

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTANCY



**AN ALTERNATIVE FRAMEWORK FOR TAXATION OF INFORMAL BUSINESSES
IN ZIMBABWE.**

B191540B

**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONORS DEGREE
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COMMERCE.**

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APPROVAL FORM

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DEDICATION

This research project is dedicated to my family.

ABSTRACT

A number of informal businesses are not paying tax, and the framework in place is not effective in taxing these informal businesses, hence there is a need for an alternative framework for taxation of informal businesses in Zimbabwe. But, the presumptive tax system does not generate significant tax revenues. If appropriate measures for revenue collection are put in place, there is high likelihood that the burden to fund the national budget will decrease. This study sought to find out an alternative framework for taxation of informal businesses in Zimbabwe. This research used a sequential exploratory mixed method research design and used stratified random sampling with a sample of 186 informal businesses in Bindura and 3 ZIMRA officers. Also, this study used secondary data for the strategies used by other countries and data was obtained on the websites, journal articles and publications. Data were analyzed using Microsoft Excel and SPSS version 20. The research found that mistrust of tax authorities, influence from other informal businesses, poor service delivery, lack of tax education, complexity of tax system and high tax rates were causes of non-payment of tax by informal businesses. Tax authorities faced challenges of political interference, resource constrains, permanent physical address and poor accounting and record keeping practice by informal businesses. Majority of other countries used presumptive tax based on turnover for taxation of informal businesses and there is significant positive relationship between presumptive tax based on turnover and GDP. The researcher conclude that the existing presumptive tax in Zimbabwe is not well informed to taxpayers and ZIMRA is not well equipped to implement the strategies for taxation of informal businesses. Presumptive tax based on turnover is the best alternative for taxation of informal businesses. The study recommend that government must engage informal sector associations and organization, simplifying the taxation framework for informal sector, having progressive tax rates, increasing enforcement and tax amnesty. ZIMRA should implement the proposed alternative framework for taxation of informal businesses in Zimbabwe, which is the presumptive tax based on turnover.

Key words: Taxation framework, Informal businesses, Presumptive tax, Tax compliance, Tax evasion

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ABBREVIATIONS

AfDB	African Development Bank Group
AIT	Advance Income Tax
ANSSID	Anambra Social Service Identity Number
BMS	Block Management System
GDP	Gross Domestic Product
ILO	International Labour Organisation
IMF	International Monetary Fund
KCCA	Kampala Capital City Authority
OECD	Organisation for Economic Co-operation Development
TIN	Tax Identification Number
TOT	Turnover Tax
TRA	Tanzania Revenue Authority
TREP	Taxpayer Register Expansion Program
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
VAT	Value Added Tax
ZIMRA	Zimbabwe Revenue Authority
ZRA	Zambia Revenue Authority
ZRP	Zimbabwe Republic Policy

CHAPTER I

INTRODUCTION

1.0 Introduction

Zimbabwe is a country with a significant informal sector, which has been instrumental in creating employment opportunities and generating income for individuals and households. However, the informal sector remains largely untaxed, resulting in limited revenue for the government and a lack of formalisation, which poses challenges for economic planning and development (Mutasa, 2019). In response there have been calls for an alternative framework for taxation of informal businesses in Zimbabwe. This framework would aim to bring informal businesses into the formal economy by providing them with the necessary legal and regulatory framework, while also ensuring that they contribute their fair share of taxes. This chapter serves to point-out the background of the study, problem statement, objectives of the study, questions to be answered at the end of the study, assumptions, limitations of the study and delimitations.

1.1 Background of the study

The primary reason that the government impose taxes is to raise money for national infrastructure projects such as roads, hospitals, and educational facilities (Palil, 2010). For industrialized nations like France and Denmark, tax collection in 2020 was 45.3 percent and 47.1 percent of GDP, respectively (OECD, 2022). For developing nations like Ghana and Kenya, tax revenue as a share of GDP was 13.4 percent and 15.3 percent, respectively, in 2020 (OECD/AUC/ATAF, 2022). These percentages demonstrate that tax revenues are the primary source of income for nearly all governments worldwide, but it is challenging to reduce tax evasion and increase tax collection among taxpayers in actual practice. Tax systems are important because they are an unquestionable source of income for a nation.

Every nation on Earth faces the problem of tax evasion. Tax evasion affect all businesses, economic systems, social strata, occupations, and cultures. It is surprising that this issue received so little attention, especially in the United States, until the early 1990s (Tanzi and Shome, 1993).

Tax evasion opportunities differ from sector to sector. In Kenya, tax evasion is particularly high among professionals such as architects, lawyers and doctors (Ogembo, 2019).

There are various strategies used by African countries to tax the informal sector, such as withholding tax, presumptive tax, association tax, corporation tax, turnover tax and VAT (OECD/AUC/ATAF, 2022). Among these strategies, VAT and personal income tax had highest compliance levels.

The informal sector is a potentially huge pool of taxable businesses and services (Ofori, 2009; Dube, 2014). However, it has been difficult for the Zimbabwean government to devise an effective means of taxing informal businesses (Dube, 2014).

The informal economy has various avenues of income that, if effectively collected, could increase government revenue and support national development programs such as infrastructure development. Globally, taxation remains the main foundation of revenue to the majority of African governments (Sebele-Mpofu and Msipa, 2020). In Zimbabwe, taxation is the fundamental tool for mobilising national revenue, since taxes provide above 80% of the total annual revenue (Sebele-Mpofu and Msipa, 2020). Based on the actual total revenue collected from January to September 2022, tax revenue was 94% of the total revenue of Zimbabwe (Zimbabwe 2023 National Budget Statement, 2022).

The increase in the number of informal businesses in Zimbabwe provides a wider potential tax base for national revenue. If appropriate measures for revenue collection are implemented, there is a high likelihood that the burden of funding the national budget will decrease.

Zimbabweans involved in the informal economy range from 85% to 90% of individuals and enterprises (The Zimbabwe Independent, 2022). In relation to International Monetary Fund (IMF) study of 2018 shows that 60% economy of Zimbabwe is informal (The Zimbabwe Independent, 2022).

According to a report by ILO, unfavourable working conditions in the formal economy, as low wages and limited employment opportunities, push many workers into informal economic activities (ILO, 2017). Additionally, high unemployment rates in Zimbabwe provide individuals with limited options for income generation, which leads them to engage in informal activities (World Bank, 2020). Corruption also plays a role, as informal economic activities can provide opportunities for individuals to evade taxes and regulations, thereby avoiding the costs associated with formalising their businesses (AfDB, 2019). Finally, high registration fees for formal business operation make it difficult for entrepreneurs to operate within the formal economy, and they may opt to engage in informal economic activities instead (World Bank, 2020).

The Zimbabwe Revenue Authority (ZIMRA) implemented various strategies to tax informal businesses, such as presumptive tax, fiscalisation, and withholding tax. However, these strategies have not been effective in increasing tax revenue from the informal business operators.

In 2005, ZIMRA introduced presumptive tax as a way to broaden the tax base and collect taxes from the informal sector, which had been growing rapidly (Dube and Casale, 2017). However, this strategy has not been effective in capturing all informal businesses, as many informal businesses are unaware of the presumptive tax or do not understand how to comply with it.

Finscope SME Survey (2022) found that, although the ZIMRA made efforts to collect tax revenue from informal businesses, the compliance level remains low, with only two percent paying tax to ZIMRA. There is still a gap in the taxation of informal businesses, as there is no concrete policy or framework for the taxation of informal businesses. This led the researcher to study an alternative framework for taxation of informal businesses in Zimbabwe.

1.2 Problem statement

A number of informal businesses are not paying tax, and the framework in place is not effective in taxing these informal businesses, hence there is a need for an alternative framework for taxation of informal businesses in Zimbabwe. According to the International Monetary Fund (IMF), the informal sector accounts for about 60% in Zimbabwe of the nation's economy (IMF, 2019). However, the current taxation framework for informal businesses in Zimbabwe is not effectively capturing these businesses (Sebele-Mpofu and Msipa, 2020). This has resulted in significant revenue loss for the government and has limited the ability of these businesses to access services and benefits available to formal businesses.

The problem became significant after the adoption of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset) economic blueprint in 2013. The blueprint recognized the importance of the informal sector in the economy and called for the development of strategies to formalize and integrate it into the formal economy (ZimAsset, 2013). However, little has been done to effectively implement these strategies, especially regarding taxation.

Previous statistical data and reports have shown that presumptive tax has contributed very little to the overall tax revenue, despite the fact that the informal sector dominates the economy (Dlamini and Dube, 2020). Despite the sector's growth, revenue collections have not kept up with the rate of expansion.

In 2005, Zimbabwe introduced presumptive tax under the Income Tax Act 23:06, and its implementation was strengthened in 2011 (Sebele-Mpofu and Msipa, 2020). However, Masarirambi (2013) and Dube (2014) argue that the presumptive tax contribution to Zimbabwe's national revenue has been immaterial, falling below its potential. The informal sector's input to GDP is not proportional to its tax contribution to total national revenue, which is less than 2% (Sebele-Mpofu and Msipa 2020). Despite efforts by the Zimbabwe Revenue Authority to tax this sector, compliance remains a significant challenge (Blaauw, 2017). The current taxation framework is not effective in capturing these businesses. Therefore, there is a need for an alternative framework for taxation of informal businesses in Zimbabwe that is fair, efficient and effective.

1.3 Research objectives

- i. To examine the causes of non-payment of tax by informal businesses.
- ii. To investigate challenges that are faced by tax authorities in collecting tax from informal businesses.
- iii. To identify the strategies that are used by other countries to tax informal businesses.
- iv. To recommend ways to collect tax from informal businesses.

1.4 Research questions

- i. What are the causes of non-payment of tax by informal businesses?
- ii. What challenges that are faced by tax authorities in collecting tax from informal businesses?
- iii. What are the strategies that are used by other countries for taxation of informal businesses?

1.5 Significance of the study

To the researcher

This will sharpen the researcher's skills and improve the understanding skills of researcher in terms of taxation of informal businesses.

To the university

The study serves as an assessment of the understanding of principles of undertaking a research. In addition, the research will add literature and knowledge on the taxation of informal businesses.

To the country or ZIMRA

This research project is aimed to address the crucial challenges that are encountered by the tax authority on the taxation of informal businesses in Zimbabwe. This research is meant to inform the formulation of a framework that improves the taxation of informal businesses.

To the informal business operators

This study can lead to a fair tax system. With a well-designed framework, informal business operators can learn their duties and responsibilities as taxpayers, while also helping to fund to the development of their nation through taxes.

1.6 Assumptions

- i. Informal businesses are willing to pay tax if there is a fair taxation framework.
- ii. There will be no changes to the current presumptive tax system for taxation of informal businesses during the study.

1.7 Delimitations

- i. This research focuses on the informal business operators that are located in Bindura Town, Zimbabwe.
- ii. This study focuses on the direct income tax for informal businesses and is not concerned about other indirect taxes such as VAT, customs and excise duties.
- iii. The research was focused on the informal businesses that are not registered for tax purposes.

1.8 Limitations

- i. People are generally fearful of someone talking about tax matters; hence some of the members in the informal business, most of whose actions are invisible were very unwilling to voluntarily release information on their business activities and their tax status.
- ii. Some of the secondary sources of data were in other languages which was difficult to read.

1.9 Definition of terms

i) Tax compliance: refers to the act of meeting all the legal requirements and obligations related to paying taxes.

ii) Tax evasion: refers to the illegal act of intentionally not paying taxes or underreporting income to avoid paying the full amount of taxes owed.

iii) Informal business: refers to a business that operates outside the formal economy and typically does not comply with government regulations and tax laws.

iv) Taxation: refers to the imposition of a financial obligation by a tax authority on its citizens or residents.

v) Taxation framework: refers to the overall structure and principles that guide the process of collecting taxes within a particular jurisdiction.

1.10 Chapter summary

This chapter is an outline to the analysis. This section describes the alternative taxation of informal businesses. Additionally, this section covers the background to the study, problem statement, objectives and questions of the analysis, significance of the research project, and definitions of terms.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This section comprises a literature review from various authors' thoughts. These thoughts are gathered from published and unpublished journals. The selected journals are in line with the research topic that is undertaken by the researcher. Literature review is the scrutiny of past research studies that are in line with the research topic undertaken (Cooper, 1998). Review of literature helps the researcher to come up with a justification for the research topic. Literature review proves that the researcher has ability to point out the significant information to his or her study. It helps the researcher to synthesize and assess the information that is relevant the research that is done. The whole chapter will discuss the conceptual framework, the theoretical framework and the empirical review that concerns the taxation of informal businesses.

2.1 Theoretical framework

2.1.1 Expediency Theory

Expediency theory that was developed by Bhartia in 2009. This theory was used in this research because it has several benefits and capabilities in improving the tax revenue of the government. It is a strong and active theory for responding to the technical, technological and administrative attitudes of taxpayers in order to generate enough revenue for national development and capital growth.

Bhartia (2009), stated that expediency theory was developed on the belief that there is no association among taxes collected by tax authorities and the services delivered by the government. In the absence of the relationship between the taxes paid by taxpayers and the services delivered by the government to taxpayers it will demotivate tax compliance even though tax compliance is everyone's obligation.

2.1.2 Deterrence theory

Deterrence theory suggests that individuals comply with tax laws because they fear punishment if they do not. This theory is based on the assumption that individuals are rational and will weigh the costs and benefits of compliance and non-compliance before making a decision (Becker, 1968). This punishment can take various forms, such as fines, penalties, or even imprisonment (Allingham and Sandmo, 1972). Tax authorities could use penalties, which can encourage taxpayers to fulfill their tax obligations (Anik, Nengah, Tri and Carmen, 2019). Use of penalties is one of the ways that are used by tax authorities in different countries to boost taxpayers to comply with tax regulations. This theory is useful to this study on the strategies to encourage tax compliance on informal businesses.

2.1.3 Public goods theory

Public goods theory suggests that individuals comply with tax laws because they view taxes as a way to contribute to the delivery of public goods and services (Olson, 1965). Public goods theory suggests that individuals are eager to pay taxes because they have faith that the benefits they receive from public goods and services outweigh the costs of taxation (Olson, 1965). Public goods theory assumes that individuals are motivated by a sense of civic duty and a desire to contribute to the common good.

The delivery of public goods and services by the government can increase tax morale of the taxpayers (Sebele-Mpofu, 2020; Sebele-Mpofu, 2021). The delivery of services to the public by the government can boost tax morale among taxpayers. Informal businesses may not comply with tax laws due to poor service delivery.

2.1.4 Fischer Model

Fischer's model initially focused on the factors that affect the tax compliance. However, as these factors also have an impact of tax evasion, the model was also used to explain those factors. The tax system, opportunity to evade tax, demographic and attitudes were the categories used by the model to classify the influences of tax compliance (Chau and Leung, 2009). These factors will be discussed below. Fischer model notes that if there are better opportunities for tax evasion the taxpayers may opt for sources of income which are not attracting tax. When taxpayers view that the government and tax authorities are misusing the tax collected and the service delivery mismatch with the tax paid, taxpayers may opt to evade

tax (Jackson and Milliron, 1986; Asamoah, 2019; Chau and Leung, 2009; Otekunrin, Matowanyika and Chena, 2021).

2.1.5 Classical Approach Model

The model appreciates that taxpayers are individuals that make knowledgeable economic decisions. Tax evasion is caused by the gains or losses that were expected, this influence the decision to comply or not to comply with taxation (Fischer, Wartick and Mark, 1992). If the benefits that are arising from not paying tax are higher than of paying tax, the taxpayers opt to evade tax. This model is suitable in this research because it stated the causes of tax evasion by taxpayers. If there is poor service delivery then tax compliance is very low.

Bătrăncea, Nichita, Bătrăncea and Moldovan (2012) stated that tax audits are high and the chances of being caught are unavoidable whilst the fines that corresponds are too high. High tax penalties may increase the tax compliance of the taxpayers (Allingham and Sandmo, 1972). There are some disputes that if the tax authorities imposes high tax penalties, it may lead to a change in the attitude of taxpayers on tax compliance (Tanzi and Shome, 1993). However, tax authorities usually use tax penalties as a way of encouraging the tax compliance of the taxpayers.

2.1.6 Behavioural Model of Tax Compliance

The behavioural model is based on the psychological and sociological bases. The model supports that taxpayers are recognized as persons and they are convinced to submit their tax returns based on several factors that are; gender, norms, believes and age (Bătrăncea et al, 2012). In line with the Fischer model, taxpayers' regards government and tax authorities are not trustworthy in their use of tax funds and this might affect tax compliance of taxpayers.

Taxpayers` behavior on tax compliance or non-compliance is affected by the tax system fairness (Alm, 2013). In line with Andreoni, Erard and Feinstein (1998), link between the equity and fairness of tax system and the tax compliance is significant. Palil and Mustapha (2011) which found out that, evasion of tax can be reduced when there is an increase in tax education of taxpayers.

2.2 Empirical review

2.2.1 Causes of non-compliance

2.2.1.1 Corruption in the tax administration and poor service delivery

The causes of non-compliance of informal businesses in paying taxes are high levels of corruption in the administration of taxes (Asamoah, 2019; Dlamini and Dube, 2020; Dube, 2014; Onias, Manyani, Hove, Chiriseri and Mudzura, 2014). In Ghana, informal businesses pay their taxes through the associations where they belong, and taxpayers do not have direct contact with the tax officials (Asamoah, 2019). There is low enforcement coupled with high corruption levels on the agencies of tax officials which leads to low revenues from taxation of informal sector (Asamoah, 2019). Lack of government transparency and corruption lowers the tax morale of the taxpayers (Sebele-Mpofu, 2020). From the perspective of tax experts, the major causes of non-compliance of informal businesses were corruption, transparency, lack of government trust and interference of political members (Sebele-Mpofu, 2020; Sebele-Mpofu and Msipa, 2020). Dlamini and Dube (2020) mentioned that the corruption level in the administration of taxes of the taxpayers reduces the compliance of the taxpayers. Dlamini and Dube (2020) stated that if there is no infrastructure development as expected by taxpayers the tax evasion will increase. Onias et al. (2014) found that the taxpayers complain that there is no benefit from their taxes and this causes low tax morale. Dube (2014) states that there is lack of transparency and accountability from the government. There is lack of infrastructure maintenance and it becomes difficult for the tax authorities to mobilize the taxpayers to pay tax. Dube (2014) found out that taxpayers complain about the way the state uses the tax revenue, there is no benefit to the taxpayers. Asamoah (2019) states that there is a negative attitude by the informal businesses towards the paying of tax, also mistrust the tax authorities and government. Otekunrin et al. (2021) expresses that the cause of tax non-compliance is the lack of trust in the government through misuse of the tax funds. The government officials used the tax money for personal gain and leave the society not benefiting.

2.2.1.2 Tax education and awareness

Asamoah (2019), Dube (2014), Onias et al. (2014), and Ofori (2009) found out that participants did not have enough knowledge about why informal businesses pay tax. Asamoah (2019) stated that there is a loophole in the tax administration in Ghana to promote awareness to taxpayers and educate them about their tax obligations. Dube (2014) also found out that there is a weakness in the ZIMRA, namely lack of awareness to the taxpayers who operate as informal businesses. Onias et al. (2014) found that the majority of the commuter operators had not been

educated by ZIMRA about the presumptive tax, which causes non-compliance of informal businesses. Tax authorities did not educate enough the informal businesses about the presumptive tax. Ofori (2009) stated informal businesses had no knowledge about their obligation of paying tax to the tax authority. Kundt (2017) noted that taxpayers do not comply because they are not informed about the taxation of informal businesses.

2.2.1.3 High tax rates

High tax rates cause non-compliance by informal businesses, which leads to tax evasion through smuggling of goods (Dlamini and Dube, 2020; Dube, 2014; Otekunrin et al., 2021; Ligomeka, 2019). High tax rates contribute to high non-payment of tax by informal businesses (Dlamini and Dube, 2020; Dube, 2014). Otekunrin et al. (2021) found out that informal businesses evade tax due to high tax rates. Ligomeka (2019) stated that majority of informal traders talked freely that they smuggle goods and pay bribes to the ZIMRA officers and/or police, so that they are allowed to pass through without paying customs duty, because this bribes are lower than tax rates. The traders pay bribe based on the value and quantity of imported goods. In some circumstances, the traders do not pay bribe directly to the customs officials, they use the bus or truck to cross without being searched.

2.2.2 Challenges faced by tax authorities

Tax authorities face various challenges in taxing informal businesses, such as tax administration, permanent address, registration, cash transactions and accounting records. These challenges are explored below.

2.2.2.1 Tax administration

Tax authorities have encountered challenges in their tax administration for the taxation of informal businesses (Otekunrin et al., 2021; Asamoah, 2019; Dube, 2014; Nyamazana, Karedza and Mungadza, 2016). Otekunrin et al., (2021) found that ZIMRA encountered challenges in their tax administration, which shows a cumulative percentage of 73.5, which was the second highest following politics challenge with a valid percent. Also there is lack of workforce in ZIMRA to enforce the compliance and effectively monitoring and evaluation of informal businesses. Otekunrin et al, (2021), their research showed that ZIMRA relies more on the manual system, and there is a lack of skilled staff, which makes it difficult to tax the informal businesses effectively. Otekunrin et al, (2021), concluded that the administration agencies of developing countries face number of challenges in mobilizing the revenue from the taxation of informal businesses.

Most ZIMRA officials emphasised that tax authorities faced challenges of capacity to collect tax from informal business operators (Sebele-Mpofu, 2020). The failure of the ZIMRA to deal with the informal sectors is due to the shortage of resources, such as technology and electronic systems for the capturing data (Sebele-Mpofu and Msipa, 2020). This results in the need for a large number of motor vehicles and human resources to reach some of the informal business operators for registration and tax collection. Vingirayi, Hapanyengwi, Nyagadza, and Nyamuraradza (2020) stated that poor tax administration was the challenge faced by the tax authorities in collecting revenue from street vendors. Tax authorities faced constraints of poor tax administration, such as the lack of sufficient funds to register street vendors and enable the presumptive tax collection. Asamoah (2019) research shows that tax authorities face challenges in collecting tax from informal businesses, which is the tax administration due to an inadequate database of taxpayers.

There are several factors within ZIMRA that affect the tax administration of informal businesses in Zimbabwe (Dube, 2014). These factors include inadequate manpower, lack of monitoring and evaluation, and corruption. Dube (2014) study shows that the highest levels of tax evasion by taxpayers are due to high corruption and inadequate monitoring and evaluation within ZIMRA and the Zimbabwe Republic Police (ZRP). Resource constraints are a problem faced by tax authorities in collecting tax from informal businesses (Nyamazana et al., 2016). The resource constraints faced by tax authorities are the inadequate financial and lack of manpower for the administration of the informal sector. According to Kundt (2017) the results show that tax authorities faced a challenge of tax administration to execute the presumptive tax due to limited manpower.

2.2.2.2 Permanent address

Most of the informal businesses do not have permanent physical address, which makes it difficult for tax authority to collect tax from the informal businesses (Otekunrin et al. 2021; Dlamini and Dube, 2020; Ofori, 2009). Tax authorities cannot easily locate them to collect taxes. According to Ofori (2009) a permanent address is essential for effectively taxing directly income earned by a business, as it allows tax authorities to locate the taxpayer. This is in line with Sebele-Mpofu and Msipa (2020), who found that informal traders often do not have fixed locations for their operation, some of them use online marketing strategies and door-to-door sales, which makes it difficult for tax authorities to register them and collect taxes. Research done by Ofori (2009) shows that the essential condition that is needed for taxing the informal businesses was largely absent and makes it difficult to the tax authority to tax the informal

businesses. Dlamini and Dube, (2020) mentioned that the informal businesses are mobile and their roaming makes it cumbersome to tax authorities to do their audits in order to have the number of operators in the informal business.

2.2.2.3 Registration of the informal businesses

Most players of the informal businesses are not registered, which makes it difficult for tax authorities to tax unregistered businesses (Ogbuabor, Aneke and Ogbuabor, 2014; Dlamini and Dube, 2020). There is high tax evasion in the informal sector since they are not registered to the tax authorities and their income is not recorded for the purposes of Gross Domestic Product (GDP) estimates (Ogbuabor et al., 2014). Non-registration of flea markets is caused by the lack of permanent premises, since the registration requires businesses to have a fixed premises (Dlamini and Dube, 2020).

2.2.2.4 Cash transactions

Otekunrin et al. (2021) and Ofori (2009) found that most informal businesses used cash-based transactions. This means that they do not keep records of their transactions, which makes it difficult for tax authorities to determine how much tax they owe. Otekunrin et al. (2021) stated that cash transactions causes some difficulties to the tax authorities on how much should be taxed to the taxpayer since there is poor record-keeping practice that is done by informal businesses. Most of the informal businesses participants sampled only accept cash (Ofori, 2009). Osemeke, Nzekwu and Okere (2020) found that in the shadow economy, most transactions are conducted in cash. Business operators prefer physical cash and hold it before transferring the goods to the customers. Osemeke et al. (2020) noted that business operators fear other modes of payment due to case of scam that is associated with the online transfer. They also noted that the lack of reliable electricity can interrupt online transactions.

2.2.2.5 Accounting and record keeping practices

Osemeke et al. (2020) and Ofori (2009) found that informal businesses do not keep proper accounting records. This makes it difficult for tax authorities to determine their taxable income, since there is no record to trace their income and expenses. Gathered data by Ofori (2009), shows that the sampled informal traders do not have proper accounting practice. Osemeke (2020) found that there is no proper account records that are kept by informal business. Ofori (2009) stated that a large number of the informal business operators do not maintain a proper accounting record and poor accounting record makes it difficult for the tax authorities to determine the taxable income of the taxpayer, since there is no record to trace the income and expenses of the year of assessment.

2.2.3 Strategies used by other countries

2.2.3.1 Block Management System (BMS)

The BMS is used by the Tanzania Revenue Authority (TRA) to tax informal businesses (Dube and Casale, 2016; Joshi et al., 2013). According to Joshi et al. (2013), in 2005 TRA introduced the BMS as a way of strengthening the presumptive taxes that were introduced in 2001. The BMS involves a door-to-door survey with the objectives of promoting and increasing voluntary tax compliance, and detecting individuals who are not complying and remitting incorrect amount of tax liability (Kgatla, 2016). Presumptive taxes are levied on individual small businesses with a business turnover of less than Tshs 20,000,000.00, which is equivalent to US\$9,359.00 per annum. It is not mandatory to them to maintain proper accounting records, because the system objectives are to encourage businesses to keep a basic record by taxing with high rates to those who do not keep the records and the annual turnover is determined by the commissioner. The aim of the BMS was to promote compliance and register eligible businesses within a geographical location (Joshi et al., 2013). In geographical location with large number of informal businesses, city blocks were mapped and subdivided into homogenous units consisting of administrative boundaries or a few streets (Dube and Casale, 2016; Joshi et al., 2013). Each block was assigned a team with skills for identification, registration, educating and assessing the revenue collected from the informal businesses (Joshi et al., 2013). Visits to the taxpayers are done door-to-door for the registration of all eligible informal businesses. Joshi et al. (2013) found that the BMS has resulted in an increase in the number of informal businesses being registered in the tax administration of TRA. Kgalta (2016) found that TRA recognized that strategies applied in the past had been inadequate to increase the compliance of informal business towards the tax revenue contribution.

2.2.3.2 Informal businesses taxation in Zambia

Zambia Revenue Authority (ZRA) started the taxation of informal businesses in 2004 as way of increasing the government revenue (Dube and Casale, 2016). ZRA has four main types of taxation of informal businesses which are Turnover Tax (TOT), presumptive taxes, Advance Income Tax (AIT) and base tax. Dube and Casale (2016) found that the ZRA uses the TOT for the taxation of individual and small businesses with an annual turnover of up to ZMK200,000,000.00 that is equivalent to US\$50,000.00 this amount is levied at 3%, and the presumptive taxes on minibus taxis, with taxes of ZMK600,000.00 equivalent to US\$150.00 per annum for minibus taxis that had seating capacity below twelve people and ZMK7,200,000.00 equivalent to US\$1,800.00 with capacity of sixty-four people or above in

2009. ZRA charged the AIT, withholding tax that is collected from all cross-border traders of six per cent of the value of goods imports that exceeding US\$500.00; these taxes are charged to those importers who are not registered with ZRA or who do not provide tax compliance proof (Dube and Casale, 2016). Lastly, there is the use of the base tax of ZMK500.00 equivalent to US\$0.13 per day which was collected from marketers (Dube and Casale, 2016). ZRA appoints agents to collect presumptive taxes from minibus taxis and base tax, tender processes were done to select these agents and are paid on a commission basis with a range of 10% to 15% from the revenue collected by the agent (Dube and Casale, 2016). Minibus taxis operators are not mandate to keep records of their daily revenue for the filing of tax returns but they pay a fixed amount per day (Dube and Casale, 2016). According to Danielle (2018) the Zambian government issued a statutory instrument No. 48 in mid-2018, which states that marketers' base tax will be collected through mobile phone providers. Technology will increase the tax compliance that is believed.

2.2.3.3 Taxation of informal businesses in Ethiopia

In Ethiopia there is decentralization the taxation of informal businesses and the regional governments control the taxation of small firms (Joshi et al., 2013). Joshi et al. (2013) stated that from 2008, the Ethiopian law divided firms into three main categories of businesses based on the revenue generated, businesses with revenue that is above \$50,000.00 subjected to standard tax regime and the other two groups of businesses are not mandated to keep proper accounting records. Also they are not being subjected to income tax and VAT but they taxed under a presumptive tax and a 2% tax on revenue generated for a tax period (Joshi et al., 2013).

2.2.3.4 Taxation of informal sector Uganda

Anyone in Uganda is mandate to have a trade license to do any business and these trading license in Kampala is issued by Kampala Capital City Authority (KCCA) under the mandatory of Ministry of Trade and Industry (Jetle and Rex, 2019). KCCA had the obligation of implementing the local tax administration, collecting property tax, issuing trading license, market fees and hotel taxes. Every business or service company is required to have a trading license and the trading license is renewed every year. The Uganda Revenue Authority (URA) and KCCA made some developments of policy and practice that aimed to increase tax compliance through the Taxpayer Register Expansion Program (TREP) (Jetle and Rex, 2019). URA and KCCA worked together with Uganda Registration Services Bureau (URSB) in this program. First thing that is done is to register, or verify the business if it have a registration number with the URSB officer. Also verify if a business have a Tax Identification Number

(TIN) through enquiry with URA official. KCCA has the greatest capacity to encourage compliance through delivery of essential services and build of trust between the government and the sector that escalate voluntary tax compliance, decreasing the administration costs of ensuring tax compliance and safeguarding long-term tax compliance(Jetle and Rex, 2019).

2.2.3.5 Withholding taxes

Joshi et al. (2013) found out that most of the countries use withholding taxes on goods imported to those who not comply with tax or without tax clearance certificate and these withholding taxes can be credited to the income tax of those who comply, countries that include Burkina Faso, Niger, Guinea, Benin, Rwanda, Gabon, Egypt, Uganda, Sudan and Togo. Togo, Niger and Burkina Faso apply high withholding tax rates on importers without identification number for tax, this bring pressure to those who not comply to register for compliance and enjoy withholding tax credits.

2.2.4 Framework used by other countries for the taxation of informal businesses

Table 2.1 Taxation frameworks

Source	Country	Type of tax	Features of framework	Features to be used
Bucci (2019)	Austria	Presumptive tax based on turnover	Austria has a simplified tax system for businesses earning less than a certain amount of annual revenue. Tax is charged on the level of turnover after deducting expenses and input VAT	Taxable income is determined after deducting expenses
Bucci (2019)	France	Presumptive tax	Taxable income is determined using the land under cultivation, the region and type of crop.	Taxable income is determined using cultivated land, type of crop and the region.
Bucci (2019)	Italy	Presumptive tax based on turnover	Presumptive tax regime for small businesses known as the Forfettario Regime. Tax is calculated based on a fixed percentage of the business's revenue.	Tax liability is calculated based on a percentage of business's revenue.

Dube and Casale (2016)	Ghana	Presumptive tax –Vehicle Income Tax (Lump-sum)	Lump sum tax depend on the size and type of vehicle and amount is paid quarterly	Lump sum tax depend on the size and type of vehicle
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2.2.5 Previous studies

2.2.5.1 Werekoh, 2022. The Effects of Taxation on Economic Development: the Moderating Role of Tax Compliance Among SMEs.

This study aimed to evaluate how taxation affects economic development, and how tax compliance moderates this relationship. The researchers used a descriptive research design, collecting data from a population of 10,000 SMEs in Kumasi, with a sample size of 400. The study used a questionnaire to collect data and analyzed it using SPSS. The results showed that tax compliance is crucial for enhancing voluntary compliance and that tax education services are necessary. The study found that tax compliance can improve the effectiveness of taxation in promoting economic development. Although the tax compliance moderating role was positive, it was not significant.

2.2.5.2 Sebele-Mpofu, 2021, the informal sector willingness to pay tax and tax compliance in Zimbabwe.

The study examines the opinions of stakeholders on how informal sector taxation affects revenue generation and growth. The study used sequential exploratory mixed method approach and found that the current tax system is not suitable for small businesses and the government needs to find a balance between collecting taxes and supporting the important economic contributions of the informal sector without hindering its growth.

2.2.5.3 Meiryani, Erick, Silvia, Michael and Ika. 2021. The Effect of Knowledge of Tax Regulation, Tax Rate and Tax Applications on Taxpayer Compliance.

This study aimed to explore the relationship between taxpayers' knowledge of tax regulations, rates, and applications and their compliance. The data was collected through questionnaires, and the findings indicated that taxpayers who had a better understanding of tax regulations, withdrawal, and applications were more compliant. When taxpayers gain more knowledge from tax authorities or other sources, they become more aware of the significance of taxes and their contributions to taxation activities.

2.2.5.4 Sebele-Mpofu and Msipa, 2020. Feasibility of Administering Informal Sector Taxation.

The research was done in Bulawayo, Zimbabwe with the aim of evaluating the strategies and challenges on the taxation of informal sector in Zimbabwe. The researcher employed sequential mixed method research approach using interviews and questionnaires. The researcher found out various factors which cause the informal sector not to comply with tax laws. Causes of non-compliance with laws are lack of tax incentives, high tax rates, lack of transparency and accountability of government and corruption of tax officials. The study concluded that presumptive tax rates are fixed and too high. They do not meet the equity principle since the income level is not considered by presumptive tax rates.

2.2.5.5 Uvaneswaran and Tsega, 2020. Behaviour of business class taxpayers on tax compliance in Ethiopian revenue administration.

Tax evasion is a major challenge that is faced many governments in African countries. Tax collection in Ethiopia was low and this led to this study on the factors which influence the taxpayer's behaviour on tax compliance. The research target population was Business Class people in Dessie town. The sample of the study was 330 business and using stratified sampling with random sampling in each group from total population of 1898. Data was gathered through questionnaires. The study found that perception of taxpayer's fairness and equity, peer influence, tax audits, tax knowledge and government spending influenced the tax compliance.

2.2.5.6 Rono. 2020. Factors affecting the performance of the BMS in Mombasa.

The relationship between tax authorities and taxpayers had influence on the tax compliance. Several strategies have used to curb tax evasion such as fines for deterrence and penalties. However, these strategies have not curb evasion of tax. Subsequently, BMS offers an alternative way of enhancing tax compliance. The study mainly focuses on the factors that can affect the performance of BMS in Mombasa. The study used descriptive research approach. Population for the study was 364 managers in the domestic tax department and revenue officers. The sampling procedure was stratified random. The collected data by questionnaires was analyzed using SPSS Ver.23. The study found that technology, transport system and staffing have positive impact on BMS performance. The research recommended that technology has great impact on the performance of BMS in Mombasa.

2.2.5.7 Garise, 2020. Effect of BMS on the performance of Kenya Revenue Authority on rental income tax.

This study investigated how block management systems affect rental income tax performance in Mombasa, Kenya. The study had three specific objectives related to tax administration, enforcement, and education, and used three theories to guide its research. The target population was 137 respondents from the Mombasa regional office, and a sample size of 110 was selected

using stratified random sampling. The study found that tax administration, enforcement, and education had a positive and significant impact on rental income tax performance. Based on the findings, the study recommends that tax administration be expanded to increase the tax base, an effective enforcement system be implemented to increase tax compliance, and education be intensified to increase awareness of tax laws and liability. The research findings have for property owners, researchers, academicians, and government collection agents.

2.2.5.8 Ogembo, 2019. Presumptive taxes for taxing self-employed professionals in Low and Middle Income Countries?

The objective of the study was to discuss the appropriateness of presumptive tax regimes for professionals in Low and Middle Income Countries. The researcher used qualitative data obtained from 31 semi-structured interviews that was conducted in Kenya. The researcher found that, peer influence, tax capability and low levels of income causes the non-compliance of professionals. The researcher concluded that presumptive tax regimes could be useful for taxation of professional income.

2.2.5.9 Anik, Nengah, Tri and Carmen, 2019. Correlation of Tax Behaviour with Tax Compliance.

Tax is a crucial aspect of any nation's resource management, being the largest source of state revenue. Compliance is a mandatory requirement for taxpayers to generate more revenue for the state and improve the welfare of society. To understand taxpayers' compliance behavior, the survey questionnaire data from 100 respondents were collected randomly. The data was analyzed through moderated regression analysis and factor analysis. It was observed that comprehending tax regulations, quality services provided by tax authorities, and tax sanctions have a positive impact on personal tax compliance. The moderation of risk preference did not affect taxpayer compliance concerning understanding tax regulations, quality services, and tax sanctions. Authorities could disseminate the latest tax-related information to the public, including tax calculation and payment procedures, applicable tax rates, and penalties, which can encourage individuals to fulfill their tax obligations.

2.2.5.10 Ishimwe, 2021. The impact of taxation policy on the informal economy in East Africa. A case of Rwanda.

The informal businesses has its unique characters that makes it difficult for the tax authority to implement direct taxes to them. Informal businesses are covered indirectly in Rwanda through the Value Added Tax (VAT), and unregistered informal traders have an option to register with the Rwanda Tax Authority and may claim VAT refunds when they do formal business operation. Also the tax authority rely on the withholding taxes for transactions done by informal

traders, and those informal traders has the opportunity to become formal business operator and remit tax formally to the tax authority.

2.3 Conceptual framework

The conceptual framework depicts the link between the independent and dependent variables. Tax compliance of informal businesses depends on the strategies that are implemented by the tax authorities, but these strategies influenced by simplification of tax system, tax education, tax incentives, and tax enforcement. For strategy to be more effective, there is a need for simplification of the tax system, tax education, tax incentives, and tax enforcement. Strategies used by tax authorities are independent variables, tax compliance in the dependent variable, and simplification of the tax system, tax education, tax incentives, and tax enforcement are moderating variables.

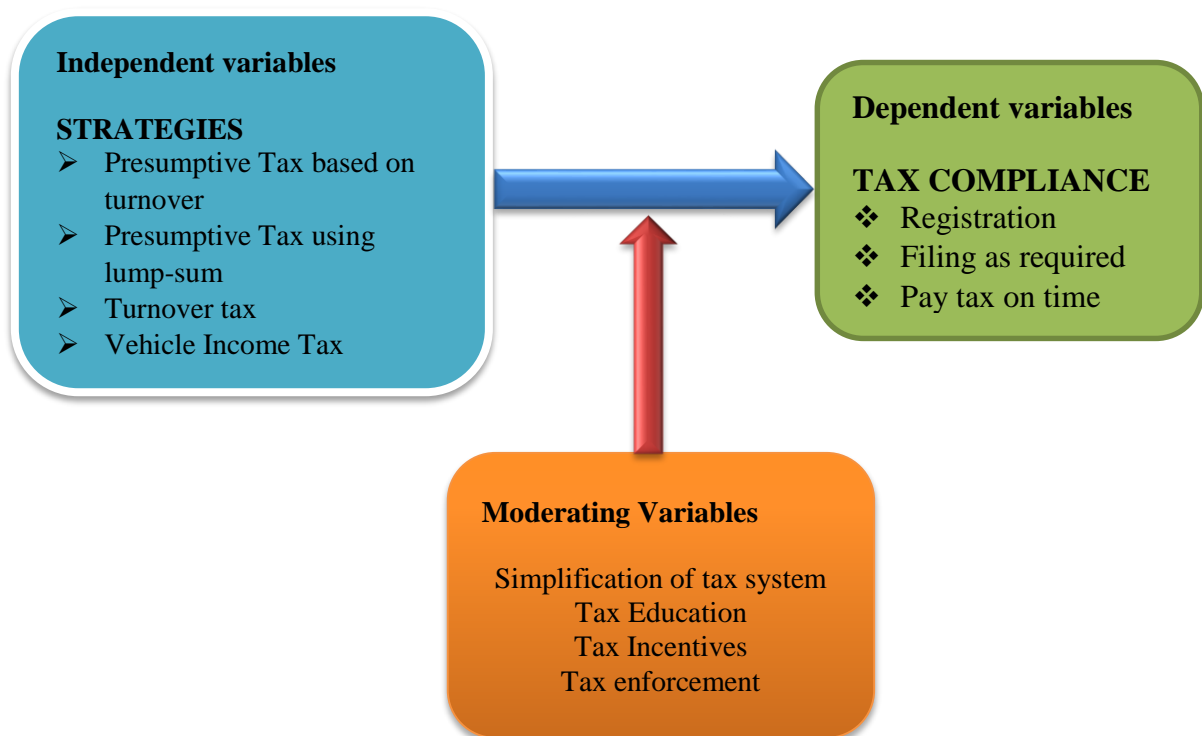


Figure 2.1 Conceptual framework

Source: Author

2.4 Gap analysis

Most of the research studies have focused on the challenges faced by tax authorities in taxing informal businesses and the causes of tax non-compliance by informal businesses. Researchers have also focused on the limitations of presumptive taxes and withholding taxes. The

uncertainty about presumptive taxes in tackling informal businesses in Zimbabwe is due to the scarcity of research in this area. This study aims to establish an alternative framework for the taxation of informal businesses in Zimbabwe.

2.5 Summary

This chapter was mainly focused on the conceptual framework, theoretical framework, and empirical review. The researcher reviewed literature on the taxation theories, challenges faced by tax authorities, causes of non-compliance of informal businesses, and the strategies used by other countries to tax informal businesses.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the analytical methods used to achieve the research objectives, which are to examine the challenges faced by tax authorities in collecting tax from informal businesses, examine the reasons for non-payment of tax by these businesses and identifying strategies used by other countries to tax informal businesses. The research methodology must be logical, and unbiased for the study to be considered systematic. This chapter covers the research design, population and sample composition, research instruments, sources of data, validity and reliability, data collection procedure, data analysis, and ethical concerns. Data analysis was conducted using SPSS, Microsoft Office Excel, and content and thematic analysis.

3.1 Research design

This research used sequential exploratory mixed-methods research design, which is a combination of both quantitative and qualitative, that is, through the use of document analysis, interviews and questionnaires in order to come up with a well-balanced analysis. This approach permits the use of both research approaches quantitative and qualitative in a single research (Creswell 2014). First, qualitative data was collected through semi-structured interviews with ZIMRA officers. This was followed by a quantitative survey instrument, which was circulated to a larger sample of informal businesses in Bindura. Thirdly, the document analysis of journal articles, websites and government publications. Finally, the qualitative and quantitative data was integrated to draw conclusions. This study used this approach because of various reasons such as the topic of taxation with respect to informal business in Zimbabwe is a complex phenomenon with many interrelated factors influencing tax compliance. A qualitative exploration of these factors can provide a rich, in-depth empathetic of the various issues at play. The use of quantitative survey, allow the researcher to gather data on the prevalence of these issues across a larger sample of informal business operators. The use of document analysis allowed the researcher to gather data on the strategies that are used by other countries to tax informal businesses and which strategy is performing well. Taxation of informal businesses is complex research topic, specifically for the tax compliance which requires the

use of multi-approaches and multiple sources of data to be gathered (McKerchar 2008). McKerchar (2008), states that mixed method research approach is being increased used in tax researches.

3.2 Target population and sample composition

3.2.1 Target population

Target population is a group of population who share similar characteristics and are identified by a researcher for analysis. The target population for this research is informal businesses and ZIMRA officers in Bindura, Zimbabwe. The population of informal businesses was obtained from the Bindura Municipality Council database for January 2023. The database records a total of 1060 informal business operators. A sample frame was drawn from this target population. The table below shows the breakdown of the population that was obtained from the database.

Table 3.1 Population of informal businesses in Bindura town

Category	Population
Bottle stores operators	22
Restaurants operators	6
Hair saloons	27
Omnibuses	23
Driving schools	8
Cottage industries	278
Other informal traders	696
Total	1060

Source: Bindura Municipality Council January 2023

3.2.2 Sampling

This study used probability sampling followed by stratified random sampling. Stratified random sampling includes grouping the population into subgroups, or strata, based on some characteristic (Kothari, 1990). In this study, the subgroups consisted of informal businesses, including omnibus, driving schools, hair salons, restaurants, cottage industry, and bottle store operators. To obtain a representative sample, a random sample was taken from each subgroup in proportion to its size. This technique ensured that each subgroup was represented in the sample and reduced the risk of bias.

3.2.3 Sample size

For this research, the sample size was 186 informal business operators and 3 ZIMRA officers. The sample size of 186 informal businesses was reached by using a formula that was propounded by Chipeta 2020. The formula and calculation is shown below.

Sample size

$$= \frac{N \frac{z^2 p(1-p)}{e^2}}{\frac{z^2 p(1-p)}{e^2} + N - 1}$$

Therefore:

N = population size (1060)

z = confidence interval (90% or 0.9)

p = sample proportion (50% or 0.5)

e = margin of error (3% or 0.03)

Sample size

$$= \frac{1060 \frac{0.9^2 * 0.5(1-0.5)}{0.03^2}}{\frac{0.9^2 * 0.5(1-0.5)}{0.03^2} + (1060 - 1)}$$

Sample size = 186

Table 3.2 Sample size used for study

Category	Population	Sample
Restaurants operators	6	4
Driving schools	8	6
Omnibuses	23	21
Bottle stores operators	22	20
Hair saloons	27	25
Cottage industries	278	50
Other informal traders	696	60
Total	1060	186

Source: Author's computation (2023)

3.3 Research instruments

Creswell (2014) states that information can be collected through a diversity approaches, including interviews, observation, questionnaires, surveys and focus teams. This study used

questionnaires, interviews, and document analysis as sources of information. Questionnaires were used to collect primary data from informal business operators and addressing the first objectives, is to examine the causes of non-payment of tax by informal businesses. Interviews were used to collect primary data from ZIMRA officers to address the second research objective, to investigate challenges faced by the tax authorities in collecting tax from informal businesses. Documents analysis was used to gather second data from journal articles, websites and government reports that addresses the third objective, which states that, to identify the strategies that are used by other countries to tax informal businesses.

3.3.1 Interviews

Interviews are a qualitative research method of collecting primary from small number of participants to elicit their opinions (Kothari, 1990). To gather primary data for this study, the researcher conducted semi-structured interviews with ZIMRA officers using open-ended questions. The researcher used semi-structured interviews, where the researcher prepares a set of questions that are posed to all respondents, but the researcher is also free to ask follow-up questions or probe for more information.

3.3.1.1 Justification

Personal interviews have the potentials to gather complete data around the research question. Researcher have the chance to obtain clarity if there are any grey areas that need to be explained. Data that has been gathered using personal interviews are more reliable since the researcher can capture all facial expressions. Based on the literature review, there are some issues that require researcher to get more clarity from ZIMRA officers about the challenges that are faced by tax authorities in the taxation of informal businesses. This led the researcher to use personal interviews as a research instrument for collecting data from ZIMRA officers.

3.3.2 Questionnaires

A structured questionnaire with unequivocal questions was used to reduce variations among respondents and facilitate the analysis of the data (Kothari, 1990). Closed-end questions were used in this research. Closed-ended questions are mostly used because the majority of informal business operators are illiterate. This format was adopted to simplify the completion of questionnaires. The researcher read and explained the questions to those who did not understand taxation terms before the respondent ticked on the appropriate boxes on the questionnaire. The questionnaire used a 5-point Likert scale.

3.3.2.1 Justification

Questionnaires allow researchers to gather data on a variety of facets of a study. This is because the researcher does not have to be present, and questionnaires are relatively inexpensive. Additionally, questionnaires can be used to collect both qualitative and quantitative data. The researcher will collect adequate data for the study.

3.3.3 Document analysis

Document analysis encompasses shallow examination, reading, and interpretation. Document analysis is a method of qualitative approach in which documents are analyzed by researcher to provide expression and significance about research topic (Bowen, 2009). Bowen (2009) mentioned that document analysis involves content and thematic analyses. The documents that are analyzed in this research are public records such as, journal articles, websites and government publications. This documents are analyzed to identify strategies that are used by other countries in taxation of informal businesses.

3.4 Sources of data

3.4.1 Primary data

Primary data is data that is collected for the initial time, and therefore is original in character (Creswell, 2014). The rationale behind this was that data collected from original sources is considered more reliable. Primary data was gathered through two approaches: qualitative data was obtained through interviews that aimed to clarify certain issues and quantitative data was obtained through questionnaires containing closed-ended questions.

3.4.2 Secondary data

Secondary data is data that has been collected and analysed before for a different purpose, and is then used for another study question (Creswell, 2014). Secondary data was gathered from websites, previous studies and government publications. Since the secondary data was already collected and analysed, it required less time and was less expensive to obtain.

3.5 Data collection procedure

The researcher went to the ZIMRA offices in Bindura to inform the ZIMRA officers about the research. The ZIMRA officers and the researcher agreed on a date for the personal interviews. During the interviews, the researcher took notes from the respondents because they refused to be recorded. ZIMRA officers were coded ZO1, ZO2, and ZO3 for confidentiality.

Questionnaires were circulated to the informal business operators. For the omnibus operators, other informal traders and cottage industries were answered while the researcher waiting for them, as per their request. The researcher waited for them to complete the questionnaires. The

hair salons, bottle store operators, and restaurants operators were given the questionnaires and were collected in the next day.

The documents that are analyzed in this research are public records such as, journal articles, websites and government publications. These documents were analyzed to identify strategies that are used by other countries to tax informal businesses.

3.6 Data Presentation and Analysis

Data collected for the study was presented in tables, pie charts, bars graphs, and percentages for easy understanding. The researcher analysed the questionnaires, taking into account any unclear or incomplete responses, before summarising the results. SPSS20, Microsoft Office Excel 2019 and content and thematic analysis were used to guide the presentation, and the interpretation of the findings. The presentation was focused on the research questions. Nature of the data that is obtained determines the statistical treatment. This research used descriptive analysis for descriptive statistics and correlation analysis for inferential statistics. The Pearson Correlation Coefficient has values ranges from +1 to -1 (Salkind, 2017).

3.7 Validity and reliability

Validity is the extent to which an analysis tool measures what is intended to measure (Creswell, 2014). Validity was attained by reviewing the literature on the taxation of informal businesses. Reliability of the tools refers to the point to which analysis tools applied on a repeated basis produce constant results and matches accuracy (Creswell, 2014). To ensure that the research tools used in this study were reliable and produced accurate results consistently, a pilot study was conducted. Internal consistency validity and reliability were assessed through the use of a Cronbach's alpha test in SPSS20 software. This was done to scrutinise the reliability of the questionnaire used in the study. At least 0.70 is acceptable for Cronbach alpha coefficient (George and Mallery, 2003; DeVellis, 2012).

After completing the literature review, an interview guide and questionnaire were developed. The interview guide and questionnaire were subjected to expert item judgement. The experts that were consulted are Bindura University lecturers under the department of accountancy and the researcher's supervisor.

3.8 Pilot test results

To determine the validity and reliability of the research tools, a pilot test was conducted. A total of 17 responses were obtained from pilot study, and the data analysed using SPSS version 20. Cronbach alpha was used to determine the internal consistency. The acceptable value for Cronbach's alpha ranges from 0.70 and above (Matchoward.com).

Table 3.3 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
.912	.913	6

Source: Author's computation (2023)

The table 3.3 shows the results of Cronbach alpha for the causes of non-payment of tax that is above 0.70 the minimum acceptable value. This shows that the reliability of research instruments is high. Furthermore, as shown above, there is a repeated test of reliability for the final data because the pilot study sample was small.

3.9 Ethical consideration

This research was conducted in accordance with all ethical norms which govern research, especially in areas such as participant confidentiality and building trust researchers other researchers when they conducting their researches. Data that was collected were used for this study purposes only. The confidential and privacy of the participants was respected, and all data was coded. The respondents were assured by the researcher that the benefits of the study would be to inform policy makers and some improvements which had impacts on the taxation of informal businesses.

3.10 Chapter summary

This chapter focused on analysis approach, taking into consideration the methods used for gathering data, the population, and the instrumentation tools that were used. This chapter also covered the sample size based on sampling.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

While the previous chapter discussed the research design, data collection, presentation, and analytical methods used in this study, this chapter will focus on the interpretation, and discussion of the collected data. The findings will be presented according to the research objectives stated in the first chapter.

4.1 Quantitative data analysis

This section covers the analysis of data from questionnaires that were distributed to informal businesses in Bindura Town.

4.1.1 Demographic data analysis

In this section, response rate and demographic data are presented. The research collected demographic information of informal business operators. The data collected on informal business operators concerned the business category and number of years in operation.

4.1.2 Response rate

Questionnaires were circulated to 186 informal business operators in Bindura Town. 161 questionnaires were returned, resulting in a response rate of 86.6%. The categories of the informal businesses are omnibuses, driving schools, restaurant operators, bottle store operators, hairdressing salons, cottage industries and other informal traders. The table 4.1 shows breakdown of the response rate of questionnaires.

Table 4.1: Response rate

Business category	Questionnaires		Response rate
	Target	Actual	%
Restaurant operators	4	4	100
Driving schools	6	6	100
Omnibuses	21	17	81
Bottle stores operators	20	18	90
Hairdressing salons	25	23	92

Cottage industries	50	41	82
Other informal traders	60	52	86.7
Total/Overall	186	161	86.6

Source: Author's computation (2023)

4.1.3 Number of years in operation

The response rate was also categorized by the number of years in operation. Participants were requested to tick their years of operation. Results pertaining to the number of years in operation is shown in Figure 4.1.

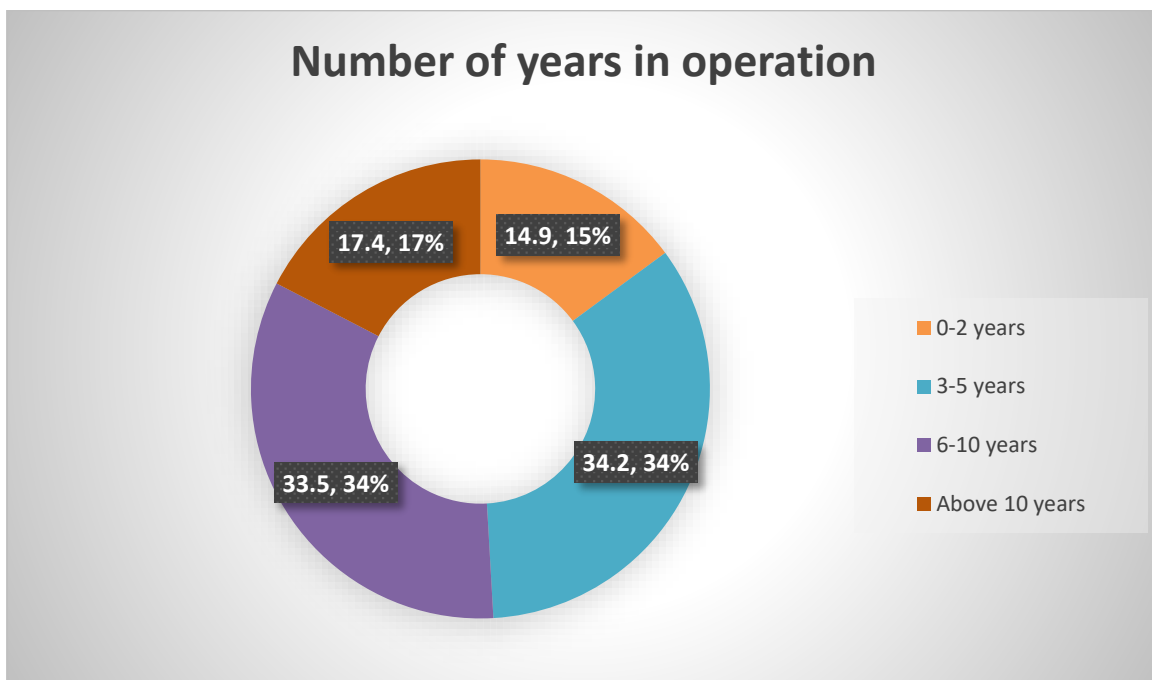


Figure 4.1: Number of years in operation

Source: Author's computation (2023)

Figure 4.1 suggests that a majority of informal businesses have been operating for a significant period of time, with 67.7% of them having three years or more of operation. Most informal business operators have operated in this sector for many years and have an understanding of tax regulations of the informal sector.

4.2 Record keeping and accounting practices

The data collected for this research on the level of record keeping and accounting practices in the informal business operators confirms that a larger number of informal businesses have very small extent of record keeping and accounting practices. The responses of the record keeping and accounting practices are summarized in table 4.2. The responses have been categorized into five main variables.

Table 4.2 Record keeping and accounting practices

Level of record keeping	Respondents	Percentage
Very small extent	65	40.4%
Small extent	42	26.1%
Moderate extent	36	22.4%
Large extent	16	9.9%
Very large extent	2	1.2%
Total	161	100

Source: Author's computation (2023)

Table 4.2 indicate that 66.5% keep records at a small or very small extent. Therefore, tax authorities must have records of business transactions to determine the taxable income. With large percentage of informal business operators maintaining accounting records at a small or very small extent, it becomes more difficult to determine the taxable income of the informal business operators. Proper accounting records are needed to determine the taxable income of a business. Only 11.1% keep accounting records to a large or very large extent. These findings are in line with Ofori (2009) which found that 60.67% of informal business operators have low level of record keeping and accounting practices. Accounting records are crucial for determining taxable income and it becomes very difficult to determine taxable income (Ofori, 2009).

4.3 Causes of non-payment of tax by informal business operators

Based on the literature on taxation of informal businesses, it is specified that there are higher levels of tax non-compliance by informal businesses, particularly in developing countries. It is thought that the government loses large amount of tax revenue from the informal business operators. The collected data for this research is centred on six major causes recognized for the high occurrence of tax non-compliance by informal business operators. The causes for non-payment of tax by informal businesses have been group into the following general non-compliance variables: high tax rates, influence from other informal business operators, lack of tax education, mistrust of tax authorities, poor service delivery and complexity of tax system. The results from the administered questionnaires are presented in Figure 4.2. These answers narrate to the questions that in the questionnaire in appendix and the summary of the answers was presented graphically. For instance, in relation to poor service delivery, 79.50% to very large extent coincided that it was one cause for not paying tax to tax authorities and 20.50% large extent not complying with tax laws.

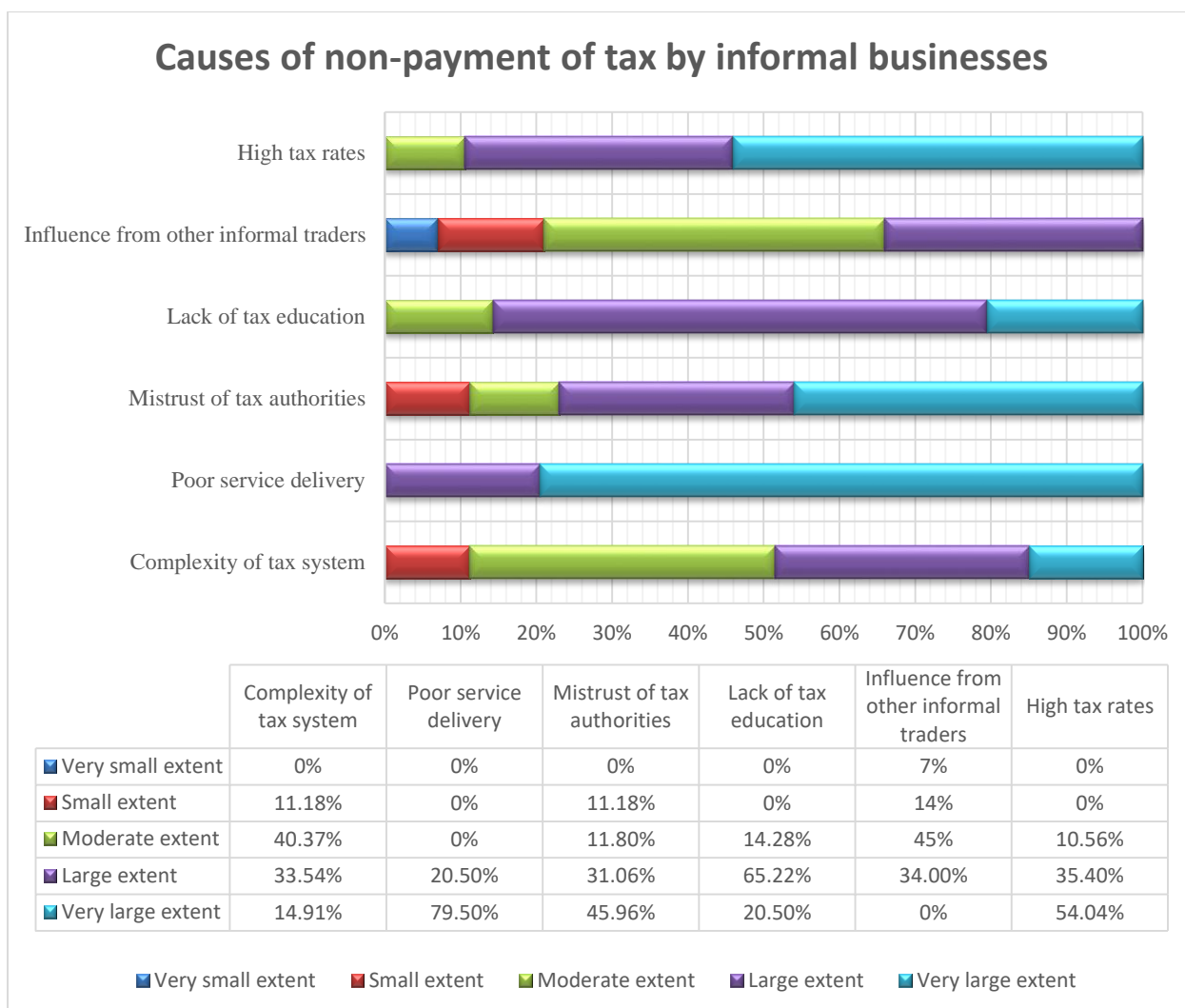


Figure 4.2 Causes of non-payment of tax by informal businesses

Source: Author's computation (2023)

4.3.1 High tax rates

High tax rates can encourage tax evasion, so if there is tax non-compliance which means the effect of raising tax rates is not well defined (Freire-Serén and Panadés, 2013). Figure 4.2 indicates that majority of informal business operators who responded to questionnaires respond that high tax rates discourage the tax compliance of taxpayers. Only 10.56% indicated to a moderate extent that non-payment of tax by informal business operators influenced by high tax rates. The remaining 89.44% indicated to a large or very large extent that tax non-compliance of informal businesses is caused by high tax rates as shown above in Figure 4.2. This suggests that informal business operators do not comply with tax legislations due to high tax rates.

Previous studies have found that high tax rates cause high tax non-compliance among informal business operators (Dlamini and Dube, 2020; Sebele-Mpofu, 2020; Sebele-Mpofu and Msipa,

2020; Sebele-Mpofu, 2021; Meiryani et al., 2021). A significant percentage of informal businesses evade tax due to high tax rates. Also, Dube, (2014) found that presumptive taxes in Zimbabwe are too high, which makes it difficult for informal businesses to pay tax since they pay also other fees to the local authorities. Dlamini and Dube (2020) concluded that major cause of tax non-compliance of informal business operators identified as high tax rates.

4.3.2 Influence from other informal businesses

People are generally influenced by the actions of those they are closely associate with, when your colleagues are effective in tax non-compliance, there are higher temptations for you to evade tax also. Figure 4.2 indicate that 34% of respondents answered that to a large extent informal businesses influenced by other informal business operators not pay tax to the tax authorities. Only 21% indicated that tax non-compliance of informal businesses is caused by influence from other informal business operators to a very small or small extent. These results are in line with earlier researches that have found that peer influence has an effect on the tax compliance of informal businesses (Sebele-Mpofu, 2021; Uvaneswaran and Tsega, 2020). Inasius (2019) found that referent group influence the tax compliance or noncompliance. Referent group had most significant influence on the tax compliance of SMEs.

4.3.3 Lack of tax education

One to comply with certain law or regulation must be informed about the law. You cannot comply with a law that you have never heard of. Tax education is a vital factor for the tax compliance of informal business operators. By combining large extent and very large extent from the respondents in Figure 4.2, we see that 85.72% of informal business operators do not pay tax due to a lack of tax education. This is a significant percentage

These findings agree with those of Onias et al. (2014), who found that 70% of commuter operators do not have knowledge about the presumptive tax. Munjeyi (2017) also found the same results, that tax education is the vibrant element to transform and enhance attitude towards tax compliance of informal business operators.

4.3.4 Mistrust of tax authorities

Transparency in government spending affect the tax morale of the taxpayers. The absence of government transparency in the use tax funds discourage taxpayers from paying taxes. By adding large extent and very large responses, it shows that 77.02% of informal businesses do not pay tax due to mistrust of tax authorities. Only 11.18% do not pay tax due to mistrust of tax authorities to a small extent.

These results are in line with past researches, which found that mistrust of government reduces the tax morale of taxpayers (Asamoah, 2019; Sebele-Mpofu, 2020; Sebele-Mpofu, 2021). If there is abuse of tax funds and a lack of transparency, there are high levels of tax evasion (Dlamini and Dube, 2020).

4.3.5 Poor service delivery

Tax morale of the taxpayers could be boosted by the services that are being delivered by the government. If there is poor service delivery, there is an increase in tax evasion by taxpayers. Based on the responses, 79.50% to a very large extent do not pay taxes due to poor service delivery. Also, 20.50% to a large extent do not comply with tax laws due to poor service delivery. Service delivery is the key cause for tax non-compliance of informal business operators.

These results agreed with those of Jetle and Rex (2019), who found that service delivery to the public could escalate tax compliance, safeguarding compliance in the long-run and creating a good tax culture. The delivery of public goods and services by government increase tax morale of the taxpayers (Joshi et al., 2013; Danielle, 2018; Sebele-Mpofu, 2020; Sebele-Mpofu, 2021). Sebele-Mpofu (2021) add on that the mismatch between provision of goods and service by government and taxpayers' contributions lowers the taxpayers' morale. Also, the Public goods theory by Olson (1965), suggests that individuals comply with tax laws because they views taxes as a way to contribute to the delivery of public goods and services.

4.3.6 Complexity of tax system

Informal business operators do not comply with tax laws due to complexity of the tax system. Responses indicated that 48.45% to a large extent and very large extent do not pay tax as a consequence of complexity of the tax system. Only 11.18% of respondents indicated that the complexity of the tax system cause non-payment of tax to a small extent. On average, complexity of the tax system cause non-payment of tax by informal business operators.

These findings are in line with past researches, which has found that the complexity of the tax system and the laws influence the tax non-compliance of informal business operators (Sebele-Mpofu, 2021; Kgatla, 2016).

4.4 Qualitative data analysis

This section covers the analysis of qualitative data from interviews that was done to answer the research question: What are the challenges that are faced by tax authorities in taxing the informal businesses?

4.4.0 Response rate

The researcher used interviews, targeting 3 ZIMRA Officers, and managed to collect data from 3 ZIMRA officers. This resulted in a 100% response rate.

4.4.1 Strategies that are used by ZIMRA to enforce tax compliance of informal businesses

ZIMRA use various strategies to enforce tax compliance of informal businesses.

ZO1 mentioned that: *“ZIMRA enforces tax compliance of informal businesses through the use of the agents. ZIMRA partnering with agencies of government such as Ministry of Transport, ZINARA, and Local Authorities to collect presumptive tax from informal business operators when they are acquiring operating licences. ZIMRA also do follow ups to those who are already registered to ZIMRA.”*

ZO3 said that: *“ZIMRA conducts jointly tax education and awareness workshops with the Ministry of SMEs.”*

ZIMRA enforces tax compliance of informal business operators through the use of agents and conducting jointly tax education and awareness workshops with the Ministry of SMEs.

These results are in line with Sebele-Mpofu and Msipa (2020), found that ZIMRA uses different strategies for enforcing the informal business operators to comply with tax laws. Strategies that are used is the appointing of the tax agents such as Local Authorities and ZINARA.

4.4.2 Challenges faced by tax authorities on taxing informal business operators

Tax authorities face various challenges in the taxation of informal businesses, such as resource constraints, political interference, lack of permanent physical addresses, and poor accounting and record keeping practices.

4.4.2.1 Resources constraints

Good strategy plus execution equals success. If an organisation has a good strategy but lacks execution, it is equivalent to disaster. Based on the literature review, the majority of tax authorities faced a challenge of resource constraints in executing their strategies for taxing informal business operators. ZIMRA officers emphasized that ZIMRA faced the capacity constraints to implementing the strategy for taxation of informal businesses in Zimbabwe.

ZO1 expressed that: *“There is a lack of workforce in ZIMRA to enforce the compliance and effectively monitor and evaluate of informal businesses. Additionally, ZIMRA relies more on the manual system, and there is a lack of skilled staff, which makes it difficult to tax informal businesses effectively.”*

ZO2 emphasised that: *“The tax authority faced the challenge of capacity to collect tax from informal business operators. The insufficient capacity of ZIMRA to deal with the informal sector is due to a shortage of resources, such as technology and electronic systems for data capture. This results in the need for a large number of vehicles and human resources to reach some of the informal business operators for registration and tax collection.”*

ZO3 said that: *“The tax authority faced the constraint of poor tax administration, such as the lack of sufficient funds to register the street vendors and enable the presumptive tax collection.”*

Results from ZIMRA officers indicated that there are resource constraints in implementing the strategy for taxation of informal business operators.

These results are in line with Kundt (2017), who found that tax authorities faced a challenge of tax administration in executing the presumptive tax due to limited manpower. Administration challenges lead with poor monitoring and encouraging taxpayers to comply. Tax authorities encountered capacity constraints in their tax administration to implement the strategies to enforce tax compliance of informal businesses (Otekunrin et al., 2021; Asamoah, 2019; Dube, 2014; Nyamazana et al., 2016).

4.4.2.2 Political interference

Political interference is widespread with high-ranking political representatives protecting their relatives from revenue officers (Sebele-Mpofu, 2020). ZIMRA officers acknowledge that the interfering of politicians hinders the implementation of tax laws.

ZO2 said that: *“The interference of politicians’ stifled execution, as some informal business operators were untouchable (politically shielded). The interference of politicians was justified because they want to obtain votes during the time of elections like now the year of elections, since majority of the population are involved in informal business activities.”*

ZO3 said that: *“The interfering of politicians has a dual effect, first on the taxpayers’ morale and tax collectors morale. The morale of taxpayers is low today because some other associates are protected by politicians from us revenue officers. On the other side, we are also discouraged by the interference of politicians and threats from these political leaders.”*

From the responses, it is clear that the interference of politicians affects the morale of taxpayers and tax collectors. It also hinders the execution of tax policies. These results are in line with Sebele-Mpofu (2021), who found that political interference reduces the morale of taxpayers and tax collectors. They are also in line with Nyamazana et al. (2016), who found that interference of politicians hinders the strategies to curb the tax evasion of informal businesses,

since some businesses are protected by politicians because politicians want votes from these business operators.

4.4.2.3 Permanent physical address

Most of the informal businesses have no permanent physical address, which makes it difficult to tax authorities to collect tax from the informal businesses. Tax authorities cannot locate them to collect tax.

ZO1 expressed that: *"For the purpose of effectively taxing directly income earned by a business, there must be a permanent address where the tax authority can locate the taxpayer easily."*

These results are in line with Sebele-Mpofu and Msipa (2020), who found that informal traders do not have fixed locations for their operation, some of them use online marketing strategies and door to door and this becomes difficult to the tax authority to register and collect tax from them. Most informal business operators are mobile, and their roaming makes it cumbersome for the tax authorities to conduct audits in order to have the number of operators in the informal business (Dlamini and Dube, 2020).

4.4.2.4 Accounting and record keeping practices

Informal businesses do not keep proper accounting records, which makes it difficult for tax authorities to tax the informal economy. ZIMRA officers emphasized that informal business operators do not keep proper accounting records.

ZO3 said that: *"A large number of informal business operators do not maintain proper accounting records, and poor accounting record make it difficult for tax authorities to determine the taxable income of the taxpayer, since there is no record to trace the income and expenses of the year of assessment."*

These results agree with Otekunrin et al. (2021), who found that cash transactions causes some difficulties to tax authorities on how much should be taxed to the taxpayer since there is poor record-keeping practice that is done by informal businesses. Osemeke et al. (2020) found that there are no proper account records kept by informal business.

4.4.3 Suggestions to improve tax compliance of informal business operators

Tax authorities can improve the tax compliance of informal businesses by strengthening the tax administration by providing sufficient resources and regulating powers to enforce compliance. Commitment, accountability and transparency of the government can increase tax compliance of informal businesses. ZIMRA officers explained various ways of improve tax compliance of informal businesses.

ZO1 said that: *“Government must sure inclusivity in policy making by engaging informal sector associations and organization, simplifying the taxation framework for informal sector, reducing the tax rates, improving the relations between tax authorities and the informal sector, increasing enforcement and tax amnesty. There is also a need for tax education for informal business operators to increase voluntary tax compliance not just doing follow-ups but educating the taxpayers is necessary.”*

ZO2 expressed that: *“Audits should also be extended to focus on informal businesses to bring them into the tax net. The audit section usually mainly focuses on large formal firms and ignores the informal sector and other SMEs.”*

ZO3 expressed that: *“To boost the tax morale and compliance of taxpayers, government must be accountable and transparent on its spending of the public funds. Government should also provide enough information on how tax revenues are used.”*

These results are in line with past studies, which found that government or tax authorities must increase the tax audit to SMEs and informal businesses and educate the informal businesses about tax regulations (Dalu, Maposa, Dalu and Pabwaungana, 2013; Sebele-Mpofu, 2021).

4.5 Strategies that are used by other countries for taxation of informal business operators

Based on the research findings the tax strategies used by other countries were grouped into three main classes: turnover tax, presumptive tax based on turnover and lump-sum. Turnover Tax, which is levied on small businesses with an annual turnover of less than a certain amount. Presumptive tax using lump-sum method business pay a fixed amount of tax not considering the size or income of the business. Presumptive tax based on the turnover the tax liability of small businesses is calculated based on a certain percentage of the business turnover.

Several countries, including Austria, Costa Rica, France, Germany, Italy, and Morocco, have implemented presumptive tax regimes to tax informal businesses and SMEs. These regimes are aimed at simplifying tax compliance for small businesses and encouraging tax compliance. For example, Austria uses presumptive tax regimes for small businesses. Austria has a simplified tax system for businesses earning less than a certain amount of annual revenue. Costa Rica has a presumptive tax which is called a simplified tax system for Micro, Small, and Medium Enterprises (MSMEs) that opt for this regime. The tax rate is fixed at 2.5% of monthly income based on sales revenue. France has a simplified presumptive tax scheme for micro-entrepreneurs. Under this scheme, a flat rate of tax is applied to the business's turnover or sales revenue. German has a special presumptive tax scheme for small businesses, called the Small Business Regulation. Tax liability is calculated based on a fixed percentage of the annual

revenue. In Italy, there is a presumptive tax regime for small businesses known as the Forfettario Regime. Tax is calculated based on a fixed percentage of the business's revenue. In Morocco, the presumptive tax strategy is known as the Minimum Flat Rate Tax. This tax is applied to businesses that do not keep proper records and is calculated based on their sector of activity. Turnover of 250,000.00DH for Service providers and other sources of income and 1000,000.00 DH for professional services. Austria, Costa Rica, German, Italy, France and Morocco used the presumptive tax based on turnover to tax informal businesses and SMEs.

Belgium uses presumptive tax regimes for small businesses. Belgium uses a fixed sum allowance for micro-enterprises and self-employed individuals. Chile has an Impuesto Único de Segunda Categoría (IUSC), which is a presumptive tax levied on individuals who perform professional services. Kazakhstan has introduced a presumptive income tax for small enterprises that do not keep proper accounting records. The tax is charged based on the value of the land. One approach used in Mauritania is the Tax Forfaitaire, a presumptive tax levied on small businesses that are unable to provide accurate financial statements. Presumptive tax is based on the rental value of the principal and secondary residences, domestic servants, and automobiles. Mexico has a tax called Régimen de Incorporación Fiscal (RIF), which combines both a flat tax rate and a presumptive tax for small business owners who earn less than 2 million pesos a year. Belgium, Chile, Kazakhstan and Mauritania used the presumptive tax based on lump-sum strategy to tax informal business operators and SMEs.

In Kenya the turnover tax is paid by business with turnover between KES1 million and KES50 million to pay 1% of their gross income. Zambia uses the Turnover Tax, which is levied on small businesses with an annual turnover of less than ZMW 800,000. In Namibia there is a turnover tax which is charged on income using a certain rate. This type is charge to the providers of service such as, management fee, consultancy fee, and entertainment fee rate of 10%. Kenya, Zambia and Namibia used the turnover tax to tax the informal business operators. Developed countries such as German, France, Italy, Costa Rica and Austria use presumptive tax based on the turnover. Italy and Costa Rica are 1.14% and 1.11% of GDP, respectively, from presumptive tax based on turnover. Developing countries such as Zambia, Kenya, Cook Islands and Solomon Islands used the turnover tax strategy to tax informal businesses, but they recorded less than 0.02%, turnover tax as a percentage of GDP and majority of countries used this strategy records less than 0.02% of GDP. Belgium, Chile, Ghana and Hungary used a lump-sum strategy to tax informal businesses, but they recorded less than 0.50%, lump-sum as a

percentage of GDP. This shows that presumptive tax based on turnover strategy performs well in these countries because records better percentages as compared to other strategies.

Table 4.3 Correlations

	lump-sum	turnover-based	withholding system	GDP
Pearson Correlation	.049	.881**	-.232	1
Sig. (2-tailed)	.885	.000	.469	
N	11	20	12	43

** . Correlation is significant at the 0.01 level (2-tailed).

a. Cannot be computed because at least one of the variables is constant.

Table 4.3 indicate that there is a strong positive relationship between presumptive tax based on turnover and GDP (0.881 at 0.01 significant level, 2-tailed). This indicates that presumptive tax based on turnover performs well among the various strategies used by other countries to tax informal businesses. One possible reason for this is that presumptive tax based on turnover considers the size and income of the business, which aligns with the equity principle of a good tax system.

In contrast, there is a negative relationship between turnover tax and GDP, suggesting that this strategy may not be performing well in countries that use it to tax informal businesses. Additionally, there is a weak positive relationship between the lump-sum strategy and GDP.

The results of this study align with previous research on taxation in informal businesses. For example, Coolidge (2012) presumptive tax based on turnover is a common simplified taxation method for small businesses, where revenue authorities estimate profit margins to create a tax burden equivalent to profit tax. This saves businesses from keeping track of expenses and filling complex forms, making compliance easier. However, different sectors face varying profit margins, and turnover tax may not be attractive for businesses with tight margins like retail. Eligibility to such taxation is limited by turnover threshold, fixed assets value and sector, such as professional services, assuming they are capable of complying with regular tax regimes. The introduction of turnover-based presumptive taxation offers a simplified tax system for small taxpayers, thereby facilitating their understanding and eventual adherence to the standard tax regime (Getachew, 2019).

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter largely focuses on the summary of the findings, conclusions, and recommendations of the research. It concludes all the information concerning the research objectives and their recommendations.

5.1 Summary of the study

The study set out to investigate an alternative framework for taxation of informal businesses in Zimbabwe. A sample of 186 informal businesses and 3 ZIMRA officers from Bindura Town were used, and a sequential explanatory mixed-method research design was used. The research was mainly driven by high levels of non-compliance of informal businesses in Zimbabwe. The research was not easy to carry out because of the language barrier in reviewing other countries' website and their tax revenue publications, since this research used secondary data to answer the objective of strategies that are used by other countries to tax informal business operators.

5.2 Summary of the findings

5.2.1 Causes of non-payment of tax by informal businesses

- Service delivery is the key cause for tax non-compliance of informal business operators. It has the highest percentage among other causes of tax non-compliance.
- High tax rates are the second highest cause of non-payment of tax by informal businesses.
- Mistrust of tax authorities, complexity of the tax system, influence from other informal businesses, and lack of tax education all contribute to non-payment of tax by informal businesses.

5.2.2 Challenges that are faced by tax authorities in taxing the informal businesses

- Political interference is the major challenge that is faced by tax authorities in taxing the informal businesses, since some of the operators are untouchable (protected by politicians).

- Resource constraints are another challenge faced by tax authorities in taxing informal businesses.
- Also, the majority of informal businesses do not have a permanent physical address, which makes it difficult for the tax authorities to locate taxpayers.
- Another challenge faced by ZIMRA in tax informal businesses is that informal businesses do not keep proper accounting records. To determine the taxable income, there must be records; without records, it is difficult for tax authorities to determine the taxable income.
- ZIMRA officers suggest that the government must be accountable and transparent to increase the tax morale of informal businesses.

5.2.3 Strategies that are used by other countries on taxing the informal businesses

- Majority of countries use the presumptive tax based on turnover to tax informal businesses and SMEs, while others use either turnover tax or presumptive tax lump-sum. Presumptive tax based on turnover performs well in countries that use it.
- There is a strong positive relationship between presumptive tax based on turnover and GDP. On the other hand, there is a negative relationship between turnover tax and GDP.

5.3 Conclusions

- It is concluded that the present Presumptive tax is not well informed to informal businesses hence its failure. The tax rates are fixed and too high. These high tax rate do not meet the equity principle since the level of the business income does not considered. The provision of service to the public by government could boost tax morale of taxpayers. Informal businesses do not comply with tax laws due to poor service delivery. Complexity of the tax system, influence from other informal businesses and mistrust of tax authorities causes the non-payment of tax by informal business operators.
- ZIMRA is not equipped to efficiently implement informal business taxation. The strategies that are in place lack execution. ZIMRA faced challenges in taxation of informal businesses such as resource constrain in execution of the strategies, interfering of politicians and poor accounting and record keeping practices by informal businesses.
- Based on the findings of the study, it is concluded that presumptive tax based on turnover is the best strategy for taxation of informal businesses since it performs well in the countries that is used. Presumptive tax based on turnover, considering factors

such as business size, income, and the principles of a good tax system such as equity principle.

In conclusion, the study has found that the present presumptive tax is not suitable for informal businesses due to its fixed and high tax rates, which do not consider the equity principle. This has led to low tax compliance, which is further worsened by poor service delivery and complexities in the tax system. The research suggests that a presumptive tax based on turnover, taking into account factors such as business size, income, and equity principle, would be the best strategy for taxing informal businesses. However, the current challenges facing tax authorities such as ZIMRA with regards to the implementation of taxation for informal businesses, including resource constraints, political interference, and poor accounting practices, need to be addressed to make this strategy successful. Additionally, providing quality services to the public by the government could boost tax morale among taxpayers, including informal business operators.

5.4 Recommendations

Based on the findings the researcher recommend that:

- ❖ Government must engage informal sector associations and organization, simplifying the taxation framework for informal sector, having progressive tax rates, improving the relations between tax authorities and the informal businesses, increasing enforcement and tax amnesty.
- ❖ Also, there is need for regular workshops and awareness on tax regulations to informal business operators to increase voluntary tax compliance not just doing follow ups but educating the taxpayers is necessary.
- ❖ Government must be accountable and transparency on the spending of the public funds. Government must give regular updates on the spending of the funds to its stakeholders.
- ❖ There is need to improve service provision by government to increase voluntary tax compliance of the taxpayers.
- ❖ There is need to use Tax Agencies and Associations to enforce compliance of informal businesses.
- ❖ ZIMRA should make use of technology for the filing and payment of tax to reduce the tax compliance costs to the informal businesses.
- ❖ ZIMRA should decentralize its office to Districts because in some rural areas there is no ZIMRA agents.

- ❖ Also, in terms of registration and tax collection ZIMRA should implement Block Management System and use of Agencies such as Associations, Local Authorities and ZINARA
- ❖ ZIMRA could adopt the proposed framework below.

Proposed Alternative Framework for Taxation of Informal Businesses

Presumptive tax based on turnover

Unincorporated farmers

Taxable income is determined using the land under cultivation, type of soil and type of crop.

Transport operators

Tax liability is calculated based on a fixed percentage of the quarterly revenue.

Unincorporated business

Progressive turnover-based tax after deducting general expenses.

Cross borders

Tax liability is determined using the value of goods imported.

Self-employed

Tax liability is calculated based on a fixed percentage of the quarterly turnover.

Rental income

Tax liability is calculated based on a fixed percentage of the monthly revenue.

Figure 5.1 Proposed Alternative Framework for Taxation of Informal Businesses

5.5 Recommendations for further studies

Further research is needed to understand the implications of different tax approaches on the economic development of countries, particularly in the context of the informal sector.

Also, further studies could be done on the following areas:

- ❖ Effect of tax non-compliance by informal business operators on the economic development of Zimbabwe.
- ❖ Impact of corruption in the tax administration on the compliance of informal business.
- ❖ Effect of taxation frameworks on the tax compliance of informal business operators.

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APPENDICES

APPENDIX A: QUESTIONNAIRE FOR INFORMAL BUSINESSES

My name is B191540B, a student in fourth year at Bindura University of Science Education I am carrying out a research on an alternative framework for taxation of informal businesses in Zimbabwe. The study is for the fulfilment of my degree of Bachelor of Accountancy. I am required to carry out a research and I am collecting data from informal business operators using a questionnaire. Therefore, I am requesting your assistance to complete the questions in this questionnaire. All your responses are kept with confidentiality and will be used for this research purposes only.

Kindly complete this form by ticking

Part A: Demographic data of business

1. Business category

- Omnibuses
- Driving school
- Restaurant operators
- Hair saloons
- Bottle stores operators
- Cottage industries
- Other informal traders

2. For how long you have been doing this?

- 0-2 years

- 3-5 years
- 6-10 years
- Above 10 years

Part B: Causes of non-payment of tax

3. Which method of payment do you use for making payment on your goods or services?

- Cash only
- Electronic transfer only
- Both

Use the following scale to answer question 4 and 5

1= Very small extent, 2= Small extent, 3= Moderate extent, 4= Large extent and 5= Very large extent

	1	2	3	4	5
4. To what extent does your business keep accounting records?					
5. What are the reasons informal businesses evade tax?					
Too high tax rates					
Influence from other informal business operators					
Lack of tax education					
Mistrust of tax authorities (government)					
Poor service delivery					
Complexity of the tax system					

Thank you for your co-operation!!!

APPENDIX B: INTERVIEW GUIDE

My name is B191540B, a student in fourth year at Bindura University of Science Education. I am carrying out a research on an alternative framework for taxation of informal businesses in Zimbabwe. The study is for the fulfilment of my degree of Bachelor of Accountancy. I am required to carry out a research and I am from the ZIMRA officers using interviews. All your responses are kept with confidentiality and will be used for this research purposes only.

Questions

1. What programs are you doing to mobilize informal businesses to pay tax?
2. What are the challenges that faced by ZIMRA in collecting tax from informal businesses?
3. What suggestions do you have to improve the compliance of informal businesses?

APPENDIX C: RELIABILITY STATISTICS

	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
High tax rates	.849	.882
Influence from other operators	.689	.906
Lack of tax education	.688	.906
Mistrust of tax authority	.750	.897
Poor service delivery	.767	.894
Complexity of tax system	.798	.891

APPENDIX D: EXCHANGE RATES

COUNTRY	NATIONAL CURRENCY	2019	2020
AUSTRIA	EUR	0.9	0.9
BELGIUM	EUR	0.9	0.9
CHILE	CLP	703.3	791.7
COLOMBIA	COP	3281.1	3695.6
COSTA RICA	CRC	587	584.7
CZECH REPUBLIC	CZK	22.9	23.2
DENMARK	DKK	6.7	6.5
FRANCE	EUR	0.9	0.9
GERMANY	EUR	0.9	0.9
GREECE	EUR	0.9	0.9
HUNGARY	HUF	290.6	308
ICELAND	ISK	122.6	135.4
ITALY	EUR	0.9	0.9
JAPAN	JPY	108.5	107.5
LUXEMBOURG	EUR	0.9	0.9
MEXICO	MXN	19.2	21.4
PORTUGAL	EUR	0.9	0.9
SPAIN	EUR	0.9	0.9
SWEDEN	SEK	9.5	9.2
SWITZERLAND	CHF	1	0.9

BOTSWANA	BWP	10.92	11.35
BURKINA FASO	XOF	585.91	574.75
GHANA	GHS	5.22	5.6
KENYA	KES	101.68	104.12
LESOTHO	LSL	14.79	16.36
MADAGASCAR	MGA	3618.32	3787.75
MALAWI	MWK	739.05	744.61
MAURITANIA	MRU	36.69	36.3
MOROCCO	MAD	9.62	9.5
NAMIBIA	NAD	14.9	15.99
RWANDA	RWF	899.45	943.26
SEYCHELLES	SCR	14.05	17.6
COOK ISLANDS	NZD	348	
FIJI	FJD	5497	
KAZAKHSTAN	KZT	181667	
MALDIVES	MVR	5764	
MALAYSIA	MYR	364684	
PHILIPPINES	PHP	376796	
SINGAPORE	SGD	372888	
SOLOMON ISLANDS	SBD	1579	

APPENDIX E: TAX REVENUES

COUNTRY	TYPE OF TAX	TAX REVENUE	TOTAL TAX
Costa Rica	Presumptive tax	403613million CRC	8235528million CRC
Mauritania	Presumptive tax	1 792Million MRU	38 601Million MRU
Morocco	Presumptive tax	9052Million MAD	308 009Million MAD
Italy	Presumptive tax	19403m EUR	703791m EUR
Fiji	Presumptive tax	49million FJD	2637million FJD
German	Presumptive tax	18112m EUR	1284104m EUR
Mexico	Presumptive tax	58196m MXN	4148699m MXN
France	Presumptive tax	12491million EUR	1053334m EUR
Philippines	Presumptive tax	41462million PHP	3520186millionPHP
Iceland	Presumptive tax	12046m ISK	1061089m ISK
Greece	Presumptive tax	665million EUR	64248million EUR
Ghana	Presumptive tax	394Million GHS	51 467Million GHS
Portugal	Presumptive tax	442m EUR	70209m EUR
Czech Republic	Presumptive tax	12195m CZK	1982587m CZK
Chile	Presumptive tax	213216m CLP	38817226m CLP
Japan	Presumptive tax	385m JPY	177308m JPY
Switzerland	Presumptive tax	388m CHF	195261m CHF
Burkina Faso	Presumptive tax	1611million XOF	1660178million XOF
Malawi	Presumptive tax	893 Million MWK	1 044 516 Million MWK
Zambia	Presumptive tax	K42.6 million	57665.1 K' million

Spain	Presumptive tax	294m EUR	409471m EUR
Sweden	Presumptive tax	981m SEK	2126176m SEK
Colombia	Presumptive tax	86469m COP	187664589m COP
Austria	Presumptive tax	70million EUR	159,995million EUR
Belgium	Presumptive tax	54million EUR	195051 million EUR
Denmark	Presumptive tax	258m DKK	1105573m DKK
Malaysia	Presumptive tax	43million MYR	188035million MYR
Madagascar	Presumptive tax	872 Million MGA	5 202 842 Million MGA
Kazakhstan	Presumptive tax	1055million KZT	11594940million KZT
Kenya	Presumptive tax	6 million KES	1 611 601 Million KES
Seychelles	Presumptive tax	53 Million SCR	6 761 Million SCR
Hungary	Turnover tax	1690million HUF	17362091million HUF
Kenya	Turnover tax	24 Million KES	1 611 601 Million KES
Lesotho	Withholding tax	828 Million LSL	6 771 Million LSL
Rwanda	Withholding tax	137 450 Million RWF	1 642 978 Million RWF
Botswana	Withholding tax	1 295 Million BWP	21 973 Million BWP
Solomon Islands	Withholding tax	134 million SBD	2623 Million SBD
Maldives	Withholding tax	688million MVR	16512million MVR
Singapore	Withholding tax	1637million SGD	67645million SGD
Namibia	Withholding tax	653 Million NAD	32 762 Million NAD
Luxembourg	Withholding tax	456m EUR	24488m EUR
Cook Islands	Withholding tax	1268 thousand NZD	141406 thousand NZD
Malaysia	Withholding tax	189million MYR	188035million MYR

APPENDIX F: TAX REVENUES AND GDP IN US\$

COUNTRY	TAXES IN US\$	GDP IN US\$
PRESUMPTIVE TAXES		
Italy	21,558,888,888.89	1,896,755,301,518.14
Costa Rica	690,290,747.39	62,158,002,233.03
Morocco	952,842,105.26	121,348,138,320.28
Mauritania	49,366,391.18	8,405,491,201.75
France	13,878,888,888.89	2,639,008,701,648.26
German	20,124,444,444.44	3,889,668,895,299.62
Iceland	88,966,026.59	21,694,674,809.93
Greece	738,888,888.89	188,925,995,936.81
Mexico	2,719,439,252.34	1,090,515,389,749.41
Portugal	491,111,111.11	229,031,860,520.78
Czech Republic	525,646,551.72	245,974,558,654.04
Chile	269,314,134.14	252,727,193,710.02
Ghana	70,357,142.86	70,043,199,813.69
Switzerland	431,111,111.11	739,913,619,797.45
Spain	326,666,666.67	1,276,962,685,648.25
Sweden	106,630,434.78	547,054,174,235.88
Austria	77,777,777.78	435,225,238,000.44
Burkina Faso	2,802,957.81	17,933,606,353.18
Belgium	60,000,000.00	525,211,810,652.61
Denmark	39,692,307.69	355,222,449,505.21
Malawi	1,199,285.53	12,182,348,212.71

Colombia	23,397,824.44	270,299,984,937.97
Madagascar	230,215.83	13,051,441,059.33
Fiji	8,913.95	5,481,675,173.38
Japan	3,581,395.35	5,040,107,754,084.11
Kenya	57,625.82	100,666,542,665.72
Philippines	110,038.32	376,823,278,560.85
Kazakhstan	5,807.33	181,667,190,075.54
Malaysia	117.91	365,175,135,787.57
Seychelles	3,011,363.64	1,261,198,524.11
TURNOVER TAX		
Hungary	5,487,012.99	157,182,045,260.23
Kenya	230,503.27	100,666,542,665.72
WITHHOLDING TAXES		
Lesotho	50611246.94	2,231,214,507.48
Rwanda	145718041.7	10,184,345,442.17
Botswana	114096916.3	14,930,072,458.58
Luxembourg	506666666.7	73,992,591,285.30
Namibia	40838023.76	10,581,585,630.08
Solomon Islands	84863.83787	1,579,000,000.00
Maldives	119361.5545	5,609,400,721.62
Cook Islands	3643.678161	348,000,000.00
Singapore	4390.058141	375,472,731,271.08
Malaysia	518.2569019	365,175,135,787.57

1: OECD (2021); OECD (2022); OECD/AUC/ATAF (2022)

2: World Bank (2023)