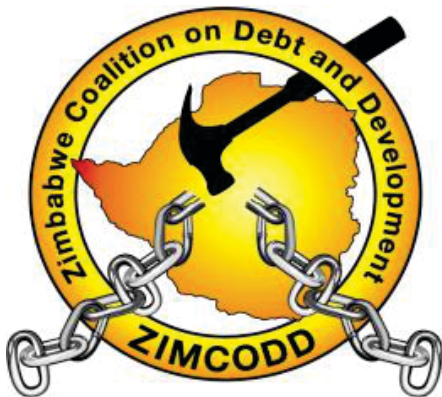




Position Paper On Tax Justice Issues In The 2022 National Budget



 @ZIMCODD1
 @zimcodd1
 @zimcodd1

9 Bargate Road,
Mount Pleasant
Harare, Zimbabwe

Tell: +263 242 776830/1
Email: zimcodd@zimcodd.co.zw
www.zimcodd.org



Norwegian People's Aid

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1. Introduction

The primary objective of this paper is to bring to light the Zimbabwe Coalition on Debt and Development (ZIMCODD)'s perspective on the tax regime presented in the 2022 National Budget. The paper comes against the background of the manifestations of tax injustice which plunged the majority of citizens into extreme poverty with the World Bank estimating that about 7.9 million Zimbabweans are extremely poor. This is worsened by the fact that approximately 65% of the population is unemployed with 80% relying on the informal sector. Women and youths are the hardest hit as they constitute the majority of the marginalized and vulnerable population. Social vulnerabilities can be best dealt through equitable and fair tax regimes with the ability to redistribute national resources and proceeds from growth to ensure that vulnerable groups have equal access to public services. However, the current tax regime in Zimbabwe is perpetuating social and economic inequalities thereby undermining the country's efforts towards inclusive development as enunciated in the National Development Strategy I (NDSI).

2. Government position on increasing taxes

Since 2018, the government has been on the overdrive to widen the tax base through increment and introduction of new taxes. Below are some of the justifications from the government on the need to increase existing taxes and introducing new taxes. Harness Domestic Resources Mobilization.

- Tap into the informal sector tax base which has for a long time been neglected by introducing 30% on consultancy tax.
- Create new measures and means of generating resources from online activities by introducing cellphone tax.
- Finance vision 2030 and capital projects

3. ZIMCODD's Position from a Social and Economic Justice Perspective

Globally, socio-economic rights can be traced back to the early 20th century when the then agency of the League of Nations, the International Labour Organisation espoused a series of conventions calibrated to improve labor standards across the globe. After the Second World War, a number of conventions and international treaties were ratified and these include the Universal Declaration of Human Rights (UDHR 1948)¹, Convention on the Elimination of all Forms of Racial Discrimination (ICERD)², International Covenant on Economic, Social and

¹ United Nations General Assembly, Universal Declaration of Human Rights, Resolution 217A, 10 December 1948

² International Convention on the Elimination of All Forms of Racial Discrimination, Resolution 2106 (XX), adopted 21 December 1965, entered into force 4 January 1969,

Cultural Rights (ICESCR 1966) and the Convention on the Rights of the Child (1989)³ to mention but a few. These treaties and convention were tailor-made to promote justice and inclusive societies anchored on social and economic rights. Africa being part of the global community also have the African Charter on Human and Peoples' Rights which seeks to enforce the realization of social and economic rights for all. Zimbabwe is a signatory to all the above treaties and has made a commitment to ensure the realization of social and economic rights for all Zimbabweans through the Constitution, Acts of Parliament and statutory legislation. To this end, tax injustice becomes a violation of social and economic rights as elaborated hereunder:

1. Zimbabwe is listed as one of the most taxed countries in the world and this scuttles business confidence and retards Foreign Direct Investment (FDI). This calls for a review of the taxation regime to accommodate the corporate sector as well as ease the tax burden on the under-remunerated citizens. The 2022 National Budget retained the 2% Intermediated Money Transfer Tax (IMTT) for all electronic money transfers – a double tax that greatly affect the poor as well as suppress the aggregate demand in the economy. Shockingly, the IMTT now constitutes 10% of the total tax revenues, a sign of a tight tax base. This tax certainly goes against financial inclusion given the cost of transferring money across various platforms. Either the government should scrap the IMTT or at least reduce it as a way of relieving citizens.
2. The government previously collected 10% as Withholding Tax and in 2022, the tax was increased to 30%. This affects SMEs and the informal sector as they will lose earnings and dampen their growth potential. SMEs and the informal sector are the sources of employment for the generality of Zimbabweans and deserve to be supported by the government. Effectively, it is imperative to support the informal sector instead of over-taxing them. The 30% withholding tax implies that prices for services and goods shall be inflated to cover up for the extra tax thereby adding to the inflationary pressures in the economy. In spite of the unbearable withholding tax, formalization is not a viable option for the struggling SMEs due to the attendant costs and difficulties in formalizing small businesses. To this end, if the government is genuine in its poverty reduction goal and reducing the widening inequality gap between the rich and the poor, the government should demonstrate political will and commitment to address the regulatory barriers, administrative barriers, corruption and bureaucracy in public administration which hinder small businesses from formalization.
3. The budget also introduced a US\$50 tax on new cellphones redeemable once proof of duty payment is availed. The tax effectively is anti the poor as they cannot afford to buy a phone in the first place thus the additional USD50 highly affects the digitization of the economy and has the potential of financially excluding the poor as most transactions are done on the phone. Also, the tax perpetuates inequality in the education sector as reduced access to phones due to the tax reduces the chances of adopting online learning by the disadvantaged. Online learning remains the new-norm with respect to the COVID-19 era. The tax also shows that Zimbabwe is failing to embrace the inclusive Digital Era Governance (DEG) and leans towards the traditional Public Administration and New Public Management thereby infusing structural impediments to the fourth industrial revolution which is sustained by DEG.

³, Convention on the Rights of the Child, Resolution 44/25, adopted 20 November 1989, entered into force 2 September 1990,

4. The 2022 national budget moved the minimum taxable income from Z\$10 000 to Z\$25 000 against the current poverty datum line of about Z\$45 000. This pauperize civil servants as their salaries cannot match their monthly living costs. The minister should have matched the minimum taxable income to the PDL at all times thereby provisioning for period adjustment of the salaries as inflation worsens. Unfortunately, the budget is silent about such inflation adjustments thereby exposing civil servants to negative welfare benefits as inflation continues to soar. Given the continued civil service unrest owing to poor salaries, the best move for government is to pay USD salaries as per the record set in the payment of a USD bonus. There is need for government to keep designing other fiscal incentives that can cushion civil servants from the impoverishing salaries.
5. A tax of USD two cents was introduced for both petrol and diesel, an additional cost on the already expensive Zimbabwean fuel. Fuel is sold in USD, a currency that is not earned by the populace thereby exposing citizens to the extra duty of sourcing USD for them to acquire fuel. Fuel cost is worthy government's attention as it is inflationary – extra fuel cost is passed onto the customer through increased prices thereby reducing the welfare of citizens.
6. On another note, the auction market's compulsory liquidation of either domestic USD sales and export proceeds is a tax on SMEs which require some reprieve for them to grow and reach set earnings threshold before they can be taxed. SMEs create jobs and require this support. Also, the 40% and 20% compulsory liquidation of USD export earnings and domestic USD sales defines an imminent loss of value for corporates. This tax has seen a rise in smuggling and understatement of exports as a way of circumventing the punitive taxes. There is need for government to reconsider these liquidation thresholds if not scrap them totally as the tax favors importers at the expense of exporters – an injustice that disincentives productivity and or exporting. It is also worth noting the government seem keen to collect USD taxes compared to Z\$ given the charging of levies in the USD. The low confidence associated with Z\$ calls for currency reforms that can introduce a stable currency supportive of value storage and promote savings.

4. Conclusion

ZIMCODD reaffirms and reconfirms that, the current taxation system is not pro-people as it perpetuates social and economic injustices. The entire tax regime is calibrated in a manner that strategically facilitates the transfer of wealth from the vulnerable and marginalized communities into the hands of the few elites. This is because, Zimbabwean tax regimes continues to disadvantage the poor while protecting the rich. Thus, a departure from the elitist approach while crafting tax regimes might be an effective antidote in solving the injustice being facilitated by taxes.