



## Research Article

Volume-04|Issue-06-2024

## Optimising tax collection Mechanisms. A critical analysis of the Zimbabwe Revenue Authority, Bulawayo, Zimbabwe

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### Article History

Received: 25.11.2024

Accepted: 05.12.2024

Published: 12.12.2024

### Citation

Musakwa, Kurauone, R. O., Zingwina, M. (2024). Optimising tax collection Mechanisms. A critical analysis of the Zimbabwe Revenue Authority, Bulawayo, Zimbabwe. *Indiana Journal of Economics and Business Management*, 4(6), 10-14.

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**Abstract:** Tax compliance in Zimbabwe's informal sector is hindered by a lack of transparency and understanding of tax obligations among small business owners. This study investigated the presumptive tax compliance challenges faced by informal sector businesses and explored potential enhancements to collection mechanisms by the Zimbabwe Revenue Authority (ZIMRA). Utilizing a qualitative research approach, data was gathered through interviews with 20 transport operators and small business owners. The findings revealed that simplifying tax compliance processes, enhancing taxpayer education, tailoring tax policies to suit informal sector characteristics, and improving enforcement strategies could significantly boost compliance rates. The study emphasizes the necessity for ZIMRA to adopt user-friendly digital platforms for tax registration, conduct community workshops to raise awareness, and implement tiered tax systems that align with the income levels of informal businesses. Recommendations include fostering a cooperative relationship between tax authorities and taxpayers to mitigate the adversarial climate and ensure sustainable revenue generation from the informal sector.

**Keywords:** Tax compliance, tax payment, informal businesses and tax obligations

## INTRODUCTION

Taxation is the primary source of funding for government spending. In recent years, Zimbabwe's informal sector has grown rapidly, becoming crucial to the country's economic and social prosperity. A 2013 FinScope survey, which is now being utilized as a reference by government officials, shows that 5.7 million informal jobs have been created by mid-size firms of which 85 percent of these are unregistered jobs (Abdo et al. 2020). According to the survey, these enterprises create an estimated 7.4 billion dollars in revenue (Abebe et al.2021). However, despite this increase in revenue, government revenue in the form of tax is still low. According to Adekoya et al. (2020), though the informal economy is being able to cover the space left by large enterprises, the same cannot be true in terms of filling the revenue gap, and so the country is missing out on potential money from the informal sector.

## LITERATURE REVIEW.

### Theoretical Framework

The Slippery slope framework cited by Aditya, (2020) assumes that the tax climate in a country varies from one extreme end to another. It may be antagonistic or synergistic. In an antagonistic environment, taxpayers and tax authorities operate as adversaries against each other. The prevailing attitude is that of the "police and robbers". This results in antagonistic feelings between the taxpayer and the tax authority. This scenario is typical of informal sector attitude towards tax in

Zimbabwe. According to Brinchmann et al. (2021), the antagonistic climate can be characterised by a "cops and robbers" attitude on both sides: tax authorities perceive the taxpayers as "robbers" who try to evade whenever they can and need to be held in check; taxpayers feel persecuted by the authorities ("cops") and feel it is right to hide. The synergistic climate can be characterised by the idea that tax authorities perform a service for the community, and are a part of the same community the individual taxpayers belong to Brown & Dueñas, (2020) story of the tax collector scrambling after a number of nimble citizens resembles the "cops and robbers" attitudes described above.

### Ways of improving presumptive tax collections

According to Bucci, (2020), countries the world over have adopted a number of controls that can be deemed best practice on presumptive tax administration. These practices include training of personnel in tax administration, adequacy of personnel in tax administration, the use of the Management System (BMS), formalization of the SMEs sector, tax amnesty and financial inclusion policies. Presumptive taxation is a method of taxation that assumes the taxpayer's income or sales are within a certain range, and taxes them accordingly, without requiring detailed documentation or proof of income. Globally countries have employed various methods of presumptive taxation to ensure compliance and simplify tax administration. This section will discuss some of the common methods used in

European countries and their effectiveness in ensuring compliance.

### **Turnover Tax**

This method is widely used in European countries, where a flat rate of tax is applied to the taxpayer's gross turnover or sales, without considering their actual profitability. For instance Charmes & Charmes, (2019) pointed out that in the UK, self-employed individuals are subject to a turnover tax, known as Class 2 and Class 4 National Insurance contributions. This method is effective in ensuring compliance, as it is easier to administer and less prone to tax evasion, as the taxpayer's income is based on their sales rather than their profits. By taxing turnover instead of profits, this method aims to ensure compliance and reduce tax evasion, as it is easier to administer and less prone to manipulation (Chowdhury & Shil, 2021). Previous studies in Europe have shown that turnover taxes can be effective in capturing revenue from businesses that may otherwise engage in aggressive tax planning or profit shifting. Additionally, these taxes can be particularly beneficial for small businesses and self-employed individuals who may not have sophisticated accounting systems to accurately track their profits.

### **Lump-Sum Tax**

Lump-sum taxation is a type of taxation where taxpayers are required to pay a fixed amount per unit of output or transaction, regardless of their actual profitability (Logue & Vettorri, 2011). This method has been used effectively in many European countries, such as Germany, where farmers are subject to a lump-sum tax based on the number of cattle they own. Lump-sum taxation has been found to be an effective method of tax collection in European countries for several reasons. Lump-sum taxation is relatively simple to implement and administer compared to other taxation methods. It requires minimal resources and can be easily monitored and enforced. As the tax is based on a fixed amount per unit of output or transaction, it is difficult for taxpayers to manipulate their income to avoid paying taxes as indicated by Manhimanzi et al. (2022) lump-sum taxation has been shown to result in high compliance rates, as taxpayers are more likely to pay taxes when they know exactly how much they owe.

In contrast to European countries, tax collection methods in many African nations, including Zimbabwe, are still in their infancy. Many African countries rely heavily on indirect taxation, such as value-added tax (VAT) and excise taxes, which can be challenging to administer and can result in low compliance rates. There are several gaps in tax collection in African countries that need improvement, including limited tax base, lack of tax education, corruption, limited infrastructure. Many African countries have limited tax bases, which results in a low revenue potential for the government. Tax education is limited in many African countries, which can lead to a lack of understanding among taxpayers

about their tax obligations. Corruption is prevalent in many African countries, which can result in tax evasion and avoidance. According to Manhimanzi et al. (2022) many African countries lack the necessary infrastructure, such as technology and trained personnel, to effectively collect taxes.

### **Simplified Taxation for Small Businesses**

Many European countries offer simplified taxation regimes for small businesses, which are based on presumptive taxation. This approach has been effective in ensuring compliance, as it reduces the administrative burden on small businesses and makes it easier for them to comply with tax laws. In France, for instance, small businesses with a turnover of less than €700,000 are subject to a simplified tax regime, where their tax liability is based on a fixed percentage of their turnover. According to a study by the European Commission (2017), the use of simplified taxation regimes for small businesses in Europe has led to increased compliance and reduced administrative costs. The study found that the use of presumptive taxation methods resulted in a significant reduction in the time and resources required for tax compliance, allowing small businesses to focus on their core activities. In contrast, many African countries, including Zimbabwe, still rely on traditional tax collection methods that are often complex and burdensome for small businesses. These methods can include detailed tax returns, audits, and other bureaucratic processes that can be difficult for small businesses to navigate. This can lead to low levels of compliance and a significant loss of revenue for the government.

## **METHODOLOGY**

The study employed qualitative research approach.

### **Sampling, Data Collection & Analysis**

In this particular research a combination of judgmental and convenience sampling was applied. According to Cresswell, (2012) in convenience sampling, items are selected based on their inexpensiveness, convenience, and accessibility. In the end the more convenient population elements are thus chosen to be part of the sample. On the other hand judgment sampling is when a sample is drawn based on the judgment of the researcher. In this case assumptions are that the researcher is familiar with the population's characteristics. We used one sample for the study. The sample comprises 20 employees from the operators of transport in Zimbabwe.

## **DATA ANALYSIS AND DISCUSSION.**

### **Simplifying Tax Compliance Processes**

One of the recommendations that was highlighted from the interviews on how to improve presumptive tax collections was simplifying compliance

processes. One of the respondents from Operators of transport managers said that:

*"We need to streamline the tax registration process for informal sector businesses to make it easier for them to comply with tax regulations."*

Response 2 from an employee:

*"Implementing a user-friendly online platform for tax registration and filing can significantly improve compliance among informal sector businesses."*

The SMEs owners also indicated that there is need to simplify the tax compliance processes for them to be able to pay tax as well as indicated by one of the SME owners who said:

*"The current tax compliance procedures are complex and time-consuming, which often leads to errors and delays in filing our taxes. Simplifying these processes would make it easier for us to comply with tax regulations and ensure accurate and timely payment of presumptive taxes."*

Another SME operator emphasized the need for simplified tax compliance processes, stating,

*"As a small business, we often struggle to keep up with the intricate tax requirements. Streamlining the procedures would not only save us time and resources but also reduce the likelihood of unintentional non-compliance. This would ultimately contribute to improved presumptive tax collection in Harare CBD."*

In response to the theme of simplifying tax compliance processes for informal sector businesses, the operator of transport managers and employees have highlighted the need for a more streamlined and user-friendly approach to tax registration and filing. This recommendation is supported by previous studies in other countries, which have shown that simplifying tax compliance processes can significantly improve compliance among informal sector businesses. Many European countries offer simplified taxation regimes for small businesses, which are based on presumptive taxation. This approach has been effective in ensuring compliance, as it reduces the administrative burden on small businesses and makes it easier for them to comply with tax laws. In France, for instance, small businesses with a turnover of less than €700,000 are subject to a simplified tax regime, where their tax liability is based on a fixed percentage of their turnover. According to a study by the Adekoya et al. (2020), the use of simplified taxation regimes for small businesses in Europe has led to increased compliance and reduced administrative costs.

One study conducted by Brinchmann et al. (2021) in India found that the introduction of a simple

and easy-to-use tax filing system led to a significant increase in tax compliance among small and medium-sized enterprises (SMEs) in the informal sector. Similarly, a study by Bucci, (2020) in Kenya found that the implementation of an online tax registration system improved compliance among informal sector businesses, particularly among those in the rural areas. By implementing a user-friendly online platform, providing training and support, and offering incentives for compliance, the government can increase tax compliance among informal sector businesses and improve revenue collection.

### ***Enhancing Taxpayer Education and Awareness***

The responses from the National Railways of Zimbabwe managers and employees highlight the importance of taxpayer education and awareness, particularly in the informal sector, to improve presumptive tax collections in Zimbabwe. One of the National Railways of Zimbabwe manager commented that:

*"Investing in extensive taxpayer education programs targeted specifically at the informal sector can help improve their understanding of tax obligations."*

Another participant an employee commented that:

*"Conducting workshops and seminars in local communities to educate informal sector business owners about the benefits of tax compliance can lead to increased voluntary compliance."*

The recommendation to enhance taxpayer education and awareness in the informal sector is crucial for improving presumptive tax collections in Zimbabwe. By investing in extensive taxpayer education programs targeted at the informal sector, there is an opportunity to improve their understanding of tax obligations. Additionally, conducting workshops and seminars in local communities can educate informal sector business owners about the benefits of tax compliance, potentially leading to increased voluntary compliance. The findings from previous studies in other countries support the importance of taxpayer education and awareness in improving tax compliance, especially in the informal sector. For example, a study conducted by Charmes & Charmes, (2019) emphasized the significance of taxpayer education and awareness programs in enhancing tax compliance among small businesses and informal sector workers. The study found that when taxpayers have a better understanding of their tax obligations and the benefits of compliance, they are more likely to voluntarily comply with tax laws.

Furthermore, research conducted by the Bucci, (2020) on improving tax compliance in developing countries also highlighted the effectiveness of taxpayer education initiatives. The study emphasized that targeted taxpayer education programs can significantly enhance

voluntary compliance, particularly among individuals and businesses operating in the informal sector. Moreover, a study by Chowdhury & Shil, (2021) underscored the role of taxpayer education in improving tax administration and compliance. The study emphasized that educating taxpayers about their rights and responsibilities can lead to a better understanding of tax laws and regulations, ultimately contributing to improved tax collections.

### **Tailoring Tax Policies for the Informal Sector**

The National Railways of Zimbabwe managers and employees suggest that tailoring tax policies to the unique characteristics of the informal sector and introducing a tiered tax system based on turnover or income levels could increase tax compliance in the sector. One of the National Railways of Zimbabwe managers commented that:

*“We should consider developing simplified tax policies specifically designed for the unique characteristics of the informal sector, making compliance more feasible for them.”*

An employee also added that:

*“Introducing a tiered tax system based on turnover or income levels could encourage informal sector businesses to comply with tax regulations without feeling overburdened.”*

The informal sector is a significant contributor to the Zimbabwean economy, but it is also characterized by limited access to formal financial services, lack of legal and regulatory frameworks, and limited tax compliance. The suggestions made by National Railways of Zimbabwe managers and employees aim to address these challenges by creating simpler tax policies and a tiered tax system that takes into account the different income levels and turnover of informal sector businesses. This recommendation is supported by previous studies in other countries, which have shown that simplified tax policies and tiered tax systems can improve tax collection in the informal sector. Tiered tax systems have been implemented in other countries with informal sectors, such as India and Kenya, and have been found to be effective in increasing tax compliance. For example, a study by the International Institute for Sustainable Development found that Kenya's tiered tax system, which includes a low tax rate for small businesses, increased tax compliance in the informal sector (Logue & Vettorri, 2011). Similarly, a study by the World Bank found that India's Goods and Services Tax (GST) system, which includes a simplified tax structure and reduced tax rates for small businesses, has led to increased tax compliance and revenue collection in the informal sector (World Bank, 2018).

Simplified tax policies and tiered tax systems can also improve the efficiency of tax collection in the informal sector. For example, a study by the International Monetary Fund found that simplifying tax procedures

and reducing tax compliance costs can increase tax revenues in the informal sector (Abdo et al. 2020). Additionally, a study by the United Nations Development Programme found that providing training and education to informal sector businesses can improve their tax compliance and increase their revenue.

## **CONCLUSION & RECOMMENDATIONS**

Zimbabwe can unlock significant revenue by plugging the leaks in presumptive tax collection. A cumbersome filing process with excessive paperwork discourages participation. Let's make tax compliance swift and effortless by streamlining the system and minimizing required documents. Knowledge is power, especially when it comes to taxes. Equipping Zimbabweans with clear, comprehensive information about their tax obligations and the advantages of compliance fosters a culture of tax responsibility.

A cookie-cutter tax policy stifles growth. By reviewing and revising presumptive tax to align with Zimbabwe's unique economic landscape and development goals, we create a fair and equitable system that benefits everyone. Tax enforcement breeds non-compliance. Strengthening the Zimbabwe Revenue Authority's ability to detect and penalize tax evasion sends a strong message. Increased penalties for fraud will further deter tax delinquency. An efficient presumptive tax system is a cornerstone of a thriving economy. By implementing these multifaceted reforms, Zimbabwe can harness the power of its informal sector, boost tax collection, and propel itself towards achieving its development objectives.

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