THE INJUSTICE OF SOVEREIGN DEBT IN TAX REGIMES IN ZIMBABWE

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ACKNOWLEDGEMENTS
ZIMCODD would like to acknowledge frantic efforts by the Executive Director,
Janet Zhou, for providing leadership in this project,
the lead researchers for this paper, Muchanyara Midzi and Nqobizitha Mlambo,
who worked tirelessly to put the pieces together for this publication.

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INTRODUCTION AND BACKGROUND

This policy paper explores the relationship between public debt and taxation in Zimbabwe. It seeks to further the discussion on the interplay between debt levels of Zimbabwe and taxation so as to proffer recommendations on how to both manage debt levels as well as improve the country's taxation by making it more just and fairer.

The issues presented in this paper will provide policy options that can assist the government's response to debt and taxation in the country. It further outlines areas for civil society advocacy and engagement to improve these two critical elements in the economic development matrix of the country.

The paper will further analyse how the unsustainable debt situation in Zimbabwe has affected the tax regime especially through the implementation of austerity measures dating back from the Economic Structural Adjustment Programme (ESAP) of the 1990s and those recently introduced under the Transitional Stabilisation Programme (TSP) in October 2018. Furthermore, the paper analyses the consequences of tax holidays to both domestic and foreign companies on fiscal deficits and debt, how the huge debt burden fuels abortion of tax justice in public service provision and the role of multinational corporations in tax evasion and avoidance. A final analysis will be given on how progressive taxation has contributed to debt sustainability. The paper concludes by giving policy recommendations.

GLOBAL AND COUNTRY CONTEXT OF DEBT AND TAXATION

Rationale of public debt and the State of Global Debt

As of 2019, the world economy was estimated to be worth US$81 trillion with an estimated cumulated debt of US$253 trillion bringing the global debt to GDP ratio to 322% and with at least 30% of the debt being attributed to public borrowing[1]. Most countries are experiencing budget deficits, they have expenditure that is outweighing their tax revenues resulting in debt as an option to finance these deficits. Debt incursion by the public sector is not entirely a problem when it is used to finance capital expenditures that in turn generate sufficient returns on investment to repay the debt and also boost economic growth. In the real world, most governments run their economies with debt. Borrowing is one of the ways a government can raise revenue to finance its budget and other developmental projects. A government can borrow from the domestic market (internal debt) by issuing treasury bills and can also borrow from other countries (external debt).

The state of Public Debt in Zimbabwe

Unlike countries that enter into debt primarily to finance development, Zimbabwe has been incurring debt to finance non-productive expenditures which make debt repayment difficult. This has placed the country into an unsustainable debt situation, at the end of 2018, the debt was said to be at 9 billion US dollars[2]. Furthermore, the country has not had disciplined fiscal management to contain the debt crisis. The president has come under fire from pressure groups for his luxurious foreign trips accusing him of wrong budget priorities[3]. Domestic government debt management challenges in Zimbabwe have arisen from the absence of a general equilibrium debt analysis framework in the country, a condition which creates an opportunity for irresponsible borrowing by the government. Some of the government's recent overspending has been related to the ballooning government wage bill,

[1] Institute of International Finance
[2] International Monetary Fund (African division), Feb 2019
[3] See Also: Mnangagwa gobbles over US$11,4m on foreign trips- https://www.theindependent.co.zw/2019/12/06/mnangagwa-gobbles-over-us114m-on-foreign-trips/

agricultural support programs, capitalizations of state-owned companies and infrastructure programs deployed prior to the national elections, particularly with respect of road building[4].

At independence in 1980, Zimbabwe inherited an external debt of US$700 million that had been incurred by the previous colonial government to finance the war of liberation that eventually ushered in the nation's independence in that year[5]. This legacy debt was the result of UN sanction-busting loans to the white regime to buy arms during the civil war. This inherited, unjust debt was short-term and high interest; imposing a large repayment burden in the early 1980s just as drought struck[6]. Due to the protracted conflict, the country faced infrastructural deficits with some infrastructure having been destroyed in the war or had been neglected due to resource constraints as the country was also under economic sanctions. The racial divide also meant unequitable investment in white and black communities, evidently investment in education and health for the black population was insufficient.

Upon attaining its independence therefore, the government resorted to debt to finance the ballooning national expenditure. Furthermore, five years prior to independence, the country had experienced stagnant economic growth. Faced with these initial conditions the government initiated huge public expenditure to try and solve these problems and it came at the cost of public deficits. Decline in agricultural production in 1982 and 1986 also necessitated a rise in government expenditure to alleviate and mitigate against poverty. The source of the debt came mostly from foreign developmental partners as well as from domestic creditors[7].

At the turn of the 1990s, the government decided to take on board The International Monetary Fund (IMF)'s sponsored Economic Adjustment Structural Program (ESAP) from 1991 to 1996. The program sought to spur economic growth that had tapered off towards the end of the previous decade through economic and structural reforms. Implementation of the program required funding which the IMF along with the other traditional creditors availed to Zimbabwe. The drought induced economic decline in 1992 necessitated government intervention to avert a humanitarian crisis as before. This again meant the government spending more than its generated revenues. As ESAP culminated in 1996, many of the set targets and objectives were missed. The reasons why ESAP failed have been subject to many debates. However, what is important to note for this paper is that Zimbabwe received foreign loans from international creditors to finance ESAP which further engulfing the country into more debt.

In the subsequent years following ESAP, the country faced socio- economic and political turbulences that severely constrained the country's ability to meet its international obligations leading to it defaulting in 1999. Defaulting on its international obligations coupled with the imposition of 'targeted' sanctions reduced the country's credit worthiness and thereby constricting the country's access to international finance. By 2000, the country was in a serious economic crisis. GDP per capita growth was –6.7 percent in 2000 and –9.8 percent in 2001. The central government fiscal deficit (excluding grants) had risen from 10 percent of GDP in 1999 to 22.5 percent in 2000 led by large, unbudgeted increases in civil service wages, defence spending and a surge in domestic interest payments following a rapid increase in domestic borrowing[8].

Post the year 2000, the government's primary source of credit was now the local financial sector. Borrowing in the domestic financial sector occurred under unstable macroeconomic environments and in situations where the regulatory and overall institutional framework had been eroded such that there was no transparency and accountability in the source of the debt. The external debt situation worsened the country's debt sustainability situation as arrears arising from defaults continued rising

[4] International Monetary Fund (African Department) January 2019
[5] Jones (2011), Jubilee Debt Campaign
[6] Ibid
[7] Jones (2011), Jubilee Debt Campaign
[8] World Bank 2004, Zimbabwe Country Assistance Evaluation

up to the present day. This was coupled with negative economic growth from 2000 to 2008 and slow growth from 2013 to 2018 such that the country's ability to generate sufficient income to repay its dues was severely constricted as the country's external debt to GDP ratios reached an excess of 69% which is unsustainable for a developing country.

In 2017, the IMF pointed out that Zimbabwe is in debt distress with its total public and external debt reaching unsustainable levels. A country is seen as being in debt distress when it is struggling to service its debt, as demonstrated by arrears, the restructuring of its debt or other clear signs that a debt crisis is looming. Zimbabwe has longstanding external arrears and this has resulted in scarcity of foreign financing, leaving the government with no option but to borrow from the domestic market. This has resulted in huge fiscal deficits, posing a huge tax burden on tax payers. Deficits are lately being financed through domestic borrowing. Public debt has continued to grow, largely driven by domestic debt which stood at 70 percent of the Gross Domestic Product (GDP) in 2018[9]. Table 1 shows Zimbabwe's public debt situation for the selected four years.

Table 1: Zimbabwe's Public and Publicly Guaranteed debt situation

	December 2015	December 2016	December 2017	December 2018
Total debt ($US million)	**9,005**	**11,254**	**14,641.70**	**17,282.3**
% of GDP	**41.1**	**54.8**	**66.4**	**70.3**
Domestic Debt	**1,905**	**4,014**	**7,133.6**	**9,624.9**
External Debt	**7,100**	**7,240**	**7,508.1**	**8,505.9**
Bilateral	**4,071**	**4,787**	**3,589.3**	**4,731.6**
Multilateral	**2,442**	**2.453**	**2,006.0**	**2,563.20**

Source: Ministry of Finance & Economic Development (2018)

The public debt figures show that Zimbabwe has reached unsustainable levels of debt. The SADC threshold for public debt to GDP is a ratio of under 60 percent, yet Zimbabwe has a public debt of 70%. This has negative consequences to the overall wellbeing of the economy. The highly unsustainable public debt of Zimbabwe has over the years been depressing economic growth through crowding out private sector investment, promoting massive capital flight and discouraging new foreign capital inflows[10]. The government's high record of foreign debt repayment defaults since 1999 is among the numerous reasons for the country's lower world credit rating, which ultimately increased the cost of foreign finance to both the government and the private sector.

Taxation landscape in Zimbabwe

Taxation plays a key role in economic management; it is needed to control externalities such as pollution and also to raise revenue for the provision of public goods. Taxes can also be a tool of ensuring equity as they can redistribute income and generate revenues that support public service provision. Again, taxes act as key instruments in controlling aggregate demand and the trade balance which in turn affect national output. A good tax system is one that is equal, certain and convenient[11].

Taxes levied in Zimbabwe include Value Added Tax (VAT), Pay As You Earn (PAYE), Customs duty, Corporate Tax, Exercise Duty, Presumptive tax, Intermediate Money Transfer Tax and others.

Currently, the Zimbabwean tax system is based on source and not on residency, meaning that income derived or deemed to be derived from sources within Zimbabwe is subject to tax.

[9] Ministry of Finance and Economic Development 2018
[10] IMF, 2016a
[11] https://www.journalofaccountancy.com/issues/2002/feb/guidingprinciplesofgoodtaxpolicy.html

The PAYE tax bracket in Zimbabwe operates on an escalating scale basis, which means the higher the earnings, the greater the percentage of the tax that should be paid by the employee. A flat fee is then charged when the earnings reach a certain amount[12].

The corporate tax refers to a charge that is 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 of Zimbabwe (Chapter 23:06). The tax is also referred to as corporate income tax and it is paid by Zimbabwean companies on their taxable income at the current rate of 24%. The 3% AIDS levy is also applicable to the tax on this income. Table 3 shows contributions of different tax heads to total tax revenue.

Table 3: Taxes levied in Zimbabwe and contributions to total revenue (2018-2019)

Taxes Head	Contribution to total revenue in 2018	Contribution to total revenue in 2019
Individual	17.1%	14.8%
Corporate	16.7%	13.8%
VAT on sales	17.4%	13.2%
VAT on imports	10.3%	12.9%
Custom Duty	8.9%	8.5%
Excise Duty	16.7%	17.8%
Mining Royalties	1.9%	2.4%
WHT on Contracts	3.2%	1.9%
Intermediate Money Transfer Tax	3.7%	11.4%
Dividends, Fees, Interest and Remittances	1.6%	1.1%
Carbon Tax	0.8%	0.2%
Other taxes	1.7%	2%

Source: ZIMRA 2018 and 2019 Annual Reports

Zimbabwe is also collecting taxes from the informal sector. The informal sector is brought into the tax net through three main ways: firstly, through the application of the existing income tax regime; secondly, through indirect taxes such as the value added tax (VAT); thirdly and more specifically, through a presumptive tax.

The Nexus between debt and tax regimes

The government has its eminence in the economy due to three main reasons that is to: provide public goods and services to which the private sector through the market cannot efficiently and sufficiently produce for the economy; to stabilise the economy through taxes and seek to attain full employment; and lastly to ensure desirable social outcomes through income redistribution measures such as through progressive tax structures and income transfer schemes. To meet its main objectives, the government heavily relies on taxes as its main source of revenue from which to finance its expenditures.

However, there are periods in which the government expenditure needs may outweigh its revenue inflows from taxes resulting in fiscal deficits such that government may find it necessary to borrow internally or externally or print money to finance its fiscal deficits. Fiscal deficits are added to the pre-existing levels of debt. In the alternative case where government revenues outweigh expenditures, the government will incur a surplus balance such that it reduces the state's pre-existing levels of debt.

[12] ZIMRA, 2020

Normally, government debt has a medium to long term maturity timeline and when these timelines are reached, the government must always be in a position to repay its creditors. The ability for government to repay its creditors hinges on what the debt was used to finance. Debt used to finance expenditures in capital and infrastructural projects is expected to generate a sufficient return on investment enough to meet the principal and interest payments. While debt incurred to finance recurrent expenditure is expected to be repaid through increases in future taxes. The bigger part of unsustainable debt in Zimbabwe has been used to finance recurrent expenditure making taxes the bigger contributor to the repayment because there is no sufficient return on investment. Furthermore, the economic outlook of Zimbabwe has not recorded significant growth levels to generate tax revenues for the state increasing the likelihood for future tax burden. The introduction of the Intermediated Money Transfer Tax (IMMT) which is a 2% tax on all internal electronic financial transactions has been defined as one way of generating the needed tax revenue[13] to curtail the growing budget deficits but at the same time the introduction of the tax has received criticism for increasing the tax burden on citizens[14]. Zimbabwe's debt situation has also been worsened because its debt is denominated in foreign currency and the country has been failing to generate enough exports to meet both its import and debt obligations. In recent years, Zimbabwe has run systemic trade deficits due to decline in exports. Zimbabwe is a net importer of fuel and capital goods[15].

Given how debt has a long maturity time line, government may have to increase taxes 10 to 15 years long after a debt has been incurred and thus debt responds to taxes negatively (an increase in taxes above expenditures should result in a fall in the level of debt) with a time lag such that a rise in taxes should result in a fall in debt given that any of the conditions necessary for tax increases are met. However, it can also be noted that in the short run during times of a deep recession debt may respond positively to decreases in tax revenues (a fall in tax revenues below government expenditures should result in an increase in the level of debt).

Zimbabwe's direct tax system is generally progressive in the sense that higher income earners pay high taxes and low income earners pay low taxes. This is commendable on equity grounds. However, the indirect tax system may be deemed regressive, for instance, the VAT which is uniform across all different income earners[16]. In the Zimbabwean case however, the key issue is not about the fairness of the tax system, but it is about whether the benefits of taxation are being enjoyed by the citizens. When citizens pay different taxes, they expect better outcomes in terms of provision of public goods and economic stability. This is however not the case in Zimbabwe as the country is characterized by poor and inefficient service delivery and a very unstable macroeconomic environment. Corruption in terms of revenue collection is at the center stage of this failure by government to use tax payers' money efficiently.

IMPACT OF DEBT ON TEXATION IN ZIMBABWE

Unsustainable debt and its impact on tax regimes in Zimbabwe

Zimbabwe's debt distress is due to a stagnant and at times negative economic growth, poor export performance and poor borrowing practices. Over the last five years, the government has been borrowing from the Afrexim Bank on the basis of its mineral resources and gold export receipts and also acquired commercial loans on unfavourable terms due to the country's high risk of default[17].

[13] See ZIMRA Defends Ncube's 2% tax- https://www.newzimbabwe.com/zimra-defends-ncubes-2-tax/
[14] See Cabinet Admits that 2% tax fueling Price Hikes- https://www.newsday.co.zw/2019/10/cabinet-admits-2-tax-fuelling-price-hikes/
[15] https://tradingeconomics.com/zimbabwe/balance-of-trade#:~:text=Balance%20of%20Trade%20in%20Zimbabwe,Million%20in%20December%20of%202009.&text=Zimbabwe%20Balance%20of%20Trade%20%2D%20values,updated%20on%20June%20of%202020
[16] In the Keynesian theory, the poor have a high Marginal Propensity to Consume (MPC), thus they spend more on consumption goods end up paying large portion of the VAT. It is however difficult to discriminate the VAT between the rich and poor
[17] See Zimbabwe Got Loan from Afreximbank Using Platinum Collateral- https://www.bloomberg.com/news/articles/2019-05-20/zimbabwe-got-loan-from-afreximbank-using-platinum-as-collateral#:~:text=Zimbabwe%20Got%20Loan%20From%20Afreximbank%20Using%20Platinum%20Collateral,-By&text=Zimbabwe%20secured%20a%20%24500%20million,details%20of%20the%20agreement%20said

Despite international gold prices having been relatively stable the country's gold output performance has been impacted by the country's incoherent and inconsistent policy framework[18]. More so, the country's overall economic performance and declining export competitiveness has been hindering the country's ability to meet its debt obligations.

Due to limited external financing, the country has in most cases resorted to borrowing from the local financial markets at the expense of the private sector. The resulting effect has been the crowding out of the private sector from credit and thus stifling private sector growth. The cumulative effect of these policies by the state has been the transmission of financial vulnerabilities throughout the entire economy. What has further compounded the unsustainable debt position is how the acquired debt has been utilised and the sheer lack of transparency and accountability on how public funds are utilised.

Tax developments in Zimbabwe

Since independence, there has been various tax reform policies. During the first decade post-independence, the government of Zimbabwe pursued a socialist ideology with policies that aimed to address colonial era imbalances[19]. Public spending skyrocketed, particularly in the areas of civil service employment, spending on social services, drought relief, and subsidies for government owned companies. This in turn generated a chronic budget deficit, a high tax regime, and a rapid increase in public debt[20].

By the end of the 1980s there was increasing agreement amongst government elites that new economic policies needed to be implemented for the long-term survival of the economy. The Economic Structural Adjustment Program (ESAP) was implemented in 1991.The new policy designed by the government and its advisers set out to encourage job-creating growth by transferring control over prices from the state to the market, improving access to foreign exchange, reducing administrative controls over investment and employment decisions, and by reducing the fiscal deficit. This was mainly aimed at reducing government expenditures, particularly the recurrent expenditures, and redirecting resources to the productive sector. As a result the budget deficit was targeted to reach 5% of GDP by 1994/95 from a level of about 10 % of GDP, that is, by end of the first phase of the reform programme.

ESAP also sought to reform the tax system to improve quality and resource allocation; targeting to reduce the tax ratio from 35% of GDP to about 33% by the end of the reform period. Under ESAP the foreign exchange allocation system was abolished. Taxes on imports were brought in to help in the transition, though these were rapidly removed through the 1990s. The austerity measures under ESAP were aimed at easing budgetary pressure by collecting more tax revenue from the private sector.

In terms of individual tax rates, the Sales Tax Act prevailed from 1985 and was later amended to the Value Added Tax (VAT) in 2004. VAT was introduced to replace sales tax and several small taxes such as gaming, betting and some stamp duties. PAYE tax rates and bands were also altered and narrowed on several occasions to reflect the inflationary developments on the ground. Tax free thresholds were also adjusted starting in 2001. The corporate tax rate was also adjusted, reduced from 50 percent in 1982 to 30 percent by 2001. In 1998, the tax base was broadened to include pension funds and profits taxed at 15 percent. Further, tax incentives were also granted to companies locating in growth points. A self-assessment of corporate tax was encouraged in 2006 in a bid that would allow the Zimbabwe Revenue Authority (ZIMRA) officials to focus more on auditing compliance standards. ZIMRA was established in 2001 as a successor to the then Department of Customs and Excise. Its responsibilities

[18] Kanyenze G, Chitambara P and Tyson J (2017) The Outlook For The Zimbabwean Economy
[19] Sibanda, Vusumuzi & Makwata, Ranganayi. (2017). Zimbabwe Post Independence Economic Policies: A Critical Review.
[20] https://en.wikipedia.org/wiki/Economic_history_of_Zimbabwe

include assessing, levying and collecting revenue from various taxes that include income tax, capital gains, duty tax, resident shareholders tax, Value Added Tax and stamp duty, among others. The corporate tax rate was further reduced to 25.75% in 2009 and it has remained constant until 2019.

Following decision to reduce borrowing, Government reviewed the Intermediated Money Transfer Tax (IMTT) from 5 cents per transaction to 2 cents per dollar transacted with a view to finance inescapable expenditures without recourse to debt creating instruments such as Treasury Bills. The tax is ideal as a potential source of revenue that spreads the burden across the generality of the transacting public, including those in the informal sector, whose contribution to the fiscus remains minimal[21].

With effect from January 2020

- Tax free threshold was revived from ZWL$700 to ZWL$2 000 per month
- Intermediated Money Transfer Tax (IMTT) (popularly know as the 2% tax) was reviewed from ZWL$20 to ZWL$100
- Corporate income tax rate was reviewed from 25% to 24%
- VAT was reduced from the standard rate of 15% to 14.5%

The growing need for fiscal consolidation in Zimbabwe has seen the government moving towards a tight fiscal policy regime. Direct and indirect tax rates have been reviewed in order to mop up funds from the tax payers. The IMTT has been put in place to mainly target the growing informal sector that has been mostly excluded from the mainstream tax base.

POLICY ALTERNATIVES AND IMPLICATIONS

Debt burden and abortion of tax justice in Zimbabwe

Zimbabwe's debt burden has now become unsustainable, whilst at the same time the country faces the challenges of poor public service delivery. As has since been established in this policy discussion paper, one of the ways the government can pay this debt is to raise revenue through tax collection from the already impoverished citizens. The alteration of the tax policy through the introduction of austerity measures marked a shift in tax justice in the country.

The debt crisis has resulted in government coming up with various tax policy amendments over the period 1980-2019. Currently, through the Income Tax Act (Chapter 23:06), the Finance Ministry has issued a number of proposals most of which took effect from January 2019. Some of these proposals have been met with an outcry from tax payers, for example the IMTT. The implementation of the IMTT in October 2018 being amended by statutory instrument (SI 205) of 2018 calculated at a rate of 2% for every dollar per transaction meant that transaction costs had to rise. The cost of transacting to get goods and services increased against the stagnant disposable incomes earned by the ordinary citizens who were already suffering.

Furthermore, government also increased excise duty on imported fuel through SI 161 of 2019[22]. The increment in the duty taxed on fuel imports placed a burden on ordinary Zimbabweans since it increased fuel prices thereby increasing the cost of transporting goods. Consequently, this ultimately increased the costs of goods and services in the country.

Through the collection of taxes, the government subsidised the provision of public transport under the ZUPCO (Urban transport mobilisation) scheme. This was meant to help Zimbabweans to access reliable and affordable transport system. Nevertheless, the ZUPCO project has not been efficient and reliable, since the supply of the service is not meeting transport demand in the country with transport

[21] 2020 Budget statement
[22] Customs and Excise Tariff Amendment notice number 10, 2019.

operators providing buses under the scheme complaining for being underpaid[23]. Though the ZUPCO scheme is commendable on the grounds of public service provision, it has not been helpful in dealing with the debt crisis, since it requires more funds from the fiscus to subsidize the operations. Since the scheme is using funds from the fiscus, the government had to make sure that there is equal public transport provision across the country to ensure that there is tax justice, however this has not been the case.

Despite efforts by government to collect more tax revenue, public service delivery has continued to deteriorate in the country. The state of public infrastructure (roads, schools and hospitals) remains poor and government should be using tax payers' money to improve these services. The sustained deterioration in the quality of infrastructure assets stemmed from very inadequate levels of public expenditures for routine and periodic maintenance of the infrastructure networks[24]. Government's position has been that the debt situation has made it difficult to channel tax revenue towards improving infrastructure. To this end, government's debt clearance strategies as presented by the Minister of Finance and Economic Development in 2019 in Bali and Indonesia have hit a brick wall as International Creditors owed by Zimbabwe continue to call upon the country to institute economic reforms that can make the country eligible for debt clearance and financial assistance. This however requires transparency in the use of public funds.

Generally, in Zimbabwe the provision of public services is poor as evidenced by water and power shortages and poor health care facilities. In 2019 the Ministry of finance (MOF) reported a budget surplus in Zimbabwe, pointing out that the IMTT has made significant contributions to the fiscus. Under such situation's citizens would expect public service provision to improve in the country, however this has not been the case. Despite reports of a budget surplus by the MOF in 2019, the country still finds itself in debt distress, and service provision continues to dwindle. The tax payers continue to lose confidence in the responsible authorities since there is no transparency in the use of tax revenues in Zimbabwe. Under situations of austerity, it is the poor that bear a heavy tax burden. As such the government should use the tax revenues in a productive and transparent manner, which in turn enhance tax justice in the country.

Tax holidays, fiscal deficits and debt

Governments offer incentive programs to businesses in form of tax reduction or elimination. These are meant to encourage the purchase of certain items or reinforce their participation in certain activities. Tax holidays are a temporary exemption of a new firm or investment from certain specified taxes, typically at least corporate income tax[25].

Government of Zimbabwe has offered these tax holidays to companies in various industries. Huawei Technologies Co. Ltd was offered a tax holiday to modernise Netone cellular and TelOne. To encourage infrastructure development, contractors enter into contracts known as Build Operate transfer (BOT) with the state under which they undertake to construct infrastructure for the government. Tax payers who are licenced to operate in export processing zones, may also receive tax holidays to encourage exports in the country. These companies enjoys tax holidays for the first 5 years and then taxed 15% thereafter. These tax holidays may increase or decrease the fiscal deficit. This is clearly elucidated in the Special Economic zones Act (Chapter 14:34).

The tax holiday offered to Huawei technologies was enacted through statutory instrument 24 and 25 of 2020. It allowed the technology company, its agents and contractors in respect of the goods and services purchased or supplied by Huawei technologies in terms of the agreement between the state

[23] See Transport Operators Fret Over Zupco Scheme-https://www.thestandard.co.zw/2020/06/14/transport-operators-fret-zupco-scheme/

[24] African Development Bank Group (2019) Zimbabwe Infrastructure Report

[25] Klemm (2009: 4)

and the export-import bank of China to be refundable. Receipts by Huawei technologies were also exempted from income tax. Government loses revenue through these tax exemptions, reducing tax gains by the state. This then implies that the fiscal deficit remains wide in Zimbabwe than it could have been if the tax was not exempted. The capacity of the government to service the already existing debts remains low, hence the debt also widens through the accumulation of interests.

The tax holidays are often offered to foreign companies than local companies. The foreign companies enters the country and charge its prices through predatory pricing, a method through which the new company offers its goods at artificially low prices to gain new customers. This then drives the local companies who pay taxes to the government out of business. In turn the government collects less revenue than before, thereby widening the fiscal deficit. The government may be left with no option but to borrow funds from international financial institutions.

The government may offer a 5-year tax holiday to a foreign company, and when the period expires, the company may disappear. Back in the 1990s, this situation happened when the government offered a 5-year tax holiday a company known as BHP. After 4 years, the company closed citing "serious negative cash flow"[26] which some critics consider as flimsy excuses. The same operation is running successfully under Zimplats. Local companies then struggled to come back into business, whilst the government was not getting tax revenue from them. This has a destructive impact on the fiscal deficit and consequently increasing the debt burden in Zimbabwe.

Tax holidays may cause rent seeking behaviours. Investors may try to obtain extension of the tax holiday to remain competitive with firms still covered by holidays. These rent seeking behaviours may not be beneficial to the state. Hence, this leads to continuous loss of revenue. The fiscal deficit continues to widen as the government continue to borrow to finance its expenditures with little or no capacity to service debts.

Although tax holidays often are detrimental, they may help to reduce the fiscal deficit, through collection of income tax from employees. Apart from other non-monetary benefits that the government may benefit from issuing a tax holiday to a company or contractors, the company will also help to reduce unemployment in the country. The government earns revenue through tax collection from the company's employees, thereby reducing the fiscal deficit. If there is an increase in aggregate investment and activity, there may be revenue gains from this, such as from additional employment taxes[27].

Finally, tax holidays benefit the country in its objective of attaining a business-friendly environment by signalling its commitment to reforms. Investors are lured into the country by the holiday and revenue collection will improve, increasing the tax base. If the investors find it worthy, they will stay after the expiration of the holiday and begging to pay tax. This increases tax collection in the country, and help to reduce fiscal deficit. Consequently, the capacity to service the country's debts increases.

Multinational corporations and tax evasions and avoidance

Tax evasion and tax avoidance have a detrimental impact on the provision of public services including infrastructure and public utilities in Zimbabwe. These are the twin evils that confront and destruct tax system in both developing and developed countries. The evasion and avoidance of tax is a characteristic of Multinational companies which operates in the country. Between the two, one is legally accepted and the other is an offence[28]. Tax evasion is the deliberate non-payment of tax. Tax avoidance on the other hand is when less tax is paid through analysis of tax and taking advantage of technicalities and therefore legal.

[26] See Economy Zimbabwe: Mining Giant Packs Its Bags- http://www.ipsnews.net/1999/06/economy-zimbabwe-mining-giant-packs-its-bags/

[27] Klemm, 2009

[28] James and Nobes, 2008

Section 98 of the Zimbabwe's Income Tax Act (Chapter 23:06) refers to tax avoidance in general as a transaction, operation or scheme that has the effect of avoiding or postponing tax or was entered into by abnormal means or manner or created abnormal rights or obligations. The evidence of tax evasion and avoidance by Multi-National Companies has been well documented in developed countries. However, this evidence is more limited in developing countries like Zimbabwe. The lack of more reliable and consistent data has developed significant constraints in this field of research. In Zimbabwe, the MNCs in various sectors including the manufacturing sector have adopted various schemes of tax evasion and avoidance. The establishment offshore financial centres by Multinational companies in Zimbabwe or other natural resource rich countries such as Nigeria are said to have facilitated the evasion and avoidance of tax payment[29].

Progressive taxation and debt sustainability.

Whilst debt sustainability is a catalyst to sustainable development, the debt issue has become a developmental challenge to Zimbabwe. Without finding solutions to resolve it, the country faces the risk of not being able to access development resources from the international financial institution in future. Debt sustainability is a situation in which the borrower is expected to be able to continue servicing its debts without an unrealistic large future correction to the balance of income and expenditure[30]. Simply put, debt sustainability is the level of debt which allows a country to meet its current and future debt obligations without rescheduling or seeking debt relief, avoiding the accrual of arrears whilst allowing for an acceptable level of economic growth. Progressive income taxation is a system of taxation which imposes a greater percentage of taxation on higher income earners and businesses than on low income earners. The system recognises the principle of diminishing marginal utility of income.

Progressive taxation increases the incentive for people to take low paying jobs due to low incidence of tax. This encourages people to enter the labour force and take jobs. When more people join the labour force, it means more revenue generation to the government through tax collection. Increased revenue collection increases government's capacity to service its external debts, thereby promoting debt unsustainability in the country.

Progressive taxation promotes productivity in the country through increased willingness to take up low paying jobs in the country. When more people work in the labour market, it means employment of resources in the country which promotes efficiency, hence more generation of exports. The generation of foreign currency will be enhanced through exporting more, hence more foreign reserves to the government.

Value Added Tax (VAT) has an element of progressivity. People with higher incomes tends to spend more, henceforth they pay more VAT as they spend their incomes. This helps the state to collect more revenues for debt servicing and financing its expenditures, thereby reducing borrowings. More revenue collection through the VAT system ensures debt sustainability in the country thereby permitting a level of debt which allows a country to meet its current and future debt obligations.

However, regressive taxes hinder employment creation which in turn has a negative impact on national aggregate demand and economic growth. A top-rated marginal income tax of 75% may encourage people to go and work somewhere outside the country, hence the country loses income tax revenue. Laffer's theory stipulates that if taxes are too high along the Laffer curve then they will discourage the taxed activities such as work and investment which is enough to reduce the total tax revenue collected[31]. This then reduces the country's capacity to pay its debts and increases debt unsustainability.

[29] Osutanya, 2011
[30] IMF 2000
[31] Laffer, 2004

POLICY RECOMMENDATIONS

Redefining Austerity to include Efficient Debt

Austerity for Zimbabwe should be extended to include measures that ensure all debt that the country enters into is designed as efficient debt. This can be actualised by making sure that money received from international financial institutions or private banks are purely and efficiently utilized for economic growth and development. This also mean channelling the borrowed funds towards productive sectors of the economy (effective management of debt). Efficient debt is used to acquire assets that have the potential to grow in value and generate revenue that can further grow the economy. Curbing the government's appetite to spend on recurring costs is essential to ensure that there is austerity on debt utilisation.

Promoting Tax Justice

To address revenue leakages from tax avoidance and evasion, the country needs to institute a vibrant and well-coordinated tax justice programme that focuses on ensuring exchange of information between tax authorities about money flowing across borders; disclosure by multi-national companies (especially those in the extractives industry) of how much profit they make and how much tax they pay; and legislate for mandatory beneficial ownership disclosure.

Equity in tax policies

When designing tax policies to deal with public debt, the Zimbabwean government should balance between equity (by considering the poor and rich through the distribution of the tax burden) and efficiency (make sure that the tax structure causes the least possible distortions as possible). It is understandable that austerity measures implemented as a result of unsustainable debt situation may compromise public service delivery. It is therefore the duty of the government to ensure justice when it comes to the use of tax funds. The benefits of taxation should be realised by all tax payers. Government of Zimbabwe should be transparent and shun all corruption as this has been hampering equity in how tax should benefit everyone. The issue therefore becomes that of responsibility and commitment on the part of government. Government should walk the talk on austerity by ensuring that its own spending should reflect its own commitment to austerity.

Transparency and Accountability on tax and public debt

Public debt transparency is a key prerequisite for effective risk assessment in support of sustainable borrowing and lending practices. To ensure there is such transparency, the government should thrive to improve its compilation, reporting, and dissemination of public sector debt data in the public domain. To enhance on reporting, there is need for capacity development and institutional reforms in the area of debt data recording and reporting. Furthermore, government should act on creating an enabling environment that ensures that those in the public sector shun all forms of corruption. Curbing of bribery and corruption within the public sector is essential in the drive for transparency and accountability in tax and debt management. The magnitude of such costly impacts of corruption in the public sector have been highlighted in the Auditor General's reports with one of the findings being that the government public service payroll includes thousands of fictitious civil servants, representing almost 20% of the then allegedly employed public servants.

Government should also ensure that there is consistency and transparency in the implementation of the tax, expenditure and debt policies towards debt management. More importantly, a holistic economic and political reform framework in developing and implementing overlapping and inclusive debt management policies is required in Zimbabwe.

Focused and holistic Economic Reforms

To effectively deal with public debt, the current administration has come up with measures aimed at reducing government domestic borrowing. The current finance Minister highlighted that high budget deficits have been igniting the expansion of domestic debt. As such the government came up with a reform agenda in the name of Transitional Stabilization Programme (TSP) with main emphasis on austerity measures. Government employed a concoction of policies to reduce its fiscal deficits with the aim of reducing the vulnerabilities being transmitted into the financial sector and also with the objective of raising revenue to meet its debt obligations. The concoction of policies has included the expansion of the tax base whilst also bringing in the informal sector into the tax net through the introduction of the Intermediate Money Transfer Tax (IMTT), increasing the fuel excise tax and strengthening of the institutional capacity of ZIMRA. This has had the cumulative effect of increasing the government's tax revenues whilst increasing the tax burden on the country's economy. However, it should be noted that the growth in tax revenue should not be attributed to excellent economic performance (buoyance) as the country experienced negative growth in 2019 but due to inflationary pressures that the country experienced in that period.

There are other plans that should be initiated by government in order to diminish its dependency upon loan funding, and to cure its inability to counter existing loan indebtedness and many other liabilities. Such actions include: Intense revival of the economy to achieve considerable growth, in contrast to many years of economic decline and to the extremely minimal growth attained in 2019 and the first quarter of 2020. On one hand, partial or total privatisation of parastatals would result in inflows to the fiscus of capital sums for the fair market values of the parastatals' infrastructural and other fixed assets, as well as payment for other assets of the entities and, on the other hand, private sector management and technical expertise would result in the presently state-owned, loss-making, enterprises generating taxable profits. Additionally, restructuring of the political and economic environments would enable Zimbabwe to meet the criteria for international grants like funding support such as the Heavily Indebted Poor Countries (HIPC) programmes of the developed first-world countries.

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