Desk Top Review on the Effectiveness of Presumptive Tax Administration on Revenue Collection by Zimra

Newman – Wadesango[1], Denford D.[2], Wadesango O.[3]

Abstract: This desk top research evaluated the effectiveness of Presumptive tax administration on revenue collection. The method of assessment and collection of presumptive tax were discussed as well as the challenges that are encountered by Zimbabwe Revenue Authority (ZIMRA) on presumptive tax administration on revenue collection. The challenges have negatively affected the collection of presumptive tax. The research findings revealed that the effectiveness of presumptive tax administration is affected by the high tax rates that were imposed by the ministry of finance relative to the income levels that the cottage industry earn on a monthly basis, high levels of corruption and the political interference that occur. The study recommends that authorities should implement a tax system that will provide mechanisms for the informal sector operators to graduate into the normal tax system as well as intensifying education and awareness campaigns to the informal sector operators.

Keywords: effectiveness; Presumptive Tax Administration; Revenue collection; ZIMRA

1. Introduction

The study reviewed the theoretical contributions from other scholars and authors that relate to presumptive tax administration on revenue collection. It highlighted the research findings and conclusions that were drawn by other authors in previous studies that relate to this current study.

[1] Academic consultant in the Centre for Academic Excellence, University of Limpopo, South Africa, Address: Private Bag x1106 Sovenga 0727, South Africa, Corresponding author: newman.wadesango@ul.ac.za.
[2] E-mail: cmoyo88@yahoo.com.
[3] Lecturer, School of Education, South Africa, University of Limpopo, South Africa, Address: Private Bag x1106 Sovenga 0727, South Africa, E-mail: ongayi.wadesango@ul.ac.za.

2. Presumptive Tax Administration

According to Musarirambi (2013), presumptive tax is the indirect means of ascertaining an individual's tax liability that differs from the general rules which are based on the taxpayer's accounting records. Musarirambi further postulated that presumptive tax is mainly used when the anticipated income cannot be rationally determined. According to ZIMRA (2014), presumptive tax is a simplified tax system that is based on supposed income that allows the informal sector operators to pay a predetermined amount at a determined interval. Dube and Casale (2017) alluded that presumptive tax is based on presumed rather than the actual income. Iordachi and Tirlea (2016) noted that presumptive tax system may or may not be rebuttable in terms of its legal characteristics. Mabwe and Mugozhi (2018) pointed out that presumptive tax takes into account numerous procedures in which the 'desired tax' base is not measured and instead it is inferred in simple indicators which are more easily measured than the base itself. Zivanai et al. (2016) however argued that presumptive tax system leads to a prospect of excessive and unfair taxing where an entity is taxed even when it incurs losses. From the above explanations, it clearly highlights that presumptive tax is a proxy for the standard tax.

2.1. Historical Background of Presumptive Tax in Zimbabwe and Beyond

Presumptive tax was introduced in Zimbabwe in a view of expanding the tax base which would result in increase in tax revenue collection as highlighted (Dalu et al. 2013). Dube and Casale (2017) pointed out that the implementation of presumptive taxes in Zimbabwe was established after a research was conducted by ZIMRA from 2003 to 2005, but it only focused on the profitability of the informal urban transport sector. The legislative framework for presumptive tax is governed by the Income Tax Act (Chapter 23:06) section 36C which is read with the 26th schedule. Zivanai et al. (2016) state that in Zimbabwe, the remittance of presumptive tax to ZIMRA should be done on the 10th of April, July, October and January the following year.

Iordachi and Tirlea (2016) highlighted that the design of a presumptive tax system should be based on a solid data analysis and that policy makers should take into account the segmentation of the business community and treat each sub-group with different proper policies.

2.1.1 Presumptive Tax Experience in Other African Countries

According to the IMF (2007:21) in Dube and Casale (2016), more than 25 countries in the Sub-Saharan Africa and 14 countries in Latin America have a special tax system for the informal sector operators. According to Joshi et al. (2014) the presumptive tax mechanism differs between countries in their notable features.

In Tanzania, Gaddis (2014) noted that SMEs qualify presumptive tax system if their turnover is below the threshold of Tsh 20 million and it provide an incentive for maintaining books of accounts whereby turnover tax is charged to those who keep their accounting records whereas those who does not keep their accounting records make a flat payment. Dube and Casale (2016) alluded that as a way of solidification the enhancement of presumptive tax system, Tanzania Revenue Authority established the Block Management System with the aim of ensuring tax compliance through the identification, registration and collection of tax information from all informal enterprises in a specific geographical area.

According to Wadesango and Mhaka (2017), the taxation of the informal sector operators was introduced in 2004 with presumptive tax on taxis and minibuses and other notable tax reforms were later on added which include Turnover Tax on small scale enterprises, Base Tax on marketers and Advance Income tax. Phiri (2013) stated that the Turnover Tax is charged at 3% of the total sales of all firms with turnovers of ZMK800 million. The Zambia Revenue Authority appointed tax agents who collect the base tax and presumptive tax revenue on minibus taxis and the selection of agents was done through a competitive tender process and the agents are paid a commission as indicated by Phiri (2013). The agents have no power other than just to collect the revenue only.

Owuor (2015) highlighted that the presumptive tax in Kenya was introduced and applicable as a withholding tax on payment of agricultural produce at 2% of the gross amount paid. This was done mainly due to lack of proper record keeping and was found to be more convenient in the determination of correct taxes than receiving incomplete records using presumptive tax method of examination as noted by Owuor (2015).

According to Owuor (2015:34) some common method of assessment in Kenya include:

- Net worth;
- Means test;

- Bank deposit;
- Expenditure method;
- Percentage mark-up method.

2.2. Methods Used for the Assessment and Collection of Presumptive Tax

As stated earlier, Musarirambi (2013) noted that presumptive tax involves the use of indirect means to establish tax liability that is different from the normal rules based on the taxpayer's accounts. There are various methods that can be used for assessment and collection of presumptive tax. Wadesango, Mutema, Mhaka and Wadesango (2018) highlighted that the objective of tax assessment is to ensure that all taxpayers within a defined jurisdiction are brought to the tax net and are assessed in order to resolve all possible leakages. They further alluded that tax collection is based on the assessment made on income obtained from trade, business, profession or vocation. Iordachi and Tirlea (2016) state for each presumptive tax method there arise numerous incentive effects, the revenue effects, the level of system's complication and administrative effects. Joshi et al. (2013) suggested even though their design vary depending on countries, the presumptive tax methods share the same commonality. ZINARA (2018) highlighted that the methods of presumptive taxation are effective instruments in reducing tax avoidance as well as matching the distribution of tax liability.

2.2.1. Occupational and Sector Specific Standard Assessment

According to Chukwuma and Effeeloo (2017), the occupational or sector specific standard assessment is a fixed lump-sum payment of tax that is to be paid by individuals engaged in a certain business profession. Mlay (2013) supported the above point by pointing out that the standard assessment is based on individual income, investment or business. Iordachi and Tirlea (2016) noted that flat tax liability is imposed on all firms that will be operating under the same occupation or trade. Iordachi and Tirlea (2016) further stated that the tax payment is based on average taxable income of a small number of taxpayers that are randomly selected.

According to the OECD (2015), the standard assessment is mainly imposed on business activities with low levels of turnover and examples include the hairdressers, mechanics and fishermen. Iordachi and Tirlea (2016) point out that the Israeli Tachshiv was the most elaborated standard assessment. Zivanai, Chari

and Nyakurima (2016) assert that the tachshiv determine the income on indicators that are established by government in the specified industries. The occupational assessment is viewed for its simplicity in terms of low compliance and administration cost as noted by OECD (2015). Mlay (2013) alluded that the standard assessment enhances the vertical equity.

According to the Tax Justice Network (2013) in Burkina Faso, the standard assessment is applicable on the informal sector activity that generates a turnover that is less than the stated amount of tax contribution whilst in Gabon, the lump-sum assessment (impot forfaitaire sur le revenue) is used to tax individual transport operators, traders and small businesses. Utaumire et al. (2013) state that the simple lump-sum taxes have been in existence in Zimbabwe since 2006 on the cottage industry.

However, it is not mainly favored by tax authorities as it results in poor revenue performance because the standard assessment method is based on average income on business grouping and not the true averages as noted by Tax Justice (Network, 2013). The OECD (2015) stated that the standard assessment tends to impose high tax burden on lower income generating firms and distorts competition amongst firms with different sizes but are both subject to lump-sum payment.

2.2.2. Estimated Lump-sum Assessment

This method of presumptive tax is based on indicators or observed features that may include the size of the business, premises, skills and the number of employees, location, number of seats in the transport vehicle as noted by Chukwuma and Efeeloo (2017). Embuka (2015) highlighted that indicators for the estimated assessment method include the number of employees, skills of workers (carpenter workshops or garages) and the nature of equipment used. Iordachi and Tirlea (2016) support the above assertion by pointing out that the income from the taxpayer is individually estimated and centered on indicators based to a specific occupation or business activity. Embuka (2015) noted that the estimated assessment method uses a variety of techniques to come up with the taxpayer's income which may be both simple and complex. Embuka further alluded that the simple techniques are based on single factors that might include taxpayer's total assets, net worth or value of business assets whilst the complex technique uses factors or guides on profitability which vary by economic activity.

According to the OECD (2015), Denmark uses this method of presumptive tax on the shipping industry. Iordachi and Tirlea (2016) further assert that the French forfeit is a technic that resembles estimated standard assessment. The indicator based assessment method is less easy to misreport than the income based assessment method.

However, Chukwuma and Efeeloo (2017) highlighted that this method involves some other elements of discretion on assessment that may invite corruption and inconsistences. Jonathan (2014) supported the above point by highlighting that the French forfeit is disadvantageous for the tax administrators as it is disposed to corruption by tax officers. The Tax Justice Network (2013) pointed out that excessive application may lead to not taxing income but the factors of production as it tends to depend on factors of production such as labor and capital.

2.2.3. Presumptive Minimum Taxes

According to Tax Justice Network (2013) the presumptive minimum taxes are levied based on the assumed levels of minimum income in a given year. OECD (2015) pointed out that the presumptive minimum taxation is viewed as an effective mechanism to raise revenue from the informal business. According to Olaitan (2016:67) the presumptive minimum taxes can be categorized into five different forms which are:

• Levied in lump-sum form and may or may not be graduated on the contingent of the firm size or volume of operation
• As a percentage of turnover or gross assets
• The use of lump-sum minimum taxes plus a percentage of turnover
• The lump-sum amount as a percentage of turnover whichever is higher
• The highest of the tax liabilities based on different tax bases.

2.2.4. Lump-sum Minimum Plus Percentage of Gross Receipts

It is the greater of lump-sum levy on presumptive tax and the specified of gross receipts. Tax Justice Network (2013) highlighted that this method is calculated as a percentage of the gross receipts, percentage of the net profit, paid up capital as well as turnover whichever is considered to be the highest. Chukwuma and Efeeloo

(2017) state that it is applicable in some jurisdiction and is assessed together with the percentage of gross receipts for each specific informal sector enterprise.

2.3. Challenges Encountered in Presumptive Tax Administration on Revenue Collection

2.3.1. High Tax Rates

Helhel and Ahmed (2014) state that the high tax rates are the chief problems for the taxpayers. According to Dube and Casale (2017), there is perceived unfairness of the presumptive tax rates as the tax rates are too high and promote corruption. This is also supported by Dlamini (2017) who states that there is a perception that the tax rates are too high. Helhel and Varshalomidze (2015) concluded that high tax rates and difficult procedures in filing are the most crucial factors that causes non-compliance of the SMEs. Helhel and Ahmed (2014) pointed out that the tax rates in Yemen are perceived to be too high and the general economic conditions give rise to the view that the tax rates are high. Sikwila et al. (2016) noted that the high marginal tax rates and in other cases the lump-sum fees prevented the informal sector to comply and pay tax. They further concluded that high tax rates tend to impel informal businesses into the underground economy. Wadesango, Mwandambira, Mhaka and Wadesango (2018) noted that the taxpayers who feel that the tax rates are high and punitive will tend to evade tax. Joshi et al (2018) pointed out that the high tax rates contribute to the informal sector operators to default paying their tax obligations. Fox and Murray (2013) supported the above contribution by pointing out that the high tax rates tend to discourage the informal sector firms from expanding and joining the formal sector. The high tax rates may discourage effort and entrepreneurship at the same time encouraging all manners to avoid paying taxes as indicated by Wadesango and Makerevi (2018).

However, the setting of high rates by the Ministry of Finance based on ZIMRA research is a clear indication of inadequate cohesion between the government departments as noted by Dube and Casale (2017). According to Utaumire et al. (2013) the lack of involvement of the stakeholders in determining the tax rates resulted in the resistance by the informal sector.

2.3.2. Political Interference

According to Joshi et al. (2014) the informal sector taxation will yield little revenue as it is organizationally challenging and possibly politically unpopular. The informal sector operators constitute a significant vote bank for politicians in Africa in general as noted by Dube and Casale (2017). Taxpayers have got a large political voice but contribute little revenue as highlighted by Dube and Casale (2017). According to Joshi et al. (2014) the politicians would want to keep the informal economy so as to garner for votes. The above point is supported by Katee (2017) who stated that the informal sector operators are always used as an enticement by the political leaders to earn re-election. According to Chukwuma and Efeeloo (2016), state officials and politicians turn a blind eye on the informal sector to pressurize government officials in order for them to reduce enforcement as the informal sector constitute a substantial vote for politicians. ZIMCODD (2014) states that in most cases, politics tend to override the economic thinking. Thus the political leaders have a strong incentive to exempt the informal sector operators from taxation to gain political support. Dube and Casale (2017) were of the opinion that some sectors in the informal sector operators are permitted to escape the tax net and it appeared to be politically motivated. They also stated that the political influence in the informal sector results in the selective application of the tax regulation. Munjeyi et al. (2017) concluded that the informal sector operators who are connected to a high political officer tend to be immune from tax. Ohaka and Zukbee (2015) assert that political interference by government officials and opposition members due to their positions of influence may lead to shortfalls in terms of collecting taxes in Nigeria.

The politicians temporarily support the informality of businesses at times when they want election. Munjeyi et al. (2017b) state that those informal sector players who are linked to some high political office are immune to tax system. This signifies that there is a political interference in terms of collecting revenue from the informal sector and thus little revenue is collected due to political interference.

However, Dube (2014) argued that the low revenue collection from the informal sector prevailing the political situation in Zimbabwe as many people tend to feel that the existing government is not legitimate and that the informal sector tax payers will tend to resist to paying taxes to government that they resemble as illegitimate. Dube also highlighted that many informal sector tax payers will raise concern that the tax collected will not be used in the interest of the national but is being used for narrow sectional ones. Helhel and Ahmed (2014) noted that the

public view that the government is not being responsible to taxpayers has been established as a challenge that the tax authorities are facing.

2.3.3. Corruption

Dube (2014) highlighted that the main problem facing many tax authorities in developing countries in tax administration is that of corruption. Sikwila et al. (2016) highlight that corruption remains present in all regions and its effects has persuaded companies to move into the informal sector and it is positively correlated with the growth in the informal sector in a particular economy. They further stated that if the tax officials are corrupt, it becomes a challenge to collect revenue from informal sector operators in that the taxpayers would have the belief that the amount paid was not for the government. This is supported by Katee (2017) who stated that corruption is one of the major undoing in Kenya. Corruption is defined as the abuse of public office for private gains (Dube, 2014). Corruption occurs in the form of bribes and force and bribes occurs when a tax official accepts cash in exchange of not enforcing the tax regulation. Akinboarde (2015) alluded that the indicators of corruption are strongly associated with low revenue yields.

Dube (2014) points out that the main complainant from the transport operators was that the taxes were considered to be so high that they were left with little choice but resort to bribery. Dube and Casale (2017) stated that informal traders in the cross border section pay bribes at the ports of entry. They further stated that the cross border traders are of the view that one will not make profit whilst paying taxes at the border and thus they will resort to paying bribes to the tax officials. The above point is supported by ZIMCODD (2014) who state that tax officials are accepting bribes in return for low payment by traders at the ports of entries. Katee (2017) supported the point by suggesting that most stakeholders, from the senior government officials to Kenya Revenue Authority officials to petty traders understand that instead of paying tax, you can always pay your way out. Nyamwanza et al. (2014) alluded that corrupt practices compromise the ability of tax administrators to collect enough revenue for the national fiscus. They further stated that corruption was high among the tax authority officials. This clearly shows that corruption has a negative impact on presumptive tax on revenue collection as it is depriving the country of its deserved revenue and Joshi at al. (2013) pointed out that efforts to tax the informal sector economy increases the possibility of coercive or corrupt behavior by tax officials.

However, Masarirambi (2013) points that the lack of enforcement and follow ups by the tax authorities results in the system being compromised by corruption. The informal sectors have also shunned from paying taxes due to the lack of confidence and trust in the whole tax system due to the rampant reports of corruption practices by ZIMRA as noted by Munjeyi et al. (2017). Akinboarde (2015) stated that taxpayers may be unwilling to pay their taxes because of the officials that they perceive to be corrupt. This research seeks to determine whether corruption affects revenue collection.

2.3.4. Unavailability of Information

The informal sector is characterized by businesses that does not keep proper books of accounts and they are highly mobile in the sense that they do not have a fixed place of location (Dube, 2014). This becomes difficult for government to obtain a database of information regarding the informal sector activities, (Udoh, 2015). Katee (2017) suggested that government lacks relevant information like the amount of income that small and medium scale entrepreneurs receive annually. This is due to the fact of the invisibility of the informal sector and lack of appropriate data on the people operating such business. According to Dube (2014) the process of identifying taxpayers and ascertain tax liability is difficult if no information is available. There is no register for the informal sector traders in Zimbabwe and apart from the visible informal sector operators in the urban transport, cross border trading, flea market activities, obtaining information has remained a challenge for the tax authority as noted by Dube (2014). Udoh (2015) also supports the above point by stating that the non-registration of businesses in the informal sector has resulted in lack of statistical database. According to Zuriat (2016) the Uganda Revenue Authority established that the lack of a database for the informal sector is a challenge for taxing the informal economy. Utaumire et al. (2013) supported the above statement by stating that the authority should create a database full of all informal traders and issue them with business partner numbers denoting the areas where one operates and the type of business activity that is conducted.

However, availability of information for the informal sector activities ensures that the taxpayers will know the taxes they should pay and how they are paid (Dube, 2014). It also ensures that the tax officials are able to locate the informal sector business activities as well as to know the number of informal sectors within the country.

2.3.5. Cost Effectiveness

There is a deliberate focus on the large taxpayers. The revenue gains from the informal sector is modest and for tax administrations under pressure to meet revenue targets, it is much easier to focus attention on large taxpayers than to invest in the informal sector (Dube, 2014). Institute of Economic Affairs (2013) pointed out that from a cost benefit perspective, it makes sense to concentrate on collections efforts on the formal sector especially for resource constrained authority. The high cost of collection from taxing the informal sector that has resulted in tax authorities increasing their efforts where they can get maximum revenue (Institute of Economic Affairs, 2013). Dube (2014) observed that one-kwacha funding can produce more tax revenue when applied to the large formal firms that to the informal sector operators and hence the need to focus on formal firms. Joshi et al. (2013) state that collecting taxes and enforcing compliance among small operators tends to represent a particularly demanding task as it is poorly rewarding and offers few opportunities for informal payments. Tanui (2016) pointed out that the administration cost for the informal sector taxpayers can offset its revenue potential. Ohaka and Zukbee (2015) noted that the cost of collections is high in comparison to the limited revenue potential from the informal sector. Kinyua (2015) supported the above point by highlighting that the informal sector generates low revenue and as a result the tax administrations tend to focus on the large taxpayers.

However, in the findings Munjeyi et al. (2017a) pointed out that the fact that presumptive tax is still classified as 'Other Tax Head' means that the authority is committing itself and that they are not putting up effective mechanisms to collect revenue from the informal sector. Chukwuma and Efeeloo (2017) highlighted that many tax authorities do not have adequate resources in terms of labor and technology to initiate, monitor and enforce tax laws. According to Fox and Murray (2013) even though policy makers decide to tax the informal sector business, there might be little enthusiasm for diverting resources to other seemingly more productive uses to enforce taxation of the informal sector by the tax administration.

2.4. Possible Measure that can be implemented to Improve Presumptive Tax Administration on Revenue Collection

2.4.2 Educating and awareness of the informal sector on presumptive tax

Dube and Casale (2017) highlighted that more emphasis should be placed on education and awareness campaigns. Dalu et al. (2013) support the above point as they state that taxpayer education will enhance voluntary compliance other than carrying follow ups. They further stated that taxpayer education and awareness may be through preparing a clear explanatory material that tells taxpayers what they have to do, when they have to do it and how to do it. Chukwuma and Efeeloo (2017) in their study noted that the ability of the revenue authorities to ensure tax education and monitoring will greatly enhance revenue generation. According to Ebifuro et al. (2016) through tax education, the informal sector firms can be educated about the tax system and can be assisted to comply with the tax system. Munjeyi et al. (2017) supported the above contribution by stating that tax education imparts rules of good tax behavior and attitude towards taxation. According to Hove and Hove (2016), the tax authority should intensify tax education as well as public awareness campaigns in an effort to bring tolerant and acceptance that taxation is a duty for the nation and obligation for all rather than taxpayers to view it as a burden that intend to take away their hard earned cash. Machogu and Amayi (2013) supported the above contribution by stating that it is a tool that is designed to enable taxpayers understand the relevant tax laws and procedures. They also stated that education may be through different media such as newspapers, radio programs, websites and front-desk help.

Ebifuro et al. (2016) investigated the causes of low revenue in Pakistan and concluded that an increase in literacy results in increase revenue collected. According to Munjeyi (2017c) the Mozambique Revenue Authority is in the process of negotiate with the Ministry of Education in an effort to emphasize that tax education will be a mandatory subject from primary to tertiary institutions. In Tanzania, Mozambique and Zambia significant amount is collected from the informal sector through awareness campaigns and collaboration with the informal sector (Munjeyi, 2017c). This clearly illustrated that education will provide knowledge to the informal sector firms on the importance of paying tax and complying with the tax laws of the land. According to the ZIMCODD (2014), education is regarded as a strategy of bringing the informal sector into the tax net for some of the taxpayers who do not fully appreciate their legal obligations of contributing to the national fiscus.

However, Ebifuro et al. (2016) argued that some studies have highlighted that there is no positive correlation between tax education and compliance. Munjeyi et al. (2017) also argued that education alone may not renew the minds of the millions in the informal sector to pay tax but it should be coupled with the political will to collect tax from the informal sector. Helhel and Ahmed (2014) argued that negative associations were reported between education and tax compliance in that the tax payers may utilize the opportunities for tax avoidance and tax evasion with increased fiscal knowledge.

2.4.3. Formalization of the Informal Sector

Joshi et al. (2014) noted that the formalization may stimulate growth in informal sector firms. They further stated that the benefits of formalization may potentially include the reduced need to pay bribes, provide free service or relocate to avoid complying with the tax rules. Scholars indicate that there are certain features that could encourage a transition from presumptive tax to the normal tax regime which include the possibility to claim and carry forward losses which could benefit SMEs during loss making periods. Efforts to formalize the informal sector may be through offering incentives for example in Denmark, it reimbursed 40% of their costs upon informal sector registration as noted by Munjeyi (2017c).

However, Iordachi (2016) noted that the difficult formalization procedures can determine informal sector operators to operate in the informal sector. According to Dalu et al. (2013) the informal sector enterprises mainly transact using cash and for a taxpayer to register with ZIMRA there is the need to have a bank account. This in-turn will make it difficult for them to register. Utaumire et al. (2013) pointed out that the tax rates should be designed in such a way that it encourages the informal sector to graduate to the formal economy. They further stated that there is no defined plan to facilitate the informal sector taxpayers to graduate into the normal tax system. Dube (2014) indicated that there should be clear guidelines on how to graduate to formality. Joshi et al. (2014) stated that despite being aware of the potential benefits of formalization, some informal sector businesses may be keen to remain informal. Dalu et al. (2013) noted that the informal sector operators in Africa avoid being in the formal sector as they do not have the incentive to be in the formal sector as the perceived costs outweigh the potential benefits.

2.4.4 Review of the high presumptive tax rates

ZIMRA should provide professional advice on what rates are reasonable and what is feasible in terms of implementation as indicated by Dube (2014). Fursion and Lysko (2014) alluded that tax administrators should frequently review their tax rates to consider the economic challenges. According to Dube (2014), tax authorities should take into consideration the constantly changing economic environment in reviewing and updating the taxes as well as consulting the informal sector operators and relevant stakeholders. Dlamini (2017) noted that as the tax rates are viewed as too high, the government should consider reducing the tax rates as they encourage evasion and business failure among the informal sector operators. Dube and Casale (2017) pointed out to the fact that the tax rates are too high and will resultantly encourage corrupt practices between the informal sector and ZIMRA officials. According to Sikwila et al. (2016) the lower marginal tax rates are expected to persuade many informal sector operators to comply and pay their taxes. Mlay (2013) stated that lower and simpler taxes are viewed easier to collect and administer as creating less inefficiency. Maseko (2014) supported the above assertions by highlighting that tax laws should be amended to give incentives such as lower tax rates for small business taxpayers. Zuriat (2016) alluded that Uganda conducted the amendments of the presumptive tax rates in the year 2014/2015 tax amendment act.

According to Helhel and Ahmed (2014), the informal sector should be levied lower percentages in order to permit enough funds for business development and better chances of survival in a competitive market. Dube and Casale (2017) stated that there is need to lower presumptive tax rates for enterprises that keep the basic records of turnover. This will provide an incentive to maintain proper books of accounts by the informal sector enterprises. Gaddis (2014) states that in Tanzania, those who keep their accounting records pay tax based on their turnover whilst those that does not keep their books make a flat payment. Dube (2014) also stated that since the informal sector traders pay taxes in the form of Value Added Tax, the presumptive tax rates should take into account the highlighted fact.

2.4.5. Fiscal Decentralization

Joshi et al. (2014) highlighted that a radical reform to taxing the informal sector economy is to decentralize the responsibility for the informal sector taxation from the national to the sub-national governments. Local authorities have a stronger

incentive to collect taxes and may bargain with local associations whereas the national authorities may view the informal sector taxation as unrewarding, administratively difficult and politically costly to collect taxes (Joshi et al, 2014). The above point is supported by Kamuteku (2016) who highlighted that the presumptive tax can be outsourced to other government departments in an effort to reduce administrative costs and improve convenience of the informal sector taxpayers. Dube and Casale (2016) alluded that the objective of fiscal decentralization is the free tax authority so that it can focus on monitoring and selective audits of the informal sector. Utaumire et al. (2013) stated that ZIMRA has an option to appoint local authorities who will act as agents to collect and remit presumptive tax from the informal sector operators. The agents who will be collecting the presumptive tax will withhold 10% of the presumptive tax collected (ZIMRA, 2014). With effect from 1 January 2015, ZINARA was appointed as an agent for collecting presumptive tax for motor vehicles (ZINARA, 2018). Dube (2014) indicated that in some other developing countries, the local municipalities are collecting taxes in the form of levies and license fees. Dube further highlighted that evidence in Ethiopia show that regional governments can effectively levy taxes on the informal sector operators.

However, according to Dube (2014), ZIMRA has the view that even municipalities are corrupt and are even struggling to pay their own taxes. Utaumire et al. (2013) supported the above assertion by pointing out that municipalities that act as agents for collecting presumptive tax on behalf of ZIMRA do not remit all revenue collected to the authority but instead divert it for their own use. Dube (2014) noted that one of the conditions to be considered prior to become an agent is that the local authority should be compliant with PAYE and VAT obligations. According to the ZIMRA Debtors Annual Report (2014) the City of Harare owed the authority USD40 million tax debt that resulted in unpaid taxes, interest and penalties to the authority. Dube (2014) noted a problematic relationship that existed between ZINARA and ZIMRA over the collection of toll fees in the country's major roads.

2.4.1 Reorganizing tax Administration

There is the need for segmental organisation of tax administration, with separate departments to deal with small, medium and large firms. There segments will be tailored to suit the needs of the specific type of firms in terms of tax education and awareness campaigns by these firms, (Joshi et at. (2014). Joshi et al. (2013) noted

that the Ghanaian tax administration reforms implemented a strategy to orient themselves to different taxpayer segments with the initial focus on the informal sector segment. The segmentation of tax districts is encouraged as the promote efficiency in terms of administration of the informal sector taxation as noted by Ohaka and Zukbee (2015). According to Dube (2014), ZIMRA currently does not have a dedicated office for small taxpayers although it does have an office which is specifically dedicated to the large taxpayers as they generate much priority in terms of compliance monitoring, education and support services. Joshi et al. (2013) observed that the logic of such segmentation can be extended in making more specialized units of taxing the informal economy. They also pointed out that the Block Management System can be used in promoting compliance and registering all eligible traders within a particular sectorial or geographical area. Mlay (2013), alluded that under BMS, each business area is divided into geographical blocks in order to conduct functions of registering, assessing, collecting and accounting for the tax revenue. According to Zhou and Madhikeni (2013), segmentation of the taxpayer population can be done by treating them as distinct revenue possibilities comprising large, medium, small and micro taxpayers.

However, Dube and Casale (2016) argued that the Block Management System involves a concentration of all tax functions which leads not only to poor internal controls and corruption but also arbitrary use of power. Dube and Casale further insisted that the BMS is not an effective too to administer taxes as a result of high cost that are incurred to raise the taxes from the informal sector.

2.5 Performance of Presumptive Tax on Revenue Collection

According to Udoh (2015), the effectiveness of tax administration is often supported by the quoted maxim the 'tax administration is tax policy' and the success of the effective tax administration of presumptive tax is mainly based on the regular interaction between the tax authorities and the taxpayers which involve less scope of enforcement.

Haji (2015) and Udoh (2015:56) shared a different view by pointing out that the performance of presumptive income systems can be viewed in terms of the following:

- Number of taxable categories;
- Advantages and disadvantages of the presumptive tax system;

- Revenue generation for the government budget;
- Number of registered presumptive income taxpayers;
- Presumptive income taxpayer's trend;
- Improvement in economic growth.

According to Haji (2015), the number of registered presumptive taxpayers in Tanzania increased significantly from 199448 in the period 2005/2006 to 376673 in the year 2009/2010. Presumptive tax initially was designed to small businesses without business records but was extended to other small businesses with accounts in an effort to advocate for formalization as noted by Haji (2015).

However according to Haji (2015), the increase in the number of presumptive income taxpayers in not only attributable to the improvement in the presumptive tax scheme but other administrative measures such as the Block Management System, tax surveys and patrols, tax severance and the tax audits.

The increase in the presumptive income taxpayer trend can be largely be attributable to the simplified tax regimes that would have been implemented to bring the informal sector into the formal sector (Haji, 2015).

However, Haji (2015), noted that the large number of informal sector operators may still be outside the tax net due to lack of tax knowledge, information and education about the tax system and its importance. Dube (2014) also argued that not only there is no system of determining the informal sector tax performance but the level of monitoring the informal sector tax collections seems to be lax. Dube further argued that despite total presumptive tax revenue figures available in the research department, some of the officials responsible for informal sector taxation are not aware of whether the information actually exist or not.

3. Conclusions

The study mainly focused on the relevant and identified literature on the overview of presumptive tax, the historical background of presumptive tax in Zimbabwe, establishment and application of presumptive tax in Kenya, Tanzania and Zambia, challenges and problems faced in presumptive tax administration, recommendations and the performance on presumptive tax administration on revenue collection. The essence of the research was to combine, integrate and critique the arguments and contributions of other researchers on the effectiveness of presumptive tax administration on revenue collection. It emerged that the

presumptive tax system is not effectively collecting revenue because the larger amount of what is collected is ending up in people's pockets instead of the national purse due to high levels of corruption.

4. Recommendations

From the research findings, the research made the following recommendations:

➢ ZIMRA should provide incentives for those informal tax payers that comply with the presumptive tax. The informal operators that comply with the presumptive tax should be honored for example at the tax appreciation day which mainly focuses on the large corporates that comply with tax;

➢ ZIMRA should continue its fight against corruption within the authority. The anti-corruption mobile numbers should be made available to the informal sector operating places as well as the suggestion boxes in an effort to reduce the corruption levels. Anti-corruption campaigns can be advocated through television or be emphasized through the "*Did You Know"* platform on the ZIMRA website.

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