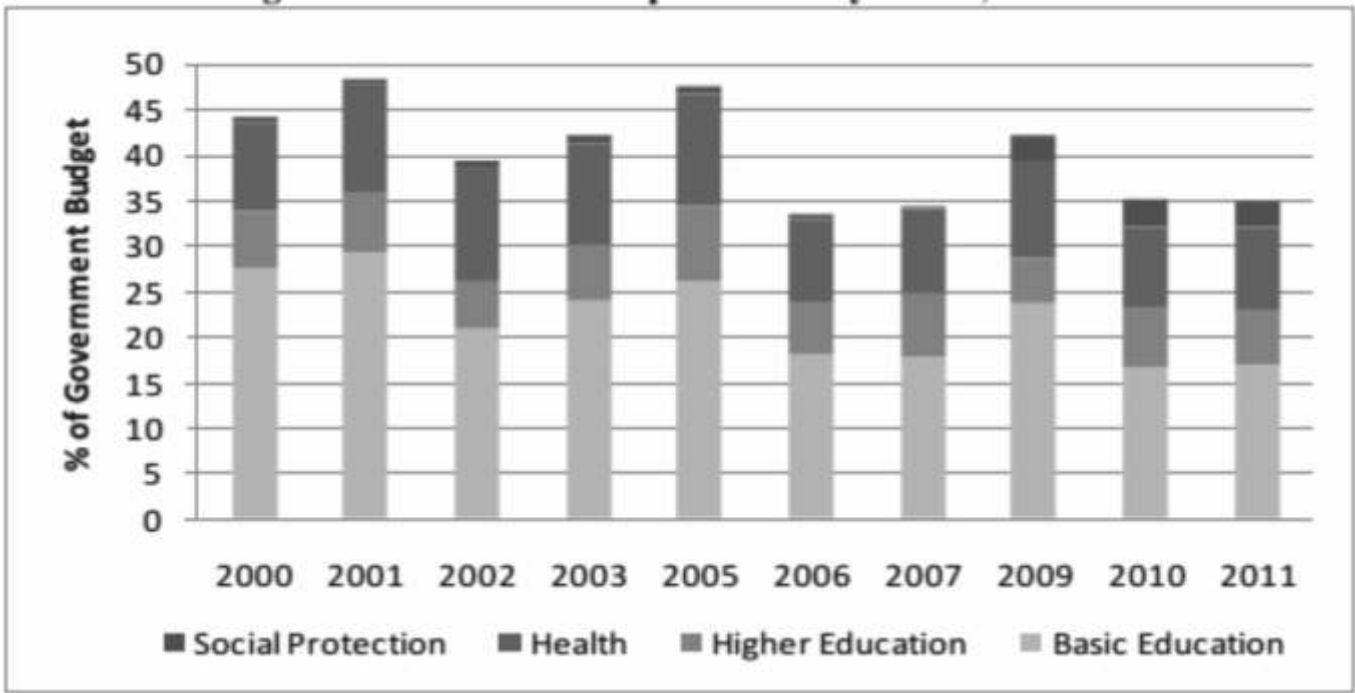
5.1.3 Poor Service Delivery

Respondents from the Services Delivery sector said that they prioritised water and sewage reticulation programmes. Tax money should be used in the provision of clean and safe water and in the maintenance of water pipes to reduce leakages that lead to excessive water cuts. Tax money and rates should be used to purchase refuse collection trucks and fuel so that waste refuse is not disposed at street corners by the citizens. Houses for low income earners should also be prioritised to address accommodation problems in the major cities and towns. There is need for the councils to consult the taxpayers on the contraction of loans for social services. A classic example is the US\$144 million for water reticulation which was contracted without the voice of the rate payers.

“They (city fathers) went to China and got a \$144 million loan for water reticulation without our knowledge. We are the tax payers, we demand to be involved in anything that concerns us. Right now we do not have water and our taps are dry, we continue to pay very high water bills for no service, not to mention that we are overcrowded. We need residential stands to build our own houses. Whatever council does must have an approval of the tax payers. Now this loan is going to be a burden on us as some of the funds have been diverted to buy top class cars for the management. There is need for the council to have pro people policies, why would they prioritise top of the range cars at the expense of maintaining burst sewage pipes?” said a Harare resident.

An analysis of the government's expenditures depicts a downward trend in government allocations towards social services due to social service expenditure cuts. As mentioned earlier, health received 7.1% in 2014 and 6.6% in 2015, against the Abuja Declaration where at least 15% of the budget should go towards the health sector. In the education sector, primary and secondary education received 18.5% in 2014 and 19.4% in 2015, against the the Dakar Declaration where at least 20% of the National Budget should be allocated towards education (LEDRIZ, December 2014).The graph below shows government's expenditure in social protection, health, higher education and basic education.

Figure 5: Government expenditure on social protection, health, higher education and basic education



Source: Poverty Reduction and Economic Management Unit Africa Region

5.1.4 Labour/Employment

The labour sector expressed concern over high levels of taxation imposed on the workers through PAYE. Respondents complained that the government is burdening the workers as they are contributing more than 20% to the national fiscus regardless of the fact that only 20% of the workers are formerly employed. According to the 2015 National Budget Statement, the tax free threshold was raised from \$250 to \$300 with effect from 1 January 2015. A taxable salary starts from \$300.01 and above. The workers noted this but, however, they would applaud if the tax free threshold is raised up to the poverty datum line which stood at \$511 as at 31 December 2013.

“Working in Zimbabwe is like a crime. To us workers, we are taxed when we earn then again when we spend. To the companies it is different. They earn, spend then taxed. To those in the mining sector even if they make losses, the taxes they were supposed to pay are not carried forward in the next financial year. Taxation in Zimbabwe penalises the workers as we have to take care of our families' children and our old parents in the rural area as there is no social security” says Dr Godfrey Kanyenze of the Labour and Economic Development Research Institute of Zimbabwe (LEDRIZ).

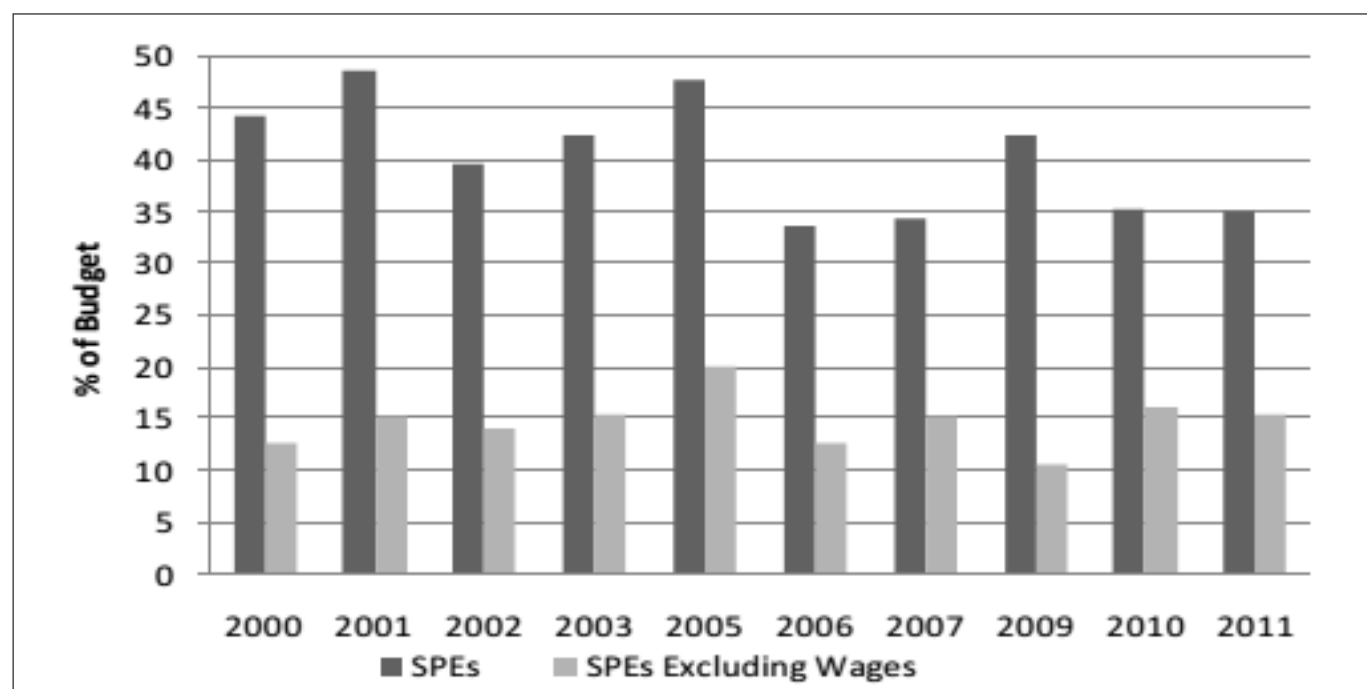
The structural approach to solving national problems is problematic as more institutions are created, further draining resources for national development to the wage bill of the bureaucratic nature of these structures. Members of the Zimbabwe Congress of Trade Unions (ZCTU) propose a national budget that allocates more than 50% of the total budget to capital expenditure and at least 25% of the GDP.⁶¹ Zimbabwe's wage bill currently tops the region at 75% of the government's total expenditure, leaving at least 25% of total budget resources for both operations and capital projects.

⁶¹Madzimore, B, ZCTU's proposals to Biti, The Worker, 27 October - 9 November

In the 2014 national budget of US\$ 4.2 billion, 73% of the resources were channelled to finance the wage bill leaving just 11 percent for capital investment and 16 percent for non-wage recurrent expenditure. In addition to this, the 2015 National Budget Statement allocated about 81% of resources to the wage bill. This is attributed to the structural approach to problem solving. The structural approach entails creating various institutions and departments to solve problems. This approach leads to increase in government expenditures as there is duplication of roles. A lot of structures are created thereby militating against effectiveness and efficiency. Resources are channelled to finance bureaucratic structures and some are wasted as there is duplication of projects among various government ministries and departments. For example, projects in the Ministry of Youth and Ministry of Gender are similar which could have been implemented under a single ministry or department.

Devotion of a greater chunk of national resources to recurrent expenditures to sustain structures has negated social and economic development evidenced by cuts in social sector expenditure which has led to poor health sector, poor education system and lack of essential social services. The respondents urged the government to come up with a lasting solution on the consumptive budget tendencies the country is facing. There is need to strike a balance between consumption and capital investment without impacting negatively on social and economic development. The government was also urged to implement the recommendations of the audit commissioned by the late Minister of Public Service Professor Elphas Mukonoweshuro which revealed that there are about 70 000 ghost workers on the government pay roll. The table below shows Social Protection Expenses compared to social protection expenses without wages.

Figure 6: Comparison between Social Protection Expenditure and Social Protection Expenditure excluding wages



Source: Poverty Reduction and Economic Management Unit Africa Region⁶²

⁶²Challenges in Financing Education, Health, and Social Protection Expenditures in Zimbabwe, February 2011

Overall, the largest budget lines for social sectors are wages, salaries, and pension payments.

5.1.5 Vulnerable Groups: Disability

The priorities of the disabled from tax money is the provision of subsidised mobility appliances and other equipment they require for them to live a normal life. As tax payers who pay VAT and PAYE for a few, the registered disabled persons complained that the \$20 monthly payment given by the government is not enough to cater for their monthly needs. According to Gamuchirai Matangirwa from Leonard Cheshire Disability Zimbabwe Trust, “Programmes such as the youth fund are difficult to access for young people with disabilities. The problem is that we are denied loans from the youth fund because of the perception that we are disabled and therefore unable. Those of us who have applied are referred to social welfare but there is no money at the social welfare”.⁶³ The sector is being corrupted in the avoidance of import duty on motor vehicles. The majority of people are now using people living with disability to import vehicles on their behalf.

5.1.6 Gender

Respondents from the Gender sector said that tax money should be used for health and education. The concerns of the gender representatives are that tax money should also be used for the construction of rehabilitation facilities for those affected by gender based violence. These should be constructed in the communities. Women also called on the Government to scrape 15% VAT and the 20% import duty for sanitary pads. There is also need to subsidize sanitary pads for women especially those in the rural areas as some of them resorted to cow dung as a substitute to sanitary pads. They also complained that women in general are affected by heavy taxes imposed by the government. They are the hard hit since the majority of them solely depend on their husbands' salaries. The current taxes are not gender sensitive therefore the need for gender sensitive tax policies. In a bid to complement their husbands' incomes, the majority of the women have been engaged in the informal sector selling airtime, vegetables, foods stuffs and second hand clothes but they are subjected to harsh working environments and hassle with municipal police.

5.1.7 Debt and Trade

The poor road network hampers development as it affects the country's trade and tax money should therefore be channelled towards improvements of the country's roads. There is also need for the government to provide information centres on trade that will provide market information. The respondents said that some of the tax money should be provided to traders so that they can access loans to boost their business. The administration of the loans should not be politicised as everyone is a tax payer therefore entitled to benefit from them. Informal cross border traders also complained of high customs and excise duties imposed on some items. In an interview with a member of Alternative Business Association (ABA) on issues regarding the smuggling of goods into the country, it was noted that cross border traders smuggled goods as a result of high duties and partly as a result of the general lack of information on goods that are exempted from duty. He further elaborated that the traders lack information on rates charged on goods therefore he urged all the cross border traders to seek information on the duty and the rates for different goods they import.⁶⁴ Data from interviews with cross border traders also revealed that systems in place to claim VAT are complicated and time consuming resulting in loses being incurred. This has led to traders engaging in smuggling, evading and avoiding duty so as to compensate for the loss incurred during the previous trip.

⁶³<http://www.thezimbabwean.co/news/zimbabwe/70752/youths-with-disabilities-struggle-to.html>

⁶⁴Israel Mabhoo, ABA member, interview, 23 June 2014

5.1.8 Farmers

The farmers expect to see government subsidising the agricultural sector. The cotton farmers said they were not benefiting much from contract farming so they urged the government to subsidise farming inputs so that they can get them cheaply and be independent from the contractors who dictate buying prices for their produce. The smallholder cotton farmers from Chipinge and Gokwe were not pleased with the government's emphasis on contract farming in the government's economic blue print, ZIMASSET. They even threatened to abandon cotton planting if the current contract, marketing and pricing system persist.

Motorists Bemoaned Poor Road Network

Official data from ZINARA estimates that a single tollgate rakes in between US\$1,2million and US\$1,5million per year. In 2012, the administration collected US\$45million from tollgates. The state of the country's road network remains bad despite the introduction of the road-user pay principle meant to fund road maintenance. Recently, the government was reported to be mulling the commissioning of additional 14 tollgates on the country's highways. The increase would bring total tollgates to 36. To this end, has the road-user pay principle been effective relative to its initial objectives? A better outcome may be enhancing the ZINARA system with major focus being put on enhancing transparency. Such a move may be a step in the right direction as leakages through alleged corruption have resulted in lower revenue being declared.

Despite the increases in toll fees (from \$1 to \$2 for small vehicles, \$2 to \$4 for commuter minibuses, \$3 to \$6 for buses, \$4 to \$8 for heavy vehicles and haulage trucks from \$5 to \$10), increase in the number of toll gates and improvements in the collection of road tolls, the conditions of roads network continue to deteriorate. Potholes still exist and some roads are still dust roads. Major roads in Zimbabwe do not have road signs and the few that are there are now too old and are no longer visible to the road users. Major highways need to be widened or dualised so as to reduce accidents and for easy mobility. The respondents urged that the government need to resurface major roads and cover all the potholes. In the rural areas, there is need to construct bridges and to reconstruct more roads and make them tarred. An example was given of the Beitbridge-Harare road which is very busy and rakes in a lot of revenue but it remains in a very bad state.

“We have seen road works on the major roads that were constructed during the colonial era. Government is only concentration on maintaining these colonial infrastructures that are not benefiting the people. Instead, these roads are being used to smuggle our resources. We view the maintenance of these roads as promoting the flow of resources out of our country. Here in Manicaland, a lot of timber is smuggled into Mozambique. In other areas we have also heard that fish is being smuggled into Zambia. ZINARA should not only focus on maintaining the major roads, rather feeder roads which are in a bad state should also be maintained” – Mr M Saunyama, Mutare resident”.

6. Conclusion and Recommendations

6.0 Remarks

Tax morale is at the heart of state-building and the citizen-state relationship. This study has discovered that in Zimbabwe, tax compliance is generally very low which affects the social and economic development of the country. The tax payers have lost confidence in the government and have developed a negative perception on the government since they do not see any meaningful development from their tax money. The result is the unwillingness to pay tax. There is an urgent need for the various stakeholders who include the civil society, business organisations, the international development community and the ordinary citizens to support the efforts of the government to improve tax morale and tax compliance. For Zimbabwe, domestic resource mobilisation becomes an alternative to aid and other strategies that are not sustainable, predictable and come with conditions leaving the taxpayer with a huge debt to settle on behalf of the country.

6.1 Conclusion

The study concludes that taxation in Zimbabwe is generally regressive as the poor who constitute a greater proportion of the population are contributing more to the national fiscus through VAT and PAYE. While there is increasing pressure for maximising domestic revenue collection means, this should not be done at the expense of the citizen's economic and social welfare.⁶⁵ The study also noted that the tax payers are not benefiting from their tax money as they are supposed to since a greater part of the tax money is consumed by recurrent expenditures by the government. The result of this is a subsidized state where the poor sustain the few rich. It is necessary to point out the fact that tax revenues will remain depressed as long as transparency and accountability remain hazy in the eye of the tax payer. There is need to address the underlying problems, for Zimbabwe these are purely political.

The research revealed that there are a number of incentives offered by the government to individuals and companies which have not produced any meaningful fruits as the tax payers continue to languish in poverty. Companies have managed to benefit more from exemptions and holidays than the local communities. Government has a weak negotiation position due to external factors such as tax competition. Revenue continues to leak from the system regardless of the incentives and holidays offered to companies by the government and at the same time the companies are failing to honour social responsibilities agreed upon with the government. Thus, there is need to legislate the social responsibilities expected of the corporate sector so that failure to do so will attract legal consequences for the companies.

There is also lack of transparency and accountability with regards to taxation as there are too many revenue collecting agents, in particular, the mining sector. The involvement of too many institutions in the handling of national resources makes it difficult to know where exactly the resources will be leaking.

⁶⁵Zhou G and Madhekeni A, p49

The various legislations and institutions that govern taxation in Zimbabwe have allowed tax evasion and avoidance by both individuals and companies. The Constitution is the supreme law of the land while the Public Finance Management Act also touches on taxation. For each tax head, there is a piece of legislation that supports it. ZIMRA, a semi-autonomous parastatal, is responsible for the collection of all national revenues but it has failed to plug off all the loopholes that allow illicit outflows. While the Ministry of Finance is the principle actor regarding taxation with the collection of revenue being the duty of ZIMRA, the oversight role of the Parliament is not effective to enhance transparency and accountability.

Taxation in Zimbabwe has evolved over time in terms of the types of taxes levied on the people, administration, governing frameworks and the uses of taxes. During the colonial era taxes were used as an oppressive tool on the black majority. The post-independence era saw changes in the administration and governing frameworks of taxation but the taxpayer remained overwhelmed by the system. Reforms were introduced to redress the social and economic imbalances and to widen the tax base. New taxes were introduced so as to increase revenue collections but national budget deficits continued to characterise Zimbabwe's economic plans.

The government has also failed to tap potential revenues from the informal sector. The government cannot monitor economic activities of the sector. The research has found out that informal traders are willing to pay tax to the government only if the necessary infrastructural, financial and service support is provided. Potential tax payers also lack the requisite knowledge on the registration process for tax payments and in addition, the registration process is complex.

Tax money is indispensable for national development. The research revealed that various sectors have not developed as a result of a huge wage bill. A greater chunk of national resources is channelled towards recurrent expenditures thereby underfunding capital expenditure leading to poor social and economic development of the nation. Critical social services like health and education continue to suffer from poor financing. Poor service delivery has also remained a major challenge in the cities and towns while the road network on which development should be hinged is very poor.

Tax evasion and avoidance both have negative implications on the economy as they hamper governmental efficiency in engaging in beneficial programmes and result in an eroded tax base which in turn widens the national budget deficit. They have led to an unacceptable poor service delivery system in Zimbabwe. The worst consequences of tax evasion could be civil unrest when citizens protest against poor service delivery. Zimbabwe's successive national budgets have been affected by heavy budget deficits.

6.2 Recommendations

- Strengthen and clarify the links between revenue and expenditure: Positive public perceptions of government, public institutions and services may increase tax compliance and revenues. ZIMRA on its part should undertake some programmes to educate the public on the importance and consequences of paying taxes and to instil a voluntary tax compliance culture.

- ~~###~~Build taxpayer profiles: analysing citizens' attitudes and perceptions towards tax issues would allow ZIMRA to develop its own taxpayer profiles. This could provide information on, for example which groups of citizens are most resistant to paying tax and which groups would be the most easily convinced of the benefits of taxation. Insights into the various socioeconomic and institutional factors influencing tax morale can also inform the efforts of revenue authorities, business and civil society to develop and target taxpayer literacy and education campaigns.
- Understanding the informal sector better: taxing the informal sector has been a challenge for ZIMRA. Efforts to better understand the profile and perceptions of small traders, for example, could help to engage them and establish a dialogue on tax issues thereby contributing to a “culture of compliance”. The government should extend technical support to the sector as merely taxing them without the necessary support will result in the suffocation and subsequent extermination of the sector. There is need for the simplification of the compliance and registration systems so that this becomes less burdensome to the new taxpayers.⁶⁶
- Increase the transparency and accountability in tax policy making and implementation: these measures would reduce opportunities for corruption. Citizens' perceptions of public officials, especially tax officials, can influence attitudes towards taxation (*e.g.* being asked or expected to pay bribes). There is need for transparency and accountability in the awarding of contracts to MNCs so as to minimise revenue leakages. This can be achieved through thorough involvement of the Parliament. Transparency and accountability mechanisms can also be enhanced by ensuring that these MNCs remain transparent and accountable to the government and the communities in terms of their revenues.
- Constitutional legal frameworks- align various legislations to the constitution, stiffer penalties for defaulters, relevant legislations must have provisions on transparency and accountability, the legislative framework to reduce the number of collecting agents so as to enhance transparency and accountability.
 - Social responsibilities by the corporate sector must be legislated so that the vulnerable will benefit from economic activities in their communities. Legislating the declaration of Earnings from activities and tax obligations of which failure will result in punishments through legal proceedings.
- Should have progressive tax policies that guarantee social and economic benefits to the individual tax payers in terms of social service delivery. There is also need to harness resources from all sectors and plug all tax loop holes as well as desisting from luring FDI that grants tax holidays and tax breaks to MNCs at the expense of communities and citizenry social and economic rights.
- ZIMRA's capacity in terms of human and financial resources has to be enhanced especially in the area of forensic auditing and investigations.

⁶⁶The Sunday Mail, Zimra moves to the informal sector, 29/06/14

- There is need to do away with the structural approach to problem solving which fosters consumptive budgets. The government needs to carefully consider the roles of the ministries present and determine the ministry relevant to the problem being faced to avoid wastage of resources through duplication of projects and programmes and financing these structures.
- Upholding the set penalties for tax defaulters particularly the corporate sector. The application of tax laws and penalties should be symmetrical and non selective, that is, the rule of law should also be observed. There is also need for equitable application of the tax laws to all. The public sector needs to be taxed in the same way the private sector is being taxed. This should include parastatals, new farmers, etc.

Specific Recommendations to Civic Organisations

- Continue with the building and strengthening of a movement around tax justice to better engage with policy makers for progressive taxation policies;
- Demand for corporate responsibility from the private sector to honour tax obligations and environment policies;
- ZIMCODD should work with various coalition members in order to foster a culture of voluntary tax compliance; and
- There is need for further interrogation on effectiveness and efficiency of the legal and institutional frameworks with regards to tax system in Zimbabwe.

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