**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

`

**FACULTY OF COMMERCE: DEPARTMENT OF ACCOUNTANCY**

**TOPIC: AN ASSESSMENT OF THE EFFICIENCY AND EFFECTIVENESS OF PRESUMPTIVE TAX COLLECTION: SURVEY OF BOTTLE-STORES AND RESTAURANT OPERATORS IN BINDURA URBAN DISTRICT.**

.

**BY**

**DAVID MUNAKI**

**(B191563B)**

**A DESSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE**

**REQUIREMENTS OF THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE**

**JUNE**

**2023**

# APPROVAL FORM

**Title of Dissertation:** An assessment of the efficiency and effectiveness of presumptive tax collection: A survey of bottle stores and restaurant operators in Bindura urban district.

1. **To be completed by the student**:

I certify that this dissertation meets the preparation guidelines as presented in the Faculty Guide and Instructions for Typing Dissertations

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Signature of Student)

(Date)

1. **To be completed by the Supervisor:**

This dissertation is suitable for submission to the Faculty

This dissertation should be checked for conformity with the Faculty guidelines

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Signature of Supervisor)

(Date)

**3. To be completed by the Chair of the Department:**

I certify, to the best of my knowledge, that the required procedures have been followed and the preparation criteria have been met for this dissertation.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Signature of the Chair)

(Date)

# RELEASE FORM

STUDENT NUMBER B191563B

TITLE OF PROJECT An assessment of the efficiency and effectiveness of presumptive tax collection system

DEGREE TITLE BACHELOR OF ACCOUNTANCY HONOURS

YEAR GRANTED 2023

Permission is hereby granted to Bindura University library to produce single copies of this project and to lend or sell such copies for scholarly or scientific research purposes only. The rights and neither the project nor extensive extracts from it may be printed or otherwise reproduced without the author's approval.

SIGNED -------------------------------------------------

PERMANENT ADDRESS 828 Chaminuka Rd Chipadze Bindura

# DEDICATION

This dissertation is dedicated to my loving parents for their unwavering support during my time at this University. Special mention goes to my brother, sisters and friends for the support they gave.

# ACKNOWLEDGEMENTS

The researcher would like to thank the following individuals for their assistance in ensuring that I would be able to successfully finish my dissertation. I've learned so much from this research, it's been an exciting journey. First and foremost, I want to express my gratitude to the Lord Almighty, in whom everything is possible, for giving me the ability to do this research and for providing me with life, wisdom, inspiration, and guidance. I would also like to thank my supervisor Mr. Ngwende for reading through numerous revisions of this project with attention and patience from start to finish, and for making shrewd observations, criticisms, and recommendations. His corrections helped me recognize my strengths and limitations and were a good reminder to be creative. Not to mention my family and friends, who have given me so much love, unwavering support, and dedication? My motivation will never stop coming from you.

# ABSTRACT

The purpose of this study was to evaluate how efficient and effective is presumptive tax system in taxing the informal economy, using a survey of Bindura's restaurants and bottle stores. The study's primary goals were to determine the reasons why bottle stores and restaurants operators should pay presumptive tax, to identify any relationship between awareness of presumptive tax and compliance with presumptive tax ,to identify reasons for unwillingness to pay presumptive tax ,assess the efficiency and equity principle of collecting presumptive tax from bottle store and restaurant operators and to suggest measures that can be used by ZIMRA to improve presumptive tax compliance among bottle store and restaurant operators and other players in the informal sector, to determine if the presumptive tax system was the most appropriate way for taxing the informal sector. The study was descriptive in design and the main data gathering instruments for the study were interviews and questionnaires, Microsoft Excel was used to analyse data. Questionnaires where self-administered by the researcher to the respondents were drawn from a population of 95 bottle stores and restaurants and 5 ZIMRA officials. Systematic and stratified random sampling was used to select respondents .The study's findings indicated that presumptive taxation is not the most effective method of taxing the informal sector, while presumptive taxation is not the ideal method of taxing the informal sector there is still an opportunity for systemic improvement, ZIMRA is over estimating the tax rates, the other result was that the presumptive tax system needs to be restructured because it has failing to include the whole informal sector in the tax net under the current presumptive tax regime. The study's findings also revealed that ZIMRA does not regularly run awareness programs to remind the unorganized sector to pay taxes and the recommendations where that information should be made available to the tax payers, informal sector should be consulted when determining tax rates and tax agents should be utilised as well.

Table of Contents

[APPROVAL FORM i](#_Toc137983855)

[RELEASE FORM iii](#_Toc137983856)

[DEDICATION iv](#_Toc137983857)

[ACKNOWLEDGEMENTS v](#_Toc137983858)

[ABSTRACT vi](#_Toc137983859)

[List of tables xi](#_Toc137983860)

[List of figures xii](#_Toc137983861)

[CHAPTER I 1](#_Toc137983862)

[1.0 INTRODUCTION 1](#_Toc137983863)

[1.1 BACKGROUND OF THE STUDY. 1](#_Toc137983864)

[1.1.1 GLOBAL PERSPECTIVE 1](#_Toc137983865)

[1.1.2 REGIONAL PERSPECTIVE 3](#_Toc137983866)

[1.1.2 LOCAL PERSPECTIVE 3](#_Toc137983867)

[1.2 STATEMENT OF THE PROBLEM 5](#_Toc137983868)

[1.3 AIM OF THE RESEARCH 5](#_Toc137983869)

[1.4 RESEARCH OBJECTIVES 5](#_Toc137983870)

[1.5 RESEARCH QUESTIONS 6](#_Toc137983871)

[1.5 SIGNIFICANCE OF THE STUDY 6](#_Toc137983872)

[1.6 DELIMITATIONS OF THE STUDY 6](#_Toc137983873)

[1.7 LIMITATIONS OF THE RESEARCH 7](#_Toc137983874)

[1.8 ASSUMPTIONS 7](#_Toc137983875)

[1.9 DEFINITION OF KEY TERMS 7](#_Toc137983876)

[1.10 Chapter Summary 8](#_Toc137983877)

[CHAPTER II 9](#_Toc137983878)

[2.0 INTRODUCTION 9](#_Toc137983879)

[2.1 PRESUMPTIVE TAX DEFINED 9](#_Toc137983880)

[2.2 Informal Sector 10](#_Toc137983881)

[2.2.0 The Dualist 10](#_Toc137983882)

[2.2.1 The Structuralists 11](#_Toc137983883)

[2.2.2 The Legalist 11](#_Toc137983884)

[2.2.3 The Voluntarists 12](#_Toc137983885)

[2.3 Presumptive Tax and Informal Sector 12](#_Toc137983886)

[2.3.1 Existing Tax Regime 14](#_Toc137983887)

[2.3.2 Indirect Taxes 15](#_Toc137983888)

[2.4 Small to Medium Enterprise (SMEs) 16](#_Toc137983889)

[2.5 Implementation and Mechanisms of Presumptive Tax System 16](#_Toc137983890)

[2.5.1 French Forfait 17](#_Toc137983891)

[2.5.2 Tachshiv 18](#_Toc137983892)

[2.5.3 Italian Business Sector Studies (BSS) 18](#_Toc137983893)

[2.6 CONCEPTUAL FRAMEWORK 18](#_Toc137983894)

[2.6.0 The Deterrence Model. 18](#_Toc137983895)

[2.6.1 Slippery Slope Model 19](#_Toc137983896)

[2.6.2 Equities and Exchange Theory 19](#_Toc137983897)

[2.6.3 Presumptive Tax Rates and Due Dates. 20](#_Toc137983898)

[2.7.0 Collection of Presumptive Tax by Local Authorities 20](#_Toc137983899)

[2.7.1 Appropriateness to the informal Sector 21](#_Toc137983900)

[2.7.2 Expanding the Revenue Base Effectively. 21](#_Toc137983901)

[2.7.3 Challenges in taxing the informal sector 22](#_Toc137983902)

[2.7.4 Impact of presumptive tax on informal operators 23](#_Toc137983903)

[2.8Empirical evidence 24](#_Toc137983904)

[2.9 Research Gap 30](#_Toc137983905)

[2.10 Summary 30](#_Toc137983906)

[CHAPTER III 31](#_Toc137983907)

[3.0 Introduction 31](#_Toc137983908)

[3.0.1 Study Area 31](#_Toc137983909)

[3.1 Research design 31](#_Toc137983910)

[3.1.1 Descriptive research design 32](#_Toc137983911)

[3.1.2 Justification of the survey 32](#_Toc137983912)

[3.2 Population 32](#_Toc137983913)

[3.2.0 Sample 33](#_Toc137983914)

[3.2.1 Benefits of sampling 33](#_Toc137983915)

[3.2.2 Sampling Techniques 33](#_Toc137983916)

[3.2.2.1 Stratified Random Sampling 33](#_Toc137983917)

[3.2.2.2 Advantages of Stratified random sampling 33](#_Toc137983918)

[3.2.2.3Disadvantages of Stratified random sampling 34](#_Toc137983919)

[3.2.3 Benefits of sampling 34](#_Toc137983920)

[3.3 Data collection procedures 34](#_Toc137983921)

[3.3.1 Primary sources 34](#_Toc137983922)

[3.3.2 Advantages of primary source 35](#_Toc137983923)

[3.3.4 Disadvantages of primary source 35](#_Toc137983924)

[3.4 Secondary Sources 35](#_Toc137983925)

[3.4.1 Advantages of secondary sources 35](#_Toc137983926)

[3.4.2 Disadvantages of secondary sources 35](#_Toc137983927)

[3.5 Data collection instruments 35](#_Toc137983928)

[3.5.1 Questionnaires 35](#_Toc137983929)

[3.5.2 Advantages of questionnaires 36](#_Toc137983930)

[3.5.3Disadvantages of Questionnaires 36](#_Toc137983931)

[3.6 INTERVIEWS 36](#_Toc137983932)

[3.6.1 Advantages of Interviews 37](#_Toc137983933)

[3.6.2 Disadvantages 37](#_Toc137983934)

[3.7Reliability and validity 37](#_Toc137983935)

[3.8 Data presentation and analysis 38](#_Toc137983936)

[3.9 Research Ethics 38](#_Toc137983937)

[3.9.1Chapter Summary 38](#_Toc137983938)

[CHAPTER IV 39](#_Toc137983939)

[4.0 INTRODUCTION 39](#_Toc137983940)

[4.1 QUESTIONNAIRE ANALYSIS 39](#_Toc137983941)

[4.2 Restaurants and bottle store operator’s responses 40](#_Toc137983942)

[4.2.1 What is your gender? 40](#_Toc137983943)

[4.2.2 Educational Qualification 41](#_Toc137983944)

[4.2.3 Are you aware of presumptive tax? 42](#_Toc137983945)

[4.2.4 Have you attended any Tax Seminar organised by Zimra? 43](#_Toc137983946)

[4.2.5Have you benefited from attending the Tax Seminar? 44](#_Toc137983947)

[4.2.6 Reasons for avoiding Tax 45](#_Toc137983948)

[4.2.7 Does Zimra conduct regular follow ups? 46](#_Toc137983949)

[4.2.8 Do you know how presumptive Tax is assessed? 47](#_Toc137983950)

[4.2.9Do you think the collection of presumptive tax is justified? 47](#_Toc137983951)

[4.3.0 Which one of the following measures do you encourage ZIMRA to adopt in order to improve presumptive tax collection? 48](#_Toc137983952)

[4.3.1 How would you rate ZIMRA on educating bottle-store and restaurant operators about presumptive tax? 49](#_Toc137983953)

[4.4 Interview Analysis 50](#_Toc137983954)

[4.4.1 Occupation of the respondents 51](#_Toc137983955)

[4.4.2 Explain what is Presumptive Tax? 51](#_Toc137983956)

[4.4.3 What criteria are used to come up with presumptive tax amounts? 51](#_Toc137983957)

[4.4.4 What problems if any faces your organization from collecting presumptive tax from restaurants and bottle-stores in Bindura? 52](#_Toc137983958)

[4.4.5 What has ZIMRA done or is doing to increase tax revenues from this tax base? 52](#_Toc137983959)

[4.4.6 How effective is presumptive tax collection regarding restaurants and bottle-store operators in Bindura? 52](#_Toc137983960)

[4.4.7 Do you think the presumptive tax amounts applicable to bottle-stores and restaurant operators are reasonable? 53](#_Toc137983961)

[4.3 SUMMARY 54](#_Toc137983962)

[CHAPTER V 54](#_Toc137983963)

[5.0 INTRODUCTION 54](#_Toc137983964)

[5.1 SUMMARY OF FINDINGS 55](#_Toc137983965)

[5.2 CONCLUSION 56](#_Toc137983966)

[5.3 RECCOMENDATIONS TO THE STUDY 56](#_Toc137983967)

[5.3.1 Information should be made available taxpayers 56](#_Toc137983968)

[5.3.2 Free flow of information when determining tax rates. 56](#_Toc137983969)

[5.3.3 Economic changes should be taken into consideration. 57](#_Toc137983970)

[5.3.4 ZIMRA should improve its administration towards presumptive tax. 57](#_Toc137983971)

[5.3.5 ZIMRA should offer tax reliefs. 57](#_Toc137983972)

[5.3.6 ZIMRA should use tax agents. 57](#_Toc137983973)

[5.4 SUGGESTED FURTHER STUDY 57](#_Toc137983974)

[REFERENCE LIST 58](#_Toc137983975)

[APPENDIX I QUESTIONNAIRES 64](#_Toc137983976)

[APPENDIX II: INTERVIEW GUIDE 67](#_Toc137983977)

# List of tables

[Table 2.1 Presumptive tax rates and due dates 16](#_Toc137832797)

[Table 4.1 Bottle stores and restaurant operators 36](#_Toc137832798)

[Table 4.2 ZIMRA response rate: Interviews 37](#_Toc137832799)

[Table 4.3 Have you benefited from attending the tax seminar 41](#_Toc137832800)

[Table 4.4 Which one of the following measures do you encourage ZIMRA to adopt in order to improve presumptive tax collection? 46](#_Toc137832801)

# List of figures

[Figure 4.1 Gender ratio 37](#_Toc137832862)

[Figure 4.2 Educational qualifications 38](#_Toc137832863)

[Figure 4.3 Awareness of presumptive tax 39](#_Toc137832864)

[Figure 4.4 Seminar attendance 40](#_Toc137832865)

[Figure 4.5 Reasons for avoiding Tax 42](#_Toc137832866)

[Figure 4.6 Does Zimra conduct regular follow ups? 43](#_Toc137832867)

[Figure 4.7 Do you know how presumptive Tax is assessed? 44](#_Toc137832868)

[Figure 4.8 Do you think the collection of presumptive tax is justified? 45](#_Toc137832869)

[Figure 4.9 ZIMRA education on presumptive tax 47](#_Toc137832870)

[Figure 4.10 Work experience for ZIMRA Staff 48](#_Toc137832871)

[Figure 4.11 Effectiveness of presumptive tax collection 51](#_Toc137832872)

# CHAPTER I

**INTRODUCTION**

# **INTRODUCTION**

In this research, a survey was conducted on bottle stores and restaurants in Bindura to evaluate the effectiveness and efficiency of the presumptive tax system in Zimbabwe. This study assessed the efficiency and effectiveness of the presumptive tax system in taxing the informal sector in Zimbabwe from a survey of bottle stores and restaurants in Bindura. This chapter outlined the background of the study, statement of the problem, research questions, research objectives, significance of the study, limitations and delimitations of the research, and lastly provided a definition of the key terms.

## BACKGROUND OF THE STUDY.

* 1. **GENERAL BACKGROUND**

According to Thuronyi (2010), authorities may adopt presumptive tax techniques for a variety of reasons. These vary from administrative simplification when income generated from the operations of an enterprise is low and as a way to minimize tax evasion or avoidance and lastly as an objective indicator of tax assessment when there are tax compliance challenges. Kalra (2018) argues that the introduction of the presumptive tax system is an advantage to tax payers and tax collectors alike because it simplifies tax collection.

### GLOBAL PERSPECTIVE

Guevara (2008) pointed that as early as 17th century people in Milan, Italy didn’t have the best method of ascertaining tax liability so they estimated the amount of tax a farmer should pay using the piece of land instead of using the actual output that is how the presumptive tax began. This resulted in increased output levels on the land because taxpayers wanted to minimize taxes by producing more from the land so that they could defeat the system.

According to Ferrara (2021) in Italy, “Presumptive taxation adopted by fiscal authorities are widespread policy tools taken into action by authorities in charge of public finance with the aim to improve the willingness of the payer and to ﬁght tax evasion.”

Presumptive taxation generally uses an estimate of income as the tax base for that period. If you own a hectare of land, or operate a certain type of business, you are charged a presumed fixed amount of tax regardless of the actual amount earned from that piece of land or business.

### 1.1.2 REGIONAL PERSPECTIVE

In Ethiopia presumptive tax system was introduced as early as 1995 with the intention of widening the tax base, it was a measure to combat the attitude of non-compliance by taxpayers in the informal sector, and to widen tax revenue for the country. (Kumuri 2021). Tax payers that fall in category "C" are subject to pay presumptive tax. (In Ethiopian legislation, category "C” taxpayer is a person other than a corporate, whose annual gross income is less than $500,000). Category "C" taxpayers are not mandated by law to declare their income and also to maintain accounting records as they are considered as a group that is difficult to tax (Galfato, 2016). The Tanzanian government introduced presumptive tax for small businesses in July 2004 which was an effort to make it simple for operators in the informal sector to register and pay tax. However total presumption tax collection in Tanzania has been very small (estimated at 0.4 % during the period between (2009-2015) when compared with other types of taxes according to Gomera etal 2021. They further stated that a significant number of micro and small businesses in Tanzania do not maintain adequate accounting records that can be then used for tax assessment, thereby making it difficult for micro businesses to comply with tax remittances. Lastly, Gomera et al (2021) assert that micro businesses lack knowhow of comparing tax and tax benefits compared to those in the formal sector hence they end up feeling they are being unfairly taxed and this perception affects their willingness to comply with tax payment.

### LOCAL PERSPECTIVE

According to Nyamwanza etal (2014), increased urban population growth caused unemployment rates to rise to over 80% by 2012 as hundreds of businesses either scaled back operations or shut down entirely. Ndiweni (2014) claimed that when households lost their formal occupations in the formal sector, poverty levels in cities rose and the informal market economy emerged as people looked for other ways to survive. Cross-border trading, operating tuck shops, producing artwork and crafts, and even dealing in foreign currencies all became commonplace. Due to the informal sector's quick expansion, it had a substantial impact on job creation and economic growth, which helped to increase the gross domestic product. Chen (2001) in Maseko (2014) claims that 93% of newly created jobs in Africa are in the unorganized sector, and Zimbabwe is included because statistics reveal that 88% of the employable population was employed in the unorganized or small company sector (ZIMSTATS, 2012). The government and the Revenue Authority had to discover new methods of earning money to support government activities because of the thriving informal sector and small and medium-sized businesses.

ZIMRA claims that using fines for late payments as a form of enforcement does not help the situation because it raises the amount of taxes that businesses in Zimbabwe must pay to ZIMRA. According to Musarambani (2013), the backyard sector and informal players' dominance of the economy are the main causes of Zimbabwe's low tax compliance. a large majority In order to minimize the looming tax burden, many of these informal actors, who are also small to medium-sized firms (SMEs), are reluctant to legitimize their operations.

ZIMRA implemented a presumptive tax to address the aforementioned problems and prevent tax evasion, which primarily occurs in the unorganized sector. Presumptive tax legislation was passed to increase the revenue base in response to the rise in unofficial company operations. To ensure that informal businesses participate in tax payment in line with the experiences of other developing countries, certain sectors of the economy, including commuter omnibus operators, taxi drivers, driving school operators, hair salon operators, informal traders, small-scale miners, cross-border traders, cottage industry operators, restaurant and bottle store operators, and canteen industry operators, were targeted.

With the explicit growth of the informal sector, it becomes necessary to take it into account for tax payment as a contribution to the yearly tax revenues collected by tax authorities. For the government, academics, the business community, and tax experts alike, an understanding of presumptive tax assessment methods and how it affects annual tax revenues is of utmost importance. According to the researcher, Zimbabwe's economic growth and development should be favorably correlated with the informal sector's expansion and performance. To date, however, experts have not generated enough data to demonstrate how the expansion of the restaurant sector in Zimbabwe has contributed to the country's economic stability and prosperity. Consequently, the researcher's goal is to determine how presumptive tax is administered in Zimbabwe and determine how the tax head can significantly contribute to the fiscus, the researcher will identify, evaluate, and analyze how presumptive tax is now applied in Zimbabwe.

## STATEMENT OF THE PROBLEM

Even though the presumptive tax system was introduced in 2005, ZIMRA has perpetually failed when it comes to proper taxation of the informal sector. Despite the informal economy in Zimbabwe contributing an average of 61% of the nation’s economic productivity as ZIMRA’s 2021 annual report indicated, presumptive tax has garnered 5.45 % of the total revenue. Several informal sector participants still evade payment of tax. There has been no consistency in the amount of tax contributed from the presumptive tax (ZIMRA REPORT 2021) this study aimed at discovering the motive behind the noncompliance of the informal sector in tax payment and aimed at assessing effectiveness and efficiency of the presumptive tax system that was adopted by the Zimbabwe Revenue Authority.

## AIM OF THE RESEARCH

The overall aim of this study was to assess the efficiency and effectiveness of presumptive tax on the informal sector, using a survey of bottle store and restaurant operators in Bindura urban district.

## RESEARCH OBJECTIVES

**(i)** To investigate the reasons why bottle stores and restaurants operators should pay presumptive tax.

**(ii)** To identify any relationship between awareness of presumptive tax and compliance with presumptive tax.

**(iii)** To identify reasons for unwillingness to pay presumptive tax

**(iv)** To assess the efficiency and equity principle of collecting presumptive tax from bottle store and restaurant operators.

**(v)** To suggest ways ZIMRA can adopt to improve presumptive tax compliance among bottle store and restaurant operators and other players in the informal sector.

## 1.5 RESEARCH QUESTIONS

1. Why are bottle-stores and restaurants operators subject to presumptive tax?
2. What is the connection between presumptive tax awareness and compliance?
3. Why are restaurants and bottle store owners unwilling to pay presumptive tax?
4. Can presumptive tax be considered fair and effective for owners of restaurants and bottle stores?
5. What can be done by ZIMRA to improve presumptive tax revenues?

## SIGNIFICANCE OF THE STUDY

**(i)To bottle-store and restaurant operators**

To educate them on tax compliance and on how the presumptive tax system

works.

**(ii)To the University:**

The research can be used for academic referencing in the future by those who want to explore more of this topic especially Bindura University students.

**(iii)To the Researcher:**

The study enhanced the researcher’s cognizance on presumptive tax system not only in only in Zimbabwe but globally and also practically equipped the researcher with research skills such as data collections skills and how to write a formal research study. The interaction with supervisor and research participants widened interaction skills.

**(iii)To ZIMRA**

This study will be useful to ZIMRA because it will help the organisation understand the efficiency and effectiveness of presumptive tax in Zimbabwe and how tax can be increased from the informal sector. The findings will also be used to amend the presumptive tax Act to make it more efficient.

## DELIMITATIONS OF THE STUDY

The study was aimed at micro and small businesses in Bindura urban district in Zimbabwe and it assessed the efficiency and effectiveness of the presumptive tax on bottle store and restaurant operators. The survey duration was 2018 up to 2023.

## 1.7 LIMITATIONS OF THE RESEARCH

**i) Denial of Information**

Respondents were wondering the reason behind the study and denied the researcher crucial information. The researcher assured the respondents by explaining that information was required for academic purposes.

**(ii)Financial Constraints**

It would have been more ideal to use other SMEs but this needed more funding so the little financial resources that where available was used focused on Bindura based bottle store and restaurant operators.

## 1.8 ASSUMPTIONS

* ZIMRA would not change the presumptive tax amounts or will entirely wipe away the presumptive tax system during the period of study.
* The sample chosen accurately reflects the entire population.
* The respondents would cooperate and they would give true and reliable information.
* The data collected would be complete and accurate.

## 1.9 DEFINITION OF KEY TERMS

**Taxation**

Lee (2019) claimed that tax is defined as a non-negotiable monetary charge on individuals or organisations by government authorities or its equivalence aimed at generating revenue in order to government activities. The government can make payment of tax compulsory or voluntary.

**Effectiveness**

Generally effectiveness refers to the ability of producing a requirement result.

**Efficiency**

The extent to which a resource is used for the intended purpose

**Tax Compliance**

Is defined as the willingness to reveal all their incomes in correct amounts

## 1.10 Chapter Summary

The background to the study, the research objectives, research questions, research propositions, limitations and delimitation was all introduced in chapter 1. The next chapter reviews theoretical and empirical literature.

# CHAPTER II

**LITERATURE REVIEW**

## 2.0 INTRODUCTION

This section outlines what literature review is, namely theoretical, conceptual as well as summaries of some previous empirical researches on presumptive tax so as to establish the research gap.

## 2.1 PRESUMPTIVE TAX DEFINED

Presumptive tax, according to Utaumire (2016), refers to a variety of techniques where the favourable base of taxes (directly or indirectly) is not directly measured but is instead implied from a few straightforward indicators that are easier to measure over the base itself. According to the United States Law and Legal definition at http://definations.uslegal.com (23/01/2023), presumed tax is a notion of taxation where income tax is based on average income rather than actual income. Presumptive tax is a streamlined tax system that is rooted on fictitious income that permits the unorganised sector operators to pay a presumed figure at a predetermined interval, according to ZIMRA (2014). Victor Thuronyi (2010) stated it includes the use of circumstantial evidence to determine tax liabilities based on the tax payers' accounts that does not follow the standard procedures.

Guevara (2008) claimed that some of advantages the presumptive are as follows;

* It reduces both tax (avoidance and evasion).
* It reduces the negative effects of progressive taxation.
* It makes tax administration simpler and improves tax compliance by informal taxpayers.
* It generally increases the quality of assessing tax.

## 2.2 Informal Sector

According to Schneider (2010) etal informal sector refers to an economic activity that happens without adhering to the formal guidelines implemented by the governing authorities or formal business practises although it is not clearly illegal in its activities. This usually applies to small or macro enterprises that are formed by individuals or family but self-employed.

In accordance with ZIMSTAT(2012) paid employees are not entitled to any of the following benefits, employer contributions to pension funds ,paid annual leave ,paid sick leave and written contracts with employers. Employers and those who work on their own account family members who make contributions to the business, communal farmers, peri-urban and resettlement farmers who work for themselves and all salaried employees. Generally the term informal sector is defined in layman’s language as any income generating enterprise operating on a small scale using basic skills and they are not entitled to government regulations and policies without it being an offense to the authorities for example the Companies Act. On the origins of the informal sector, several theories have been put forth. There are four main schools of thought that have been formed from these theories. Dualists, structuralists, legalists, and voluntarists are among them.

## 2.2.0 The Dualist

According to the dualist school of thinking, the informal sector consists of marginal activities that are different from and unrelated to the formal sector and that give the underprivileged access to income and a safety net during times of crisis (Hart, 1973). In their Kenya Mission Report from 1972, the International Labour Organization described this institution. The emphasis is on those engaged in traditional and survival activities. Therefore, under this theory, the low class and impoverished must work in the informal economy to support themselves.

The dualists contend that the informal sector is excluded from modern economic chances as a result of disparities in population growth rates and contemporary industrial employment, as well as a mismatch between people's talents and the makeup of modern economic opportunities. This school holds that the rapid rise in informal activities is a result of the insufficient number of contemporary jobs being created to absorb excess labour as a result of a slow rate of economic growth and a higher rate of population growth (Tokman, 2007).

The dualists hold that although informal businesses and activities have minimal ties to the formal economy, they nonetheless function as a distinct segment of the economy. They further contend that a dualistic or split labour market's less favoured sector is made up primarily of the informal workforce, which is made up of self-employed people. This workforce does not take into account how informal businesses and governmental laws are related. As a result, many governments are reluctant to impose tax rules on the unorganized sector, which has been a topic of discussion over why they do not police these tax laws. Since the sector serves as a safety net for the poor, the argument has been made that taxing it would be unfair because it would put an even greater burden on the poor so raise taxes on the formal sector because doing so will increase their burden. (Sethuraman, 1976) Poor taxing them will not be fair because it will put an additional burden on the poor.

## 2.2.1 The Structuralists

According to Castells and Portes (1989), this school regards the informal sector's workers and economic units as subservient ones who help large capitalist enterprises compete more effectively by lowering input and labour costs. So, according to structuralists, the informal sector and the formal sector are interconnected. According to their viewpoint, the interests of capitalist development and the provision of affordable goods and services are subordinated to those of the informal workforce and informal businesses. Production relationships and activities that are not governed by social institutions are characteristics of the informal sector.

According to this viewpoint, informality is a by-product of capitalism and capital expansion. Informality is primarily driven by formal enterprises' efforts to boost worker productivity and competitiveness, as well as their responses to the influence of organized labour, government economic regulation (particularly taxation), international competition, and the industrialization process. They contend that the government must regulate business and employment connections in order to address the unequal relationship between large corporations and dependent producers and workers.

## 2.2.2 The Legalist

The informal economy and entrepreneurs are the focus of legalists. Legal professionals, in the opinion of De Soto (2000), see the informal sector as being made up of brave businesspeople who opt to forego the needless and onerous expenses, time, and effort associated with official registration and who require legal rights to transform assets into formal property. As long as government regulations are burdensome and expensive, according to De Soto (2000), entrepreneurs will continue to manufacture on the side. He thinks that irrational government laws and norms are suppressing legitimate private enterprise.

According to the legalist school of thought, more organizations are engaging in the informal sectors as a result of demands made by the government for them to adhere to various commercial laws and regulations. In order to unlock informal operators' productive potential and turn their assets into real capital, they contend that the government must establish streamlined bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators.

## 2.2.3 The Voluntarists

Neo-classical and neo-liberal economists promoted this school. According to Maloney (2004), the informal sector is made up of business owners that opt not to operate formally in order to avoid paying taxes, commercial laws, electricity and rental fees, as well as other expenses. Considering the costs and advantages of informality in comparison to formality, informal operators decide to function informally or even illegally. Contrary to the legalist school, this one asserts that entrepreneurs choose to be informal in order to benefit from it. They do not blame informality on onerous registration requirements. To broaden the tax base and lessen unfair competition by informal businesses, the government must subject them to official regulatory oversight.

## 2.3 Presumptive Tax and Informal Sector

Particularly in emerging nations, the informal economy has expanded quickly in recent years. According to a research by the World Bank's Foreign Investment Advisory Services (FIAS, 2007), the informal sector is essential to the economic and social advancement of a nation. According to Schneider, Buehn, and Montenegro, the informal economy currently accounts for 40 to 60% of the total economy in emerging nations as a result of the rapid growth of these sectors (2010). Governments have chosen to tax the informal sector in order to obtain significant revenues as the official sector contracts. Whilst many countries still strive to include the informal sector in the tax system, this has proven to be a challenging task. Data from already published works demonstrates that revenue collections from the unorganized sector are small (Mwila et al, 2011).

Over the years, many governments have discovered how expensive it is to tax the unorganized sector. Low tax income in the informal sector is a result of administrative expenditure incurred by the tax agents and authorities in fishing out tax payers and tax collection, as well as costs incurred by owners of informal firms in complying (Leoprick, 2009). As a result, several governments have tried to increase administrative effectiveness by simplifying presumptive tax regimes. Yet, there have been arguments in favour of the informal sector being completely excluded from paying taxes, particularly taxes to the central government. Pimhidzai and Fox (2012) contend that the survival of the small businesses is threatened by the regressive nature of informal sector taxes (taking into consideration the amounts of taxes that some of them are already paying to the local tax authorities in form of permits and licences or user fees). They contend that taxing these businesses will cause inequality and could even result in the loss of informal jobs in developing nations where the informal sector is seen as a viable alternative for people who are shut out of the formal economy (Carroll, 2011).

On the other hand, persons who work in the unofficial sector are not always desperately poor and have not always been shut out of the formal economy. Some people choose to work in the unorganized sector just for the advantages of not being subject to taxes and other forms of government regulation. According to Fjeldstad and Heggstad (2012), not taxing them will lead to disparities and a lack of satisfaction among individuals in the formal sector who earn equivalent or lower wages. Many people pick the unorganized sector in order to avoid paying taxes and make huge profits. According to this viewpoint, taxing the informal sector is necessary to ensure business equity between formal and informal sectors. As a result, Zimbabwe followed suit and began taxing the unorganized sector. This is done in an effort to enhance tax income and the tax base, which will help government agencies carry out their obligations more successfully.

Two challenges or strategies for raising money from the informal sector have been the main focus of calls for taxing it. The first problem with informal taxation is on small to medium-sized businesses (SME's) that have the potential to expand and enter the system of regular taxes. The major objective is to collect money from these businesses in the form of taxes while simultaneously assisting these SME's in expanding and formalizing their operations. By formalizing their operations, the government will be able to collect more tax income (Embuka, 2015). The second problem focuses solely on revenue collection, not encouraging these enterprises to become formalized. The justification is that these informal businesses can continue to function in the unregulated market if they pay the straightforward taxes that were created for them. These companies, who will be targeted, typically have minimal turnover and are too tiny to qualify as SME's.

The application of the current regular tax regime, indirect taxes like the VAT, and special taxes specifically created for the sector, such the presumptive tax, are the three primary strategies, according to Bird and Wallace (2004), to bring the informal sector into the tax net. They are described further on.

### 2.3.1 Existing Tax Regime

This is the most direct method for expanding the application of typical formal sector taxes, such as income taxes and VAT, to small informal enterprises, thereby formalizing the informal sector. This might be accomplished by locating small, illegal businesses and making sure they adhere to the law (Bird and Wallace, 2003). Other compliance inducements, such as tax breaks, can improve this strategy. A tax vacation is a brief decrease or removal of taxes. They can be used by small businesses that maintain accurate and efficient records, but governments typically employ them as investment incentives. It is quite likely that these formal taxes could be expanded. The primary issue is that it will result in significant administrative and compliance costs, particularly for the smaller businesses because of their possibly poor revenue. Because they can afford the relatively high compliance expenses, larger enterprises are likely the only ones who can benefit from this.

In order to exclude smaller businesses that will be served by presumptive taxes maybe with some unique taxes segregated for the informal operators, several authorities in still developing countries have chosen to set high taxes. The collection of taxes from small businesses, however, has been an exception where withholding taxes have been successful. As a method of taxing the unorganized sector, several developing nations withhold income tax from imports (Keen, 2007). This approach lowers the cost of compliance while improving administrative efficiency. Its primary objective is to tax transactions that are likely to result in tax evasion and raise the expense of not complying. Withholding taxes are virtually identical to direct taxation, but they differ somewhat in that that the tax liabilities of such tax-compliant businesses can be offset by these taxes. This will function as an incentive for businesses to be tax compliant as only those non-compliant organizations would be responsible for paying these levies.

On domestic or imported transactions, withholding taxes may be levied. Keen (2007) provides evidence that various nations impose withholding taxes on imports that are eligible for income tax credits. Among these nations are Benin, Burkina Faso, Gabon, Guinea, and Mali. Togo, Burkina Faso, Mali, and Niger continue to impose increased withholding rates to importers who lack a tax clearance certificate number, putting pressure on non-compliant businesses and people to comply with tax laws. According to Keen, tariffs won't likely be necessary if withholding taxes are administered properly (2007). When major organizations subcontract work to small businesses, this is an example of a domestic transaction where withholding tax may be advantageous. The big companies can withhold taxes from the cash they ultimately make to the small businesses that aren't paying their taxes. Most developing nations, including Sierra Leone, which requires renters to withhold tax on the rent they pay to their landlords, employ withholding tax on domestic transactions frequently. However, in nations like Burkina Faso, all businesses are required to refuse to carry out transaction with unregistered traders who are not tax-registered. Although there are benefits to withholding tax implementation, they can also be administratively difficult, disrupt the system's coherence, and deter more substantial reform (IMF, 2011).

### 2.3.2 Indirect Taxes

The simplest means of taxing the informal industry is through this manner. Taxing the goods and services that these businesses buy and sell is an efficient approach to raise money from the informal sector because many of them cannot be pulled into the tax net. VAT and import and export duties can be used to do this. Indirectly in this context refers to the fact that unregistered informal businesses pay taxes when they purchase products and services for use in their operations even though they are not registered as taxpayers. Therefore in a sense, all unregistered industries do pay taxes, albeit far less than they would if they were.

Due to their decreased production over the previous few years, developing nations have drastically lowered their export tariffs. On the other hand, import taxes have been a significant source of income for many developing nations. Gordon and Li (2009) claimed that less developed nations still get over 16 percent of their total revenue through border taxes, which is significantly higher than the averages of 5.4 percent for richer developing nations and 0.7 percent for developed nations. The most frequently used defence of import and export taxes is that they restrict nations from taking advantage of their comparative advantage, which inhibits growth more than domestic taxes. Yet, this argument is weaker because it is difficult to tax the unorganized sector. Emran and Stiglitz (2005) even believe that tariffs are preferable because the informal economy is non-taxable.

Value-added Tax has been seen as a simple approach to expand the tax net to include unregistered enterprises (Engelschalk, 2005). Informal firms are not entitled to the same tax benefits as formal businesses, which include the ability to request VAT refunds from revenue authorities. Hence, VAT is applied to the purchases made by the informal businesses from the official sector. As a result, the informal businesses are subject to indirect taxation because they are unable to request refunds for the VAT they have already paid. Nonetheless, there are important factors as to why VAT has never been regarded as a successful method of taxing the unorganized sector. This strategy, according to Fjeldstad and Heggstad (2011), is incompatible with both the global tax initiative and the political economy approach this highlights how expanding the revenue base affects governance and the improvement of state-citizen relations. According to Bird and Gendron (2007), it is impossible to accurately gauge the system's performance. The informal sector must be charged VAT on all of its inputs for VAT to be fully effective, but this is not the case because the majority of the inputs used by the informal sector's businesses are purchased from other informal traders, who also produce inputs for their own use and thus escape the tax net.

## 2.4 Small to Medium Enterprise (SMEs)

According to Muchimbizi (2015) The SMEs sector is different within many countries hence making it difficult to come up with an internationally agreed definition. According to Reserve Bank of Zimbabwe (2013) says that SMEs refers to enterprises operating for economic gain with an asset base of ten thousand dollars to $2 million and an employment level of 5 -20 people and an annual turnover of $30 000 to five million. In Zimbabwe SMEs are recognised in the revenue statutes. In another nations such as USA, Canada and Britain SMEs are recognised.

## 2.5 Implementation and Mechanisms of Presumptive Tax System

These are several techniques that are used to come up with presumptive tax as explained by Thuronyi (2010).The level of economic development of a certain country influences the methods used to estimate income. Rough and ready methods are mostly common in countries that are at their early stages of development because they are very few qualified personal that are able and certified to study and analyse how profitable different economic activities are and then determine the basis required to calculate presumed income. In developed countries where there are better sectorial studies it is possible to come up with more accurate estimates. These methods are classified into four categories these are According to Ayyagari etal (2005) and these are classified as follows.

* Guessing what is the taxpayer’s earnings basing on the assets, staff, and nature of the entity and where the business activity is being undertaken.
* Use of computed gain on the business assets.
* Considering the gross turnover method with French Forfait as an example.
* Assessing income of the taxpayer basing on personal expenditure or using net worth.

Ferrara (2022) stated that they are different and many approaches of computing presumptive tax in different countries but he stated the most adopted in many countries such as the French Forfait, Israeli Tachshiv and Italian Business Sector. Wecheinrider (2007) also stated that there are other methods adopted by other countries for example in Spain they use “Estimacio Objectiva” and taxation by estimation in Japan.

### 2.5.1 French Forfait

According to Ferrera (2021) French Forfait is a method whereby the taxpayer and the tax authorities comes to and enter into a contract after negotiating and they both agree on the tax to be paid.(Thuronyi.2012) indicated that this method only works to SMEs that have a yearly income that is below the specific threshold.

* The taxpayer comes to an agreement with the tax authorities to use estimated assessment method as a way to assess tax obligation.
* The taxpayer then have to avail crucial business information in that current year, the information includes sales, purchases, closing inventory, wages and number of workers.
* The submitted information is used by the taxman to arrive at the presumed tax.
* This method can be applied for two years or can be extended.

Many countries have been impressed by the French Forfait and they have shown willingness to adopt but a several requirements should be met first this includes.

1. The tax authorities must have technical ability and resources to undertake a well detailed study of probability by the type of economic activity.
2. An adequate number of tax officials are required so they can verify information given by the taxpayer on the characteristics of their enterprise.
3. It is required that the tax officials be supervised strictly and they should be paid well and yet there are chances of corruption because of ongoing discussion between taxpayer and officials.

### 2.5.2 Tachshiv

Is a convoluted method that originated in Israel used to arrive at a tax liability for small business and individual income earners according to Ferrara 2021, the indicators are used to estimate the value of net profit.

1. An estimation of the following is made

* Daily average sales per worker
* Average rationing of inventory
* The relation between water usage and sales

2) The above data is used to then come up with the overall turnover.

3) Presumptive expenditures are then subtracted to as to come up with estimated gross income and then finally presumptive tax is then definitely figured out.

### 2.5.3 Italian Business Sector Studies (BSS)

According to Ferrara (2021) this method uses information submitted by self-employed and SMEs in order to estimate the value of profits. This method uses the theory that if two firms are to produce the equal economic benefit they are entitled to the same tax obligation and also if enterprises are of the same designated area of operation and they incur same cost of input. If the actual income is not known an economic formula for the two variables is used to determine turnover, hypothetical on the taxpayer behaviour, obtaining a quantity showing presumptive productivity per output. The two values are then compared every time when a firm reports turnover that is under the presumptive tax minimum value, the firm must be audited by the tax authorities. There is high chance of manipulation of figures since the industry knows the formula that is going to be applied so they will try by all means to play at a desirable figure.

## 2.6 CONCEPTUAL FRAMEWORK

### 2.6.0 The Deterrence Model.

According to Torgler B (2003) the deterrence model is better known as the classical approach. It holds the assumption that taxpayers make decision depending on which there is maximum economic gain from such decision. The motive on evading tax is rooted in the anticipated economic benefit or losses connected tom the choice to evade tax or to comply. If the chances of evading tax and not being caught are high as well as the punishment of such an action are undesirable a taxpayer is not likely to evade rather to comply.

Tanzi (2000) argued that the motives behind evading tax are not entitled to the penalties but rather the perception of the economic benefit the taxpayer is likely to gain from evading tax .Another indication was made by King and Shefrin (2002) was that the difference model do not consider non-monetary costs of evading taxes. The cost’s included loss of business reputation, self-esteem and social status which are eroded after one is caught committing such a crime. The another indication was that this model undermines how effective tax audits are .The model holds the assumption that is not realistic since audit does not look at every transaction but rather samples. However this model allow the tax authorities to understand the motive of the taxpayer pertaining the perception of presumptive tax. Generally non-compliance measure such as jail terms, financial charges are used to push taxpayer to comply.

### 2.6.1 Slippery Slope Model

According to Kirchler et al (2008) it is a tax compliance model constantly applied around the world on individual and corporate taxpayers. In general the essence of the tax authorities affect compliance of the taxpayer ,Although force and punishment may lead to an increase in tax compliance but trusting those in authority will lead to voluntary tax compliance. In an environment where the authorities frequently conduct tax audits and detecting will lead to increased tax compliance. The physiological determinants of tax compliance are as crucial as the power of audits and charges .But compliance is based on the trust between taxpayer and tax authorities according to Kirchler, (2007).The tax authorities have so much power on influencing compliance, However trust is gained by knowledge of the tax law, personal norms, justice and the trust in tax authorities.

### 2.6.2 Equities and Exchange Theory

Guevara (2008) presents the equity and exchange theory basing on the premise that people who pay taxes are reasonable and self –centred and should value capital in terms of the proportionality of costs to revenues between parties to an exchange transaction. As per this theory, if a person with an obligation to pay taxes is aware of the inequity of taxation, he will evade taxes and avoid paying taxes, and if he perceives fairness, he will comply. In general bottle store and restaurant operators anticipates improved facilities for examples water supply and electricity and so many better facilities that means they are likely to comply more if the facilities are better but they will do the opposite if they are not.

### 2.6.3 Presumptive Tax Rates and Due Dates.

(ZIMRA 2022) states that starting on January 1, 2022, "Every restaurant or bottle store operator is expected to pay presumptive tax amounts to ZWL 16250 every month. By the tenth day following the end of the quarter, the entire sum must be paid. All amounts that are not acquitted by the due dates are subject fines in the form of interest charges. The details of the allocation of current presumptive tax rates are shown below (ZIMRA 2022)

#### Table 2.1 Presumptive tax rates and due dates

|  |  |  |
| --- | --- | --- |
| **CATEGORY** | **ZWL PER MONTH** | **DUE DATE** |
| Restaurants and Bottle Stores | 16250 | 10th Day at the end of the quarter |
| Saloons | 4065 | 10th Day at the end of the quarter |
| Informal Traders | 3250 | 10th Day at the end of the quarter |
| Cross Border Trader | 10% of VDP | 10th Day at the end of the quarter |
| Cottage Industry | 16250 | 10th Day at the end of the quarter |
| Commercial Waterborne |  | 10th Day at the end of the quarter |
|  |  |  |

**Source; (ww.zimra.co.zw)**

### 2.7.0 Collection of Presumptive Tax by Local Authorities

According to [www.zimra.co.zw](http://www.zimra.co.zw) In Zimbabwe, many government departments have been given contracts to collect presumptive taxes in order to lessen the burden of administrative expenditures placed on the taxpayer as well as the inconveniences that taxpayers must endure .Since January 1st, 2015 ZIMRA have given ZINARA the full responsibility of collecting taxes on behalf of the government from transport operators, taxi cabs and driving schools. Every government agency that is allowed to levy taxes on behalf of the government must properly adhere to the PAYE and VAT laws. The agencies shall consider a maximum of 10% of the total revenue obtained as administrative costs. The major strategy at play by contracting is to increase compliance.

### 2.7.1 Appropriateness to the informal Sector

Gbegnondji,S.R (2017) indicate that in a lot of developing countries presumptive tax system is the common tax system .They summed up to say many members that pay presumptive tax have no motive to formalise their enterprise and they intend to intend to stay there for as far as they can.The reason being the benefits are much more than the losses. In most developing countries it is likely to see how the revenue they don’t see how the revenue they contribute is being used as they expect. The disinclination to comply with tax requirements increases if the cost of compliance both financial and non-financial are assessed in a firms cost benefit analysis of paying tax.

Additionally there is a lot of resistance on the part of the government to tax small enterprises. Most frequently the costs associated with collecting taxes from small firms outweigh the money they bring in.The informal sector is reluctant to integrate into the formal tax system as a result the state is unwilling to commit enough funds to this endeavour.

### 2.7.2 Expanding the Revenue Base Effectively.

Presumptive tax techniques accordance to Bird and Wallace (2005) should successfully entice business into the formal economy before transitioning them into the regular tax system rather than stimulating them to switch from the regular tax regime to the presumptive tax regime. According to Araujo-Bonjean and Chambas (2004), the main aim of presumptive tax should allow for higher tax contribution than that determined by the standard tax laws. This act encourages business to switch to the regular tax system and deters business in the formal sector from switching to the presumptive tax system, which will lead to the tax authorities encountering a loss of revenue .An answer to this problem could be reviewing of the amounts paid by SMEs.

Thuronyi (1996) contents that it is never easy to collect presumptive taxes from SMEs particularly given the fact that many nations rely on specialized tax structures that aim to strike a balance a number of competing goals. Reducing the costs of compliance, offering incentives to work in the formal sector ,reducing tax evasion and increasing tax collections are a few of these goals, given this several completing goals concentrating on one or more of them.

### 2.7.3 Challenges in taxing the informal sector

Alm et al (2004), stated that a lot of operators are unwilling to pay taxes, making it difficult for revenue authorities to collect them. This has presented a problem to all of the revenue agencies throughout the world to include some activities and people in the tax net, particularly non registered operators. Despite the use of strategies focused on streamlining administrative processes, expanding the tax base, and promoting fairness in tax administration, according to Africa Development Bank (ADB) (2005), little progress has been made in bringing the informal sector within the tax net. The Organization for Economic Co-operation and Development (OECD) contends that taxing the informal sector is challenging due to a number of logistical, administrative, and political obstacles.

Furthermore, little is known about taxes on the unorganized sector is inadequate or non-existent in the unorganized sector. It is challenging to obtain precise or even information on informal sector businesses for tax reasons due to the nebulous nature of the informal sector (Thuronyi, 2015). The majority of informal sector individuals and businesses just don't want to maintain accurate accounting records. Since it is now difficult to determine the precise revenue made by the business or individual, it is almost impossible to determine the amount of tax that should be levied against the individual. It becomes incredibly difficult to ensure compliance and difficult to calculate the tax liability Slemrod and Yizhaki, (2009).

The informal economy is commonly thought of as being based on cash. Players in the informal economy prefer cash transactions. Some businesses even go as far as to reject payment in the form of checks and other non-cash forms (Yihzhaki, 2012). These businesses can easily hide their profits and taxable income as a result. Businesses can adjust their accounts to reduce their tax burden, and they often do not provide complete information about their operations to avoid taxes. This is because cash transactions are more difficult to track and monitor, making it easier for them to evade taxes. Additionally, it's not just the participants in the informal economy that make it tough to tax it; there are also administrative hurdles that must be overcome. Government tax administrations in Africa lack the resources and manpower, according to Dube (2017) ability to apply, oversee, and enforce tax rules. The biggest barrier to governments generally being able to collect taxes is thought to be administrative issues. Since the informal sector accounts for over 60% of economic activity in Zimbabwe, there must be a large personnel assigned to enforcing tax compliance among informal sector participants. The staff is typically so small in Africa that it doesn't allow for the prospective tax payers in the unofficial sector. Additionally, the informal sector is distinct in its traits, which presents its own set of difficulties when it comes to tax collection from it. Due of its uniqueness, many officials lack the skills necessary to appropriately detect or enforce the different applicable tax regulations that penalize tax evaders.

The absence of incentives is another factor that makes it challenging to tax the informal economy. Because they don't trust the current official system of governance, many business owners and entrepreneurs in the informal sector are reluctant to pay taxes. This is supported by OECD (2010), who add that it is a well-known truth that many people frequently avoid taxes because they do not trust the government to use the tax money wisely or because they fear it might be taken by corrupt means. Participants in the informal sector will be further encouraged to stay in the informal sector and continue to cheat taxes by the lack of progress in the informal sector and continue to cheat taxes by the lack of progress in the country and the ongoing charges of corruption against public officials.

It is challenging to persuade people to pay their taxes if they develop a bad attitude against doing so.

In addition of the above, political restrictions make it challenging to collect taxes from the unorganized sector. The OECD (2010) asserts that taxes are fundamentally political issues as much as technical or economic ones. According to Tendler (2002), politics has a detrimental impact on how the informal sector is taxed. In many low income countries, political intervention can be considered as a major barrier to effective and fair taxation, according to the IMF (2011). Most unlawful transactions between politicians and informal traders include reciprocal agreements. Several scholars have noted that taxing the unorganized sector is politically unwise and extremely difficult because the fact that a sizable portion of voters come from the unorganized sector. As a result, in order to protect their support base, politicians and government officials at both the central and local levels are reluctant to impose tax compliance on the unorganized sector (OECD, 2010). This is worse in nations where the informal sector makes up the majority of the economy, such as Zimbabwe, where it accounts for almost 60% of the entire GDP.

### 2.7.4 Impact of presumptive tax on informal operators

Since informal sector enterprises are typically small, worries have been expressed about how paying taxes may impact their ongoing operations and eventual existence. According to Manhimanzi et al (2021), the payment of presumed taxes shouldn't drive enterprises in the unofficial sector out of business. The performance of enterprises in the informal sector will suffer if presumptive taxes are paid, claim Vinish and Rajesh (2016), because there is a positive correlation between poverty and this sector. Dualists who hold that the poor strive to make a living by working in the informal sector are what make up the informal sector are in favour of this. According to Joshi et al. (2013), the impoverished companies in the informal sector will experience negative growth effects from the introduction of presumptive tax, this alleged tax on the unorganized sector and SME's will probably have a negative impact on their cash flow, growth, and survival.

Numerous studies have reached the conclusion that taxing the informal economy will probably cause it to become less vibrant. As a result of their pegged tax liabilities, which are frequently very high to the point that many people find it difficult to pay their taxes, the profits earned by the informal sector enterprises are extremely low and inconsistent. Reiterating this, Nyamwanza et al. (2014) contend that small to medium-sized businesses are having difficulty complying with their presumptive tax duties, which is made worse by the harsh fines imposed by ZIMRA. However, the informal sector does not always get record poor earnings, but occasionally because of the absence of competent administrators, they misappropriate money and fail to pay their taxes. Because the actors in the informal sector lack financial management skills, they struggle to manage their spending, making it difficult for them to add presumptive tax to their expenses when they do manage their daily expenses Nyamwanza (2014). According to Mapetere et al. (2012), informal enterprises lack the necessary leadership capabilities to develop strong strategic management, and the legal necessity to pay presumptive tax and these will make this situation worse. Additionally, Karuga (2013) noted that presumed taxation poses a serious danger to the financial management strategy of small and medium-sized businesses.

Alternatively, if presumptive taxes are structured to promote informal organizations to become formal, they may have a positive effect on the informal sector. Some presumptive tax system designs promote informal businesses to become formal by forcing them to maintain accurate accounting records, which encourages them to do so. In order to ensure that they are taxed proportionately to their income and profits, some businesses will find it helpful to maintain accurate accounting records because they will find the tax rates to be excessive in relation to their profits they make.

## 2.8Empirical evidence

**Impact of Lockdown measures on presumptive tax of Zimbabwe; A case study of ZIMRA. Musumbani (2022) et al**

This study looked at how lockdown procedures affected Zimbabwe's ostensible taxing system. Semi structured questionnaires were employed in the study's quantitative research methodology to gather in-depth data. The findings indicated that COVID-19-induced lockdown restrictions had an effect on the presumptive tax collection of (ZIMRA) and the way of life of informal traders. The short notice given for the declaration of lockdown enforcement was one of many reasons that made the situation worse. The COVID-19 lockdown measures, according to the informal traders, had a detrimental effect on their ability to generate income and the demand for their goods and services. The study suggested that Zimbabwe's government support, empower, and enable small business owners to resume operations

**Manhimanzi (2022) etal. The effectiveness of presumptive tax in increasing Tax Revenue Collection from Informal Traders in Bindura**.

The purpose of the study was to determine how presumptive tax administration affected the amount of tax money collected from informal traders, as well as what influences their compliance with tax laws and how to overcome obstacles. Data were collected for the study utilizing a mixed methodological approach that used questionnaires and interviews. Purposive sampling was then used to choose a sample of 40 respondents, which included both ZIMRA officers and informal traders. The study's findings showed that factors like inflated tax rates, increased levels of corruption, a lack of knowledge and consciousness, and influence from the political side made presumptive tax administration less successful. The research makes the following recommendations for ZIMRA: examine tax rates in light of the nation's present economic climate; keep up the battle against corruption; increase tax education and awareness among current and potential taxpayers; and engage in fiscal decentralization. There will be opportunity to increase the tax base if these strategies are put into practice.

**Tax system in the informal sector: A case study of Harare informal tax system Zingwina and Njaya (2021)**

In Harare, Zimbabwe, the study examined a comprehensive grasp of the tax systems in connection to the unorganized sectors. Descriptive survey was used as its research design. Mixed methodologies were used for the investigation. Surveys and interviews were utilized in the study to gather data. According to the research, tax authorities mostly use presumptive tax to collect revenue from the unorganized sector. The survey also showed that players in the informal sector were not eager to formalize their operations in order to avoid being recognized by the established order. According to the report, presumptive tax shouldn't be punitive and shouldn't make the informal sector's activities impossible.

**How successful is presumptive tax in bringing informal operators into the tax net in Zimbabwe; A study of transport operators in Bulawayo. Sebele et al (2019)**

The main objective of the article was to evaluate the effectiveness of the presumptive taxation system in the informal sector, including its advantages and disadvantages. The study also examined the feasibility of delegating tax collection to other local authorities or private entities and identified reasons for non-compliance among informal sector taxpayers. The researchers used questionnaires and interviews to collect mainly qualitative data from a sample of 60 transport operators selected through simple random sampling and 10 representatives from the Zimbabwe Revenue Authority (ZIMRA) and transport associations selected through purposive sampling. The study's key findings revealed that most taxpayers were not aware of the presumptive tax system. The study recommends creating awareness about presumptive tax through aggressive promotion and awareness campaigns by ZIMRA at all levels. Additionally, it suggests that ZIMRA work with transport providers and informal sector organizations in Zimbabwe to develop an efficient presumptive tax system that represents the interests of all parties. Finally, the researchers advise ZIMRA to leverage cutting-edge technologies to identify tax evaders.

**An evaluation of the effectiveness of presumptive tax administration on revenue collection by ZIMRA: A case study of Harare Cottage Industry by Wadesango (2019).**

The study's major aim was to determine how well presumptive tax administration increased revenue collection. ZIMRA has been falling short of its targeted revenue for the previous eight years, from 2011 - 2018, due to the researchers' observation there is minimum contribution being received from the presumptive tax to a degree that it may work as a stand-alone tax head. Data was gathered by the use of interview and questionnaires using a mixed technique approach. Fifty people —25 ZIMRA SCO employees and 25 members of the cottage industry—including operators in the furniture sector, metal fabrication, were included in the sample. The results of the study stated that the efficiency of presumed tax administration was impacted by the high levels of corruption and political influence, as well as high tax rates imposed the minister of finance relative to earnings of the cottage industry owners.. According to the research, the authorities should start registering members of unorganised sector operators through mobile areas in their operating areas, lower the presumptive tax rates by considering the business environment, and include the relevant stakeholders in determining the tax-rates for cottage industries.

**Dube and Casale (2017).Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe.**

The article examined the equality implications of the presumptive tax system. For tax systems to function well, equity is a key factor. Collection of data was done to delve deeper into the issues surrounding collection, compliance, and perceptions of justice, interviews with important sources within the tax authority other pertinent organizations, and operators in the informal sector were performed. It was done using the representative taxpayer technique, which assess the fictitious tax obligation of formal and unofficial sector taxpayers at various levels. It concluded that both vertical and horizontal equity are threatened by presumed tax system. According to the interviews' findings, there is little enforcement, more obvious informal activities bear the brunt of the tax cost, and only some tax laws are applied. The legislation significantly undermines equity.

**Haji (2015).Presumptive tax system and its influence on the ways informal entrepreneurs behave in Tanzania.**

A study of Tanzania's presumed tax system was undertaken and how it influenced the actions of unofficial entrepreneurs. The findings where the system of presumed income tax is supported by sound fiscal and sectorial policies as well as strong judicial and institutional frameworks. While the study suggested that overall governmental reforms, surveys of taxes and patrols, tax observations, and tax audits all had a hand in these successes, the complete increment in presumptive tax revenues and changes in SMEs behaviour have been partially attributed to improvements in the presumptive scheme system.. Many SMEs entities are still not involved in the Tanzania Revenue Authority tax net, which may indicate that the current presumptive has its weaknesses indicated the study. The study suggested that factors that affect the characteristics of SMEs must be monitored and controlled.

**Tax compliance challenges in fulfilling tax obligations among SMEs in Zimbabwe: A Survey of SMEs in Bindura Onias (2015) et al**

This case study assessed the problems SMEs encounter in meeting their tax weights. The primary objectives of the article, which entailed a descriptive survey of SMEs in Bindura, were to assess how successfully presumptive tax system formalises the informal economy and to determine the reasons why SMEs comply with or violate tax regulations. The stratified random selection technique was used to separate 95 SMEs that made up the target population into five strata: cottage industries, restaurants, transportation, hair salons, and bottle store operators.30 SMEs from each strata were chosen as the sample size for the survey utilizing convenience sampling and survey questions. To get primary data, surveys and the use of interviews was made. According to the data, the a lot of informal traders do not pay taxes, which can be linked to the perception of high tax rates, low danger of being discovered, a lack of trust in the revenue authorities, and the reality that other informal traders are evading tax. Results also showed that the presumptive tax system does not work to encourage members in the informal sector to the formal sector. The primary recommendations were that presumption tax awareness campaigns, tax audits, the recruitment of tax agents, the enforcement of tax laws, and tax benefits for large enterprises should be given for doing business with compliant SMEs.

**Presumptive income tax system and profitability of small business enterprises in Uganda case study: Nakawa division by Were (2011).**

According to the study, small business profitability is negatively impacted by the presumptive income tax structure. Although most small businesses are financed out of their own resources and profits, taxes have not helped small business companies thrive because they encroach on expected revenue, lowering investment finance. The study found that most small businesses are unaware of the taxes they owe to the government and how those taxes are determined. The recommendations where that the Uganda Revenue Authority's subpar techniques of raising awareness are to blame for this ignorance. In order to achieve their objectives of profit maximization, the majority of small company enterprises do not provide adequate returns in terms of earnings, and as a result, the majority of them do not succeed operating for longer than three years. The large taxes they pay to the taxing authority were blamed for the low profits.

**Chidoko et al (2011); Impact of the informal sector on the current Zimbabwean Economic environment.**

The research emphasized the necessity of transferring the informal sector from presumed tax to regular taxation. The firms require support in the form of financing and market research. The government should relax the registration requirements for tax purposes, according to one of the main recommendations. The study came to the conclusion that there is a lot of potential for the informal sector to supply a sizable portion of the market, which also includes formal enterprises, and that it can help raise tax income.

**Pashev (2005) Tax compliance of small business in transition economies; lessons learnt from Bulgaria.**

This research was done in Bulgaria. The paper's primary focus was an investigation of the difficulties in boosting tax compliance in the small business sector, particularly in transition economies based on the experience of Bulgaria. It aims to weed out the aspects of tax policy and enforcement that target small businesses unfairly and encourage noncompliance among them. It makes the case that these promoters were connected to the unfair income taxation of sole proprietors and the mandatory social insurance contributions. They are linked to the greater compliance costs Bulgaria's small businesses must pay as well. The research examines the experience of two presumed taxes in Bulgaria, namely the patent tax and the minimum insurance income limits before examining the advantages and disadvantages of their optimization. The results showed that a presumptive tax is never a complete replacement for the regular tax structure, but rather a complementing tool that can assist the tax administration in transition economies in managing the shadow economy and the difficult to tax sectors.

**The informal sector tax revenue potential: A case study of Zimbabwe; Munjeyi (2017) et al**

In order to determine if economic resources should be directed toward this sector in an effort to tax it, the study aimed to analyse the performance of the informal sector's tax revenue in this article. The study used a process called a literature review. The evidence indicates that the informal sector contributes significantly to the Zimbabwean economy in terms of job creation, eradicating poverty, and serving as a trial run for willing taxpayers to enter the mainstream, but despite government efforts, their share of the country's tax revenue is negligible. Researchers proved that Zimbabwe lacks an efficient system for bringing in money from the unorganized sector. Due to the great potential for earnings, the report suggests that additional resources be directed toward the unorganized sector.

## 2.9 Research Gap

Numerous academics have studied the taxes of the informal sector. The researcher has concentrated on the presumptive tax effectiveness and its efficiency in Zimbabwe with the intention of adding to the body of knowledge already available on informal sector taxation. Numerous studies have concentrated on the compliance problems in the unorganized sector, but this study thoroughly examines the effectiveness and the efficiency of tax structure. Therefore, it is in the researcher's best interest to thoroughly do so with special focus being on restaurants and bottle store operators.

## 2.10 Summary

Chapter 2 surveyed the body of knowledge already available on presumptive tax, both theoretical and empirical. A rationale for conducting this investigation was subsequently offered. We'll examine the methods in the following chapter.

# CHAPTER III

**RESEARCH METHODOLOGY**

## 3.0 Introduction

Research methodology is the technical term for the procedures used in finding, selecting, processing, and analysing material on a certain topic. The researcher possess the chance to evaluate the reliability and general validity of a study in a research paper's methodological section. The research design, study population, data collection methods, reliability and validity, sample strategies, ethical issues, data gathering and presentation, and analysis procedures are all covered in this chapter.

### 3.0.1 Study Area

The researcher targeted areas where more bottle stores and restaurants are for example Bindura CBD, Aerodrome shops, Chipadze Tendai hall, Chiwaridzo shops, Garikai and Mupandenyama and other surrounding areas.

## 3.1 Research design

The general method selected to integrate the different study elements in an organised and cogent manner to ensure efficient addressing of the research topic is defined as the research design (Bell 2015). According to Vans (2011), a research design is a plan of action outlining how the researcher would approach or provide evidence for a certain problem or inquiry. A study design serves as a roadmap for the researcher, ensuring that a thorough plan is followed for data collection and analysis. There are generally four main study designs: descriptive, explanatory, casual, and predictive, according to Brink (2017). This research opted for a descriptive design and a mixed methods strategy that incorporates both quantitative and qualitative methodologies in a single survey was adopted. According to Creswell’s (2012) definition of the term "mixed method," this is a methodology that concentrates on gathering, integrating and analysing quantitative and qualitative data in a single research or a series of investigations.

### 3.1.1 Descriptive research design

The term refers to a methodical and reliable description of a phenomenon or an event with the goal of identifying correlations or interactions between or among predetermined variables. According to Joshi et al (2014), the goal of descriptive research is to bring an understanding of problems that are already existing through a process of collecting data that allows them to characterize the situation effectively than was achievable with no use of this method.

### 3.1.2 Justification of the survey

This method entails a thorough examination of a small portion of the entire group, and to be precise data were gathered as a result of the lengthier and closer relationships between the researcher and the respondents. In order to concentrate research efforts, time, and resources, the researcher adopted the survey study methodology on bottle store and restaurant operators in Bindura urban district. In support of case studies, Saunders et al (2009) notes that the majority of scientific research require several examples of the experiment to be represented. In this instance, as all bottle store and restaurant operators in Zimbabwe are governed by the same presumptive tax regulations, a study on one are can be applied to the entire nation.

## 3.2 Population

According to Kyambadde (2014), a target population is any collection of people who the researcher has interest in because they possess one or more traits. Population was defined by Saunders et al. (2016) as the entire set of cases or components from which a sample was drawn. As described by Wegner (2005) population is all potential observations of the random variable under investigation. Due to numerous factors, including time, money, and practicability, it is typically not feasible to examine every member of a particular community. A target population is just a collection of people or things from which the researcher hopes to gather data. Using the official register at Bindura Municipality, the target population was 95 bottle stores and restaurants. Included in the population was also the ZIMRA Mashonaland Central Provincial office s

### 3.2.0 Sample

According to sampling is the practice of selecting a portion of a statistical population (a statistical sample) in order to estimate characteristics of the full population. Samples that are representative of the population being studied are sought for by statisticians. When evaluating is not practicable to the entire population, sampling provides information while being more economical and efficient than doing so.

### 3.2.1 Benefits of sampling

• Gathering of Data was done in a short space of time and at a lessor cost.

• Results were more accurate since resources were concentrated in a narrow area

### 3.2.2 Sampling Techniques

### 3.2.2.1 Stratified Random Sampling

According to Saunders etal (2014) et al., stratified random sampling refers to a sampling technique that splits a population into sub-groups that can be named as strata. During stratification, groups are created based on characteristics or preferences that members have in common. Stratified random sampling is also known as proportional or quota random sampling. The two strata in this study were bottle shops and restaurants. The study selected a 40% sample from a total of 95 bottle stores and restaurants according to Bindura Municipality register. Which equalled a sample size of 38. Therefore (0.40\*95) =38 bottle stores and restaurants using proportionate representation. A total of 38 respondents were included in the sample, excluding 5 from ZIMRA **to** give a total of 43 respondents.

### 3.2.2.2 Advantages of Stratified random sampling

Prior to using random sample procedures, the entire population is stratified, so stratified random sampling accurately represents the group being studied. In other words, it guarantees that each demographic group in the sample is appropriately represented. The stratified random sampling method gives a more comprehensive representation of the population since the researchers possess control over the subgroups and can ensure that each is represented in the sampling, stratified random sampling provides better population coverage.

### 3.2.2.3Disadvantages of Stratified random sampling

Regrettably, not every study can use stratified random sampling. The method's drawback is that it can only be properly applied if a number of requirements are met. The study population must be broken down into exactly one subpopulation, with each member of the population being investigated having to be identified. As a result, stratified random sampling is unfavourable in situations where researchers are unsure whether to assign each member of the population to a certain subgroup.

### 3.2.3 Benefits of sampling

* Gathering of Data was done in a short space of time and at a lessor cost.
* Results were more accurate since resources were concentrated in a narrow area.

## 3.3 Data collection procedures

Heir et al. (2015) defined sources of data as diverse forms of informational evidence utilized to support research. Choosing a data collection method is very crucial stage in the research process, but it is rarely simple because there are so many things to take into account (Zimkund, 2000). These many variables include, among others, the population size, the study's goals, the resources available, the sampling techniques, and the response rate. Data sources might be classified as primary or secondary.

### 3.3.1 Primary sources

Primary data refers to the information that is being collected for the first time and with a specific goal in mind. The systematic observation, recording, description, analysis, and interpretation of people's behaviour constitute primary data collection (Saunders et al, 2009). It is important because secondary data cannot adequately address specific research topics. The questionnaire will act as the primary source of primary data for this study, along with a small amount of interviews Primary data is important since it offers relevant and updated information. Field observations, questionnaires, and in-person interviews were used to gather primary data.

### 3.3.2 Advantages of primary source

Since the primary source data was produced by particular questions that were created especially for the study, it was helpful for the research.

The likelihood of receiving biased information was decreased because the researcher received direct information from the chosen persons, unlike secondary, which was gathered for another reason, the responses might be trusted.

### 3.3.4 Disadvantages of primary source

Due to the necessity of making phone calls and creating, printing, and distributing questionnaires, getting it turned out to be both time wasting and unaffordable.

## 3.4 Secondary Sources

Information that is already available for usage is referred to as secondary data (Bradley and Stewart, 2012).These are sources, which contained previously published articles related to the research topic. Secondary information was obtained from literature review, newspaper articles and public documents from ZIMSTATS and the RBZ quarterly financial reviews. External sources used included textbooks, newspapers, procedure manuals and Internet journals. The researcher perused these data sources extracting relevant information.

### 3.4.1 Advantages of secondary sources

Since the data was easily accessible, expenditure was kept to a minimum.

Particularly during the literature review stage, secondary sources supplied a sizable database from which to locate information.

### 3.4.2 Disadvantages of secondary sources

Some of the data had to be carefully compiled in order to be usable because they weren't entirely relevant to the research topic.

## 3.5 Data collection instruments

Some of the data needed to be carefully assembled because it wasn't entirely relevant to the research project.

### 3.5.1 Questionnaires

The researcher tested some of the questionnaires in a pilot study and made changes in response to the findings. To achieve a higher response rate, the researcher pre-contacted the sample objects after introducing herself, explaining the goal of the study, and requesting assistance. To guarantee delivery to the designated recipients, all surveys were distributed either in person or by email. The questionnaire's due date was announced, and the need of their participation in completing the necessary information on time was emphasized. Data was compiled and analysed after all questionnaires had been collected. The researcher conducted somewhat organized interviews and prepareda list of pre-set questions. During these interviews, respondents also mentioned drawbacks. Interviews were conducted following responses to the questionnaires have been requested for clarification.

### 3.5.2 Advantages of questionnaires

* They give respondents freedom for answering some of the questions they don’t feel comfortable answering in the presence of the researcher.
* Questioners gives a well presented result because it gives the responded enough time to sensibly think out their responses.
* Some bottle store operators and restaurant operators wanted to be anonymous so questionnaires will give them that freedom.
* Very convenient because the respondents would answer when it’s convenient to do so.

### 3.5.3Disadvantages of Questionnaires

* Clarity was not easy to obtain where the respondent
* People who cannot read or write will not respond to the questionnaire
* Data obtained from open-ended question took a long time to analyse and process.

In interviews on the subject, the trials mentioned above were cut short because several questions which the respondent attend to where asked in person from the interviewees.

## 3.6 INTERVIEWS

Saunders et al. (2016), refers to a deliberate dialogue between two or more people that calls for the interviewer to build rapport and offer concise, specific questions that the interviewee is willing to answer to and pay close attention to. Interviews can be conducted in-person or over the phone. The researcher conducted the interviews using the interview guide, which helped her keep within the confines and goals of the study. The relevant themes, the amount of information, draft questions, a list of any probes or prompts, and pilot questions should all be included in an interview guide, according to Lee (2013). Structured, semi-structured, unstructured, and non-directive interviews are the four main forms of interviews. Semi-structured interviews were used by the researcher, enabling more questions from the interviewer that are not included in the interview guide. The interviewer is given the opportunity to ask more questions during the semi-structured interview that he could have overlooked during preparation. The survey made use of face to face on 7 respondents.

### 3.6.1 Advantages of Interviews

* The researcher clarified questions and made sure that respondents understood them without directing the respondents.
* Non-verbal indications could also be recognized
* It was allowed to ask a lot of questions and get definitive answers.

### 3.6.2 Disadvantages

* Respondents did not have enough time to fully consider their answers, which led to incomplete answers.
* Because they likely believed there was no anonymity, respondents were cautious in their responses.

## 3.7Reliability and validity

Validity and reliability are merely accepted metrics for determining if a research tool is adequate. During the research process, mistakes may happen because answers may be influenced by moods and implanted personal feelings. According to (Saunders and Thornhill 2014), validity is considered as a measure of the truthfulness of the study findings and whether the research actually measures what it set out to. As the degree to which the results are justified is known as validity, the study used authoritative and genuine sources to gather data. Additionally, the questions in the surveys and interviews were clear and helped to clarify the data that was connected to both the study's problem and objective

.

Reliability refers the extent to which the data collection procedures will give consistent results, comparable observations would be made or conclusions reached by other researchers, or there is full disclosure on how sense was originated from the raw data (Saunders et al, 2009). Reliability, in a nutshell, is the probability that the same conclusion would be reached if the research were to be conducted again in the future. The instrument is deemed to be consistent and dependable if a different researcher can come to the same conclusion. To ensure reliability pilot study of the questionnaires was conducted on 5 respondents to determine whether the instrument asked for the right information in order to assure dependability. In order to spot any appreciable differences in the responses, the pilot study's findings were compared with each other. The fact that the results were not significantly different suggests that the questionnaires consistently yielded reliable data.

## 3.8 Data presentation and analysis

Data is the starting point for analysis, to provide a more realistic observation of the variable being searched, the data gathering process was meticulously carried out. To create a useful study, both qualitative and quantitative data analysis techniques were used. Additionally, the information was gathered and categorized in order to alter and condense it into useful information. To display the varied responses from the respondents to each question, the data was arranged in tables, bar graphs, pie charts, and percentages were computed. Excel and SPSS (version 21) was utilized by the researcher to analyse and show data.

## 3.9 Research Ethics

The integrity of a person’s behaviour in regard to the rights of people who become the subject of your work or are impacted by it, according to Saunders et al. (2012), is referred to as ethics. It was the researcher’s priority to make sure that all of the research's considerations were ethical. The researcher made sure that each subject gave their free and informed permission. People must be aware of the research process and voluntarily participate in it. Additionally, there was anonymity, which is the concealment of participants' identities in all documents generated by the research (Saunders et al, 2012). The information that participants submitted was also confidential. The researcher has a duty to take reasonable measures to protect the confidentiality of participant data, including names and any other identifying information that can be used to determine their identities. Additionally, all sources used were properly acknowledged in accordance with the ethical standards anticipated in academia.

### 3.9.1Chapter Summary

This chapter looked at the research methods used to conduct the study. The researcher also covered research design and the questionnaires and interviews that will be used to gather data. The sample techniques used in the study were also covered in this chapter. The next chapter, which presents the research findings, will detail, analyse, and discuss the data that was gathered.

# CHAPTER IV

**DATA PRESENTATION AND ANALYSIS**

## 4.0 INTRODUCTION

This chapter displays, analyses, and interprets data findings based on information that was gathered using the methods described in the preceding chapter. The primary methods used to gather data were questionnaires and interviews. Until data is organized and analysed in a meaningful way, according to Bell (2008), data collecting is meaningless. As a result, conclusions were presented through the use of tables, graphs, pie charts, and statistical analysis. This was be followed by an interpretation of the study's findings with graphs, pie charts, tables and statistical analyses. The results of the study were then interpreted and discussed.

## 4.1 QUESTIONNAIRE ANALYSIS

Two different questionnaires were created by the researcher, one for ZIMRA officials with the other for owners of bottle stores and restaurants. 38 questionnaires in all were provided to owners of bars and restaurants, and 5 were sent to ZIMRA representatives. Tables below demonstrate the response rates for both operators and ZIMRA authorities.

Table 4.1 Bottle stores and restaurant operators.

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of business** | **Issued Questionnaire** | **Questionnaire**  **Returned** | **Response Rate** |
| **Bottle-Stores** | **25** | **22** | **88%** |
| **Restaurants** | **13** | **12** | **92%** |
| **Total** | **38** | **34** | **89%** |

**Source: Primary data :( 2023)**

#### Table 4.2 ZIMRA response rate: Interviews

|  |  |  |  |
| --- | --- | --- | --- |
| **Job description** | **Issued questionnaires** | **Returned questionnaires** | **Response rate** |
| **ZIMRA Officials** | **5** | **5** | **100%** |
| **Total** | **5** | **5** | **100%** |

**Source: Primary data :( 2023)**

According to the questioner the response rate of 89% and 100% for business operators and ZIMRA respectively was highly satisfactory. This means that the data can be relied upon to give good results. In total 38 questionnaires were issued and 34 were returned giving a response rate of 89%.The ZIMRA officials were interviewed and the response rate was 100%.

## 4.2 Restaurants and bottle store operator’s responses

### 4.2.1 What is your gender?

##### Figure 4.1 Gender ratio

**Source: Primary Data (2023)**

The gender data indicated that women predominate in the informal sector. According to the research, women make up 65% of the informal sector while men make up the remaining 35%.

### 4.2.2 Educational Qualification

The highest level of education attained?

##### Figure 4.2 Educational qualifications

**Source: Primary Data (2023)**

**Findings**

This inquiry sought to determine the average amount of education that members of the informal economy had obtained. The study's findings indicated that many workers in the unorganized sector with over (66% of them) have at least an O & A level. Only 17% of the total population have obtained less than and 11% have attained a degree and only 6% attaining further.

**Discussion**

It is not shocking that many participants only received ordinary and advanced level schooling because the majority of the skills required in the informal sector are gained outside of formal education suggested Ferreira (2021).Onias (2014) also suggested that level of education was relevant in this study because the attainment of a certain level of education has an important bearing on determining tax evasion. Educated people can understand why they are taxed and it is easier for them to comply than uneducated ones.

### 4.2.3 Are you aware of presumptive tax?

##### Figure 4.3 Awareness of presumptive tax

**Source: Primary Data (2023)**

**Findings**

The data collected revealed that 71% of bottle store and restaurant operators were ill-informed of their duty to comply with presumptive tax, whereas 29% were aware of this responsibility.

**Discussion**

This goes in hand to Manhimanzi et al. (2022), just 15% of those employed in the informal sector were aware of the presumptive tax, making up the majority unaware of presumptive tax unaware of their obligation with an 85%.

### 4.2.4 Have you attended any Tax Seminar organised by Zimra?

##### Figure 4.4 Seminar attendance

**Source: Primary Data (2023)**

Workshops are extremely important because they educate individuals about the value of paying presumptive tax and the advantages one might obtain. Additionally, any complaints can be addressed to make sure that authorities and operators stay on the same track. On the other hand, 79% of the operators admitted that they had never been to a session on presumptive tax organised by Zimra with only 21% agree to have been on Zimra tax seminars.

**Discussion**

Zivanai et al (2016) further emphasized that the informal sector's noncompliance is due to ZIMRA's lack of awareness programs that include workshops. According to Nyamwanza et al. (2014), taxpayers' education levels are a significant determinant in determining how well they comprehend taxes in general. Workshops are crucial as a result.

### 4.2.5Have you benefited from attending the Tax Seminar?

#### Table 4.3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percentage** | **Valid Percentage** | **Cumulative Percentage** |
| **Strongly disagree** | **0** | **0** | **0** | **0** |
| **Disagree** | **1** | **14.28571429** | **14** | **14** |
| **Neutral** | **0** | **0** | **0** | **14** |
| **Agree** | **3** | **42.85714286** | **43** | **57** |
| **Strongly Agree** | **3** | **42.85714286** | **43** | **100** |
| **Total** | **7** |  | **100** |  |

**Source: Primary Data (2023)**

**Findings**

Of the 7 people who attended these seminars organised by ZIMRA 3(43%) strongly agreed to have benefited and 3(43%) agreed to have benefited from these seminars with only one said to disagreed with the usefulness of these tax seminars.

**Discussion**

This goes in hand with Munjeji et al (2017) who was in support that ZIMRA must increase its awareness tax campaigns so as to create awareness to the players in the informal sector.

### 4.2.6 Reasons for avoiding Tax

##### Figure 4.5

**Source: Primary Data2023)**

**Findings**

A large number of respondents (15) claimed they were not paying because doing so increased their operating costs, while 9 claimed they were unaware of where to pay the presumptive tax, 8 claimed they were not paying because others were not paying, and only 2 claimed their reasons for non-compliance were not mentioned in the question.

**Discussion**

These results are at variance with those of Mpofu (2021), whose research revealed that the presumptive system is complex, the presumptive taxes are high, and the presumptive service delivery is subpar. Peer pressure, as well as the fact that it raises operational costs, is a significant factor in not paying presumptive taxes, according to this research of bottle shops and restaurant owners, and ZIMRA is not doing enough to assure full compliance.

### 4.2.7 Does Zimra conduct regular follow ups?

##### Figure 4.6

**Source: Primary Data**

**Findings**

Findings by the study suggested that 35% strongly disagree and 29% disagree and only 18% of the population remained neutral and 12% agree and the remaining 6% strongly agreed that ZIMRA conducts follow ups, these finding suggest that ZIMRA is not doing regular follow ups.

**Discussion**

This is in line with the findings of Utaumire et al. (2013), who found that ZIMRA had flaws of its own, including insufficient follow-ups and awareness efforts. Mukasa (2008) also found that the Uganda Revenue Authority was not sufficiently informing small firms about taxes.

### 4.2.8 Do you know how presumptive Tax is assessed?

##### Figure 4.7

**Source: Primary Data (2023)**

**Findings**

The study found that only 18 percent knew how presumptive tax is calculated, with 6% strongly agreeing and 12% agreeing. The rest 82% either strongly disagreed or did not know how presumption is determined, including 32% not sure, with 24% strongly disagreeing and 26% disagreeing. This shows that by withholding information about how presumptive tax amounts were determined, ZIMRA is not being transparent enough with taxpayers.

**Discussion**

This is one of the reasons why many operators fail to pay their taxes as the method overestimate their income. Many emphasized that the rates were too high for them to pay the taxes. Only 22% of people felt that the method accurately determines their income. According to Kahanda (2018), it is unlikely that this method will accurately estimate the presumptive tax that each taxpayer must pay because it does not take economic fluctuations into account.

### 4.2.9Do you think the collection of presumptive tax is justified?

##### Figure 4.8

**Source: Primary Data (2023)**

**Findings**

The findings of the study portrayed that 35% of the population strongly disagreed and 32% disagreed that the collection of presumptive tax from restaurant and bottle store operators is justified. Only 3% strongly agreed and 12 % agreed that there is justification in the collection of presumptive tax and percent remained neutral.

**Discussion**

These findings goes in hand with those made by Ogembo (2019) in Kenya he suggested that if members in the informal sector feels their contribution of tax is not reaping rewards, they are more likely to evade tax since they don’t feel the trust in their authorities.

### 4.3.0 Which one of the following measures do you encourage ZIMRA to adopt in order to improve presumptive tax collection?

#### Table 4.4

**Source: Primary Data 2023**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Method | Strongly Agree | Agree | Not Sure | Disagree | Strongly Disagree |  |
| Conduct Tax Seminars | 18 | 10 | 2 | 4 | 0 | 34 |
| Reduce presumptive tax | 20 | 9 | 5 | 0 | 0 | 34 |
| Prosecution | 0 | 5 | 2 | 9 | 18 | 34 |
| Engage tax Agents | 12 | 13 | 6 | 3 | 0 | 34 |

**Findings**

According to the following table, operators of restaurants and bottle shops would pay ZIMRA more tax if taxes were decreased (29/34) than they would under any other incentive scheme. Additionally, holding seminars came in second with (28/34) and hiring tax agents with (25/34) while prosecution received the least amount of support (7/40) due to taxpayers' continued evasion of presumptive tax. According to this, ZIMRA would likely generate more tax revenue by lowering presumptive tax than by prosecuting tax evaders.

**Discussion**

According to Musarirambi (2013), high administrative costs related to filing tax returns, obtaining the necessary data, and time required are crucial components of tax compliance. The cost of compliance can be considered a hardship on top of the tax burden already present. Taxpayers behave less obediently in this situation.

### 4.3.1 How would you rate ZIMRA on educating bottle-store and restaurant operators about presumptive tax?

##### Figure 4.9

**Source: Primary Data (2023)**

**Findings**

According to the study, more than half of bottle store and restaurant operators (67%) said that ZIMRA had not sufficiently educated taxpayers about presumptive tax. Only 15% of respondents were unsure, but a total of 18% felt that ZIMRA had adequately informed taxpayers about presumptive tax. According to the statistics, the majority of respondents accused ZIMRA of failing to adequately educate them.

**Discussion**

These results are consistent with those of Onias et al (2016), who discovered that the realization of low tax income from this tax base was due to the Zimbabwean Revenue Authority's inadequate education of commuter operators' business owners in Bindura town on presumptive tax. According to Utaumire et al.'s (2013) investigation of ZIMRA area 1, the tax administration had not adequately notified SMEs about presumptive tax.

## 4.4 Interview Analysis

**ZIMRA Staff**

##### Figure 4.10

**Source Primary Data (2023)**

60% of the respondents have been working at ZIMRA for more than 5years and 40% have been employed for 2 to 5years and exactly none have been employed for less than a year. Since most of the respondents have a wealth of experience it increases the reliability of the results of this research.

### 4.4.1 Occupation of the respondents

The process of making presumptive tax payments affects practically every division of ZIMRA. To increase the variety of comments received, it was essential to get responses from every department. Each interviewee was selected from among the client care, audits, debt management, VAT, and other final deductions departments within the ZIMRA workforce. The remarks of the respondents are more credible because all departments were fairly represented. The majority of respondents also hold managerial jobs of greater responsibility.

### 4.4.2 Explain what is Presumptive Tax?

All members in the ZIMRA workforce where able to explain what really is presumptive tax and

### 4.4.3 What criteria are used to come up with presumptive tax amounts?

It is crucial to understand how the taxing authority, in the present instance ZIMRA, decides the amount of tax to impose on the informal economy. The presumptive tax on the informal sector is therefore established using the standard assessment technique, according to 80% of respondents. The remaining 20% were not aware of how tax rates were determined.

### 4.4.4 What problems if any faces your organization from collecting presumptive tax from restaurants and bottle-stores in Bindura?

The operators' failure to maintain accurate books of accounting presents the tax administration with its biggest obstacle when it comes to taxing the unorganized sector. This was the main aspect that the respondents brought up. As a result, other restaurants and bottle stores are overtaxed because it is now difficult to determine their income to be used as a benchmark. The operators' lack of cooperation was mentioned by some respondents as another obstacle to tax collection in the unorganized sector. The operators actively avoid paying their taxes and devise strategies to make sure they do not, making it difficult for tax authorities to find them.

### **4.4.5 What has ZIMRA done or is doing to increase tax revenues from this tax base**?

It's one thing to put a system in place; it's quite another to make sure it functions properly. A well-structured approach that ensures the collection of the maximum amount of presumptive tax is required to support effective presumptive tax collection. Four of the respondents noted that hiring local governments and ZINARA to collect presumptive tax has proven to be more successful than doing it in-house because these agents are responsible for the majority of the tax's annual collection. This supports Colin and Loana (2015) assertion that the presumptive tax outsourcing program in Ghana has been successful. Despite the fact that other local authorities in Zimbabwe postpone payments, the tax collected is quite high. People's remittances were mentioned by 1 respondent as another technique for collecting presumptive tax. However, they noted that this is a remarkably ineffective strategy because so few operators show up to pay their dues. Since it is well known that the informal sector does not pay taxes, many people choose not to send their tax payments to ZIMRA.

### 4.4.6 How effective is presumptive tax collection regarding restaurants and bottle-store operators in Bindura?

This question’s objective was to determine whether the presumed tax system in place at the time was successful in taxing all eligible businesses in the unorganized sector. More presumptive tax is collected the more informal traders there are in the tax net. The following pie chart clearly demonstrates that 40% of people disagree, 20% strongly disagree, 20% are not sure, 0% strongly agree, and 20% believe that the whole informal sector is being taxed. Even though research showed that not all informal traders are currently subject to taxation, there is still room for improvement in this area. Despite its best efforts, the government is failing to successfully include the unorganized sector in the tax system. Manhimanzi et al. (2022) claim that due to the diverse and constantly evolving nature of the informal sector, it is very challenging to include the entire economy in the tax system.

##### Figure 4.11

### 4.4.7 Do you think the presumptive tax amounts applicable to bottle-stores and restaurant operators are reasonable?

Charging a reasonable amount of tax which can be met by the taxpayers is the main goal. The question which the objective wanted to find out was if the taxpayers where being able to settle their tax obligations without difficulties. A whopping 60% of the respondents replied that the rates are way beyond the affordability range of the informal sector. This is evidenced by the majority who claimed the low taxes should be paid in the informal sector. On the other hand, 36% however thought that the tax rates are affordable to the informal sector. Masarirambi (2013) also supports the findings as he said most informal sector firms find the current presumptive tax rates are unfordable.

## 4.3 SUMMARY

In this chapter, the primary and secondary data collected through interviews and questionnaires were presented, analyzed and interpreted. The data focused on challenges faced in bringing the informal sector into the tax system, the effectiveness of the presumptive tax approach, the impact of presumptive tax on business survival and the various methods used to collect taxes from the informal sector.

# CHAPTER V

**SUMMARY FINDINGS CONCLUSIONS AND RECCOMENDATIONS**

## 5.0 INTRODUCTION

Conclusions drawn from the study's investigation were revealed in the final chapter. The primary goals of this chapter were to evaluate the outcomes, draw the necessary conclusions, and offer constructive conclusions and suggestions on Zimbabwe's presumed tax structure. So, adhering to the objectives of the study, the researcher will draw a conclusion and provide recommendations based on the data presented and the review of the literature. In order to improve presumptive tax administration, this chapter offers potential recommendations.

## 5.1 SUMMARY OF FINDINGS

Underneath is a list of the major findings made by this research concerning the assessment of the efficiency and effectiveness of presumptive tax collection system in Zimbabwe? A survey of bottle store and restaurants operators in Bindura (2023).

**1.** The study's findings demonstrated that while there is potential for improvement the presumptive tax system is not the most effective and efficient means to tax the informal sector. This was partly because many operators believed they were being overtaxed because the assessment process couldn't accurately predict their real income. Many people avoid paying presumptive tax because they believe it to be excessive, therefore a modification in the system would be beneficial.

**2.** Another observation was that ZIMRA lacked the dedication to run awareness campaigns. Unlike seminars, ZIMRA does not regularly conduct awareness initiatives. According to the findings, people who work in the informal sector need to be reminded frequently to make sure they pay their taxes. Because ZIMRA hasn't conducted any awareness-raising activities, the informal sector is reluctant to pay taxes.

**3.** The study's author discovered that the informal sector does not voluntarily forgo maintaining accurate accounting records. Instead, they lack the expertise and understanding necessary to do so. They frequently misunderstand these records when they attempt to keep them, and they frequently produce subpar results because they lack the necessary abilities. This is the main reason why many participants in the informal sector neglect to maintain accurate accounting records.

**4.** Another result was that the presumptive tax system has not succeeded in bringing the entire informal economy into the tax net. This has mostly been made worse by ZIMRA's reluctance to enforce compliance in the unofficial sector. ZIMRA doesn't often check in and follow up to determine if unauthorized merchants are paying their taxes in compliance. ZIMRA can use a variety of tactics, such as involving the police and increasing the number of its officers who assist in assuring tax collection, to secure compliance from the unorganized sector. ZIMRA, however, is hesitant to put such tactics into practice. Additionally, the unofficial sector makes every effort to elude the tax net and eludes the authorities as a result.

**5.** Commuter operators believe that the presumed tax is unfair because they would be subject to a lower rate of taxation under the standard income tax system.

**6.** Lastly methods implemented by ZIMRA to collect presumptive tax have proved to be highly ineffective. Their agents owe those millions of dollars in unpaid taxes and their officials do not cover all informal traders leading to low presumptive tax returns.

## 5.2 CONCLUSION

The study found that paying presumed taxes had a detrimental effect on the possibility of survival for informal traders. The informal sector also criticized the presumptive tax system as being inappropriate for taxing them because it overestimated their income and hence overtaxed them. The study also examined the fact that not all eligible informal traders are subject to the presumed taxation regime. The system is failing to include the unorganized sector in taxation. The presumptive tax system was effectively studied by the researcher, who determined that numerous adjustments must be made to raise the system's effectiveness. The first is to consistently look over the tax rates applied to the unorganized sector.

## 5.3 RECCOMENDATIONS TO THE STUDY

### 5.3.1 Information should be made available taxpayers

ZIMRA must do a lot in ensuring that everyone operating in the informal sector, including bottle shops and restaurant owners, is aware of their responsibility to pay presumptive tax. Newspapers, radios, televisions, and other media should all be used to remind prospective taxpayers on a regular basis that they must pay presumed tax. To educate taxpayers, workshops and seminars should be held not only at the national level but also at the province and district levels. ZIMRA can improve information dissemination by building Whatsapp channels, using social media, and having a twitter handle just for presumptive tax.

### 5.3.2 Free flow of information when determining tax rates.

The operators feel they are being excluded from decision-making and that their tax requirements are simply imposed on them without due deliberation. The employment of informal sector representatives by the government in determining the appropriate tax rates will promote involvement from the informal sector since they will feel included. According to Utaumire et al. (2013), the informal sector has resisted paying presumptive tax forcefully as a result of the absence of concerned stakeholders in the presumptive tax decision process.

### 5.3.3 Economic changes should be taken into consideration.

It is inappropriate to come up with a one-time rate. Only a standard rate is determined and will be in place for the foreseeable future due to the employment of the standard assessment method. ZIMRA must be sensitive and modify its tax rates to account for the adjustments brought about by unforeseen economic fluctuations. Fursion and Lysko (2014) emphasized the need for tax administrators to routinely examine their tax rates in order to account for economic upheavals, which lends credence to this.

### 5.3.4 ZIMRA should improve its administration towards presumptive tax.

A number of unregistered enterprises have been paying extremely little presumptive tax to ZIMRA. Due to its lax approach to collecting presumed taxes, ZIMRA has also been held responsible. In order to make informal traders pay their presumed tax, ZIMRA must be stern and even a little harsh.

### 5.3.5 ZIMRA should offer tax reliefs.

ZIMRA should make a serious attempt to collect current dues before announcing a one-time amnesty for all arrears on outstanding taxes. Compliance will be greatly improved by the Zimbabwe Republic Police's assistance in inspecting presumptive licensing disks and prosecuting offender as well as increasing the number of tax audits.

### 5.3.6 ZIMRA should use tax agents.

To maximise presumptive tax collection tax agents need to be utilized. In return will guarantee that they pay their presumed tax together with renewing their working licenses when paying for other services to the agents, such as the Vehicle Inspection Department. This guarantees that there are more options than there are currently for paying suppositional tax.

## 5.4 SUGGESTED FURTHER STUDY

One could conduct more investigation the suitability of the current assumed tax rates. In an endeavour to determine best and most practical tax rates as well as expanding the research to all informal sector.

# REFERENCE LIST

Abate, A. A. (2019). Factors affecting presumptive tax collection in Ethiopia: Evidence from

*Accounting*, *8*(8), 2222-2697.activities or both. *Journal of Accounting and Taxation*, *13*(3), 153-177.

Alm, J, Vazquez, J. M and Schneider, F. 2004.*Sizing the Problem of the Hard-ToTax*. Atlanta: George State University

Araujo-Bonjean, C., & Chambas, G. (2005). Taxing the unrecorded urban economy in sub-Saharan Africa. In J. R. Alm, J. Martinez-Vazquez, & S. Wallace (Eds.), *Taxing the Hard-totax: Lessons from Theory and Practice* (Vol.268, pp. 313-329). Emerald Group Publishing Limited. <https://doi.org/10.1016/S0573-8555(04)68815-8>

Ayyagari, M. Thorsten, B and Demirguc-Kunt, A (2005). Small and Medium Enterprises across the globe: A New Database. World Bank policy research working paper No 3127.

behave in Tanzania. Tanzanian Economic Review, 5(1-2).

Bell, J. (2015). Doing Your Research Project: A Guide for First-Time Researchers. Open University Press.

Bird, R and Gendro, P. (2007). *The Vat in Developing and Transitional Countries*. Cambridge University Press: New York.

Bird, R, M and Wallace, S. 2005**.** *Is It Really So Hard to Tax the Hard-to-Tax? The Context and Role of Presumptive.* Taxes. Elsevier

Bradley, P., & Stewart, I. (2012). Secondary data analysis. In Research Methods in Geography (pp. 322-335). SAGE Publications Ltd.

Brink, H. (2017). Fundamentals of Research Methodology for Health Care Professionals. Juta and Company Ltd.

Bucci, V, V, V. (2020). Presumptive taxation methods: A review of the empirical literature. Journal

Bulawayo. International Journal of Innovative Science and Research, 4(3), 79-89.

Caroll, E. (2011). Taxing *Ghana's Informal Sector: The Experience of Women, Occasional Paper* No.7, Christian Aid case study of Bulawayo Metropolitan Province. Category “C” taxpayers in Bahir Dar City. *Journal of Tax Administration*, *5*(2), 7496.challenges. *Academy of Accounting and Financial Studies Journal*, *22*(3), 1-15.

Cheltenham, pages from 171 to 185

Chidoko C, Bemani J, Matungamire P, (2011). *Tax law and practice in Zimbabwe: Concepts and* *Perspectives*. LAP LAMBERT Academic Publishing GmbH & Co.KG.

Creswell, J. W. (2012). Educational research: Planning, conducting, and evaluating quantitative and qualitative research. Pearson.

*Development*, *34*(1), 48-62.

Dlamini, B., & Dube, G. Precipitants of tax evasion in the Informal Sector in Zimbabwe: A

Dube, G and Casale, D (2017). Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe.

Dube, G. (2014). Informal sector tax administration in Zimbabwe. *Public administration and*

Dube, G. (2018). The design and implementation of minibus taxi presumptive taxes. *The*

Dube, G., & Casale, D. (2016). The implementation of informal sector taxation: Evidence

Dube, G., & Casale, D. (2019). Informal sector taxes and equity: Evidence from presumptive

*Economies*, *18*(4), 399-418.

Effectiveness of Presumptive Tax in Increasing Tax Revenue Collection from Informal Traders in Bindura, Zimbabwe. *Journal of African Interdisciplinary Studies*, 6(12), 15 – 39.

Embuka A (2015). *Presumptive tax: Equalizing the distribution of tax burden* (11) in Finance News 15/06/15

Emran, S. and Stiglitz, J. (2005) ‘On selective indirect tax reform in developing countries’,

Engelschalk M. (2005) Small business taxation in transition countries. The World Bank, Washington, D.C. 35109

Favourate, Y. S. M. (2021). Taxing the informal sector through presumptive taxes in

Ferrara, M. (2021). Presumptive taxation in Italy: From theory to practice. Journal of Applied Accounting Research.

Fjeldstad, O-H. & Heggstad, K. K. (2012). Building taxpayer culture in Mozambique, Tanzania and Zambia: Achievements, challenges and policy recommendations (CMI Report R 2012:1). Bergen: Chr. Michelsen Institute.

Galfato, N. (2016). Presumptive Taxation: A Review of the Literature. Journal of Accounting and Taxation, 8(8), 103-111.

Gomera, G. J., Mwanza, W., & Mwakatumbula, H. (2021). Tax Evasion in Micro and Small Businesses in Tanzania. International Journal of Research in Business and Social Science, 10(4), 50-62.

Gordon, R. and Li, W. (2009) ‘Tax Structures in Developing Countries: Many Puzzles and a Possible Explanation’, Journal of Public Economics, 93: 856-866

Guevara, S. (2008). Tax Law and Development: The Peruvian Experience. Journal of Taxation, 88(1), 15-22.

Haji, S. H. H. (2017). Presumptive tax system and its influence on the informal entrepreneurs

Heir, A. V., Bjerkan, A. M., & Skogstad, A. (2015). Data sources in safety research: a critical review of the literature. Safety science, 79, 163-174.

http://definations.uslegal.com (23/01/2023) (accessed @ 2; 30 13 February 2023)

IMF (2011). *Revenue Mobilization in Developing Countries,* Washington DC: International Monetary Fund

Joshi, M., Indrayan, A., & Chandra, R. (2014). Sample size and power estimation for medical studies. Indian pediatrics, 51(9), 771-776.

Kalra, S. (2018). Presumptive Taxation in India: A Critical Evaluation. International Journal of Research and Analytical Reviews, 5(3), 119-125.

Keen, M. (2007) *VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing* *Countries*, IMF Working Paper, WP/07/174

Kirchler, E. Muehlbacher, S. Kastlunger, B. and Wahl, I. (2007) Why Pay Taxes? A Review of Tax Compliance Decisions, International Studies Program, Working Paper 7, Georgia State University.

Kumuri, K. (2021). The Impact of Presumptive Tax on Informal Sector Taxpayer Compliance: Evidence from Ethiopia. African Journal of Business and Economic Research, 16(1), 161-179.

Kyambadde, J. (2014). Sampling methods and research designs used in empirical studies of supply chain management. International Journal of Physical Distribution & Logistics Management, 44(10), 746-762.

Lee, R. M. (2013). Doing research on sensitive topics. SAGE Publications Ltd.

Lee, Y. (2019). Understanding Taxation: A Beginner's Guide. Routledg

Manhimanzi, G. C; Chagwedera, E; Fundira, T; Karuru, B & Hlatywayo, M. (2022). TheMashiri, M., Zinyemba, A., & Mahembe, E. (2013). The Challenges in Taxing the Informal Sector in Zimbabwe. International Journal of Business and Social Science, 4(1), 164-171.

MRA. 2015. Revenue Performance Report 95.

Munjeyi, E., Mutasa, S., Maponga, S., & Muchuchuti, K. (2017). The Informal Sector Tax

Mwila, A., Manley, D., Chileshe, P., Phiri, E., & Mpembamoto, K. (2011). *The Taxation System* in Zambia. Lusaka: JCTR of Economic Surveys, 34(2), 372-397.

Olingo (2016) Kenya, Uganda in Plans to Pull Informal Sector into Tax Bracket. The East African, June 19, 2016 [Online] Available from https://www.theeastafrican.co.ke/business-uganda-in-plans-to-pull-informal-sec... [Accessed] 16.01.2023

Onias, M., Gombe, R., & Matamanda, A. (2014). The Effectiveness of Presumptive Taxation in Zimbabwe. Journal of Economics and Behavioral Studies, 6(4), 314-324.

Pashev (2005) Tax compliance of small business in transition economies; lessons learnt from Bulgaria.

Pashev, K. V. (2006). Presumptive taxation: lessons from Bulgaria. *Post-Communist*

Penduka.M, 2018.An Assessment of the efficiency of fiscalised electronic devices in improving revenue collection in selected companies in Harare. University of Zimbabwe.

Phiri, C., and Nakamba-Kabaso, P., 2012 Taxation of the Informal Sector in Zambia, Zambia Institute of Policy Analysis and Research, Working Paper, No5,

Pimhidzai and Fox, L. (2012) Taking from the Poor or Local Economic Development: The Dilemma of Taxation of Small Informal Enterprises in Uganda, CSAE Working Paper, and Washington DC: The World Bank

Pimhidzai O, Fox L (2011). Taking from the poor or local economic development: the dilemma of taxation of small informal enterprises in Uganda. World Bank Africa Regional Project on Improving the Productivity and Reducing Risk of Household Enterprises Washington DC.

Prichard W (2009). Taxation and Development in Ghana: Finance, Presumptive Tax System Implementing in Hawassa City of Sidama Regional State, Revenue Potential

Saunders, M., Lewis, P., & Thornhill, A. (2009). Research methods for business students. Pearson Education.

Saunders, M., Lewis, P., & Thornhill, A. (2012). Research methods for business students. Pearson Education.

Schneider, F., Buehn, A., & Montenegro, C. (2010). Shadow economies all over the world: New estimates for 162 countries from 1999 to 2007. World Bank Policy Research Working Paper No. 5356. Washington, DC: The World Bank

Sebele-Mpofu FY (2020). Governance quality and tax morale and compliance in Zimbabwe’s informal sector. Cogent Business &Management 7(1):1794662.

Sebele-Mpofu, F. Y., & Mususa, A. (2019). How successful is presumptive tax in bringing?

*Service Industries Journal*, *38*(11-12), 723-741.

*Sidama Zone Revenue Authority, Southern Ethiopia* (Doctoral dissertation). Small and medium enterprises through the self-assessment system: issues

Tanzi, V. (2000) A Primer on tax evasion-policies, Institutions and the dark side of economics.

taxation in Zimbabwe. *Development Policy Review*, *37*(1), 47-66.

Thuronyi Victor. (1989). Tax law design and drafting. International monetary fund.

Thuronyi, V. (2010). Tax Law Design and Drafting (Vol. 2). International Monetary Fund.

Torgler B, Schneider F (2009). The impact of tax morale and institutional quality on the shadow economy. Journal of Economic Psychology 30(2):228-245.

Utaumire.B, Mashiri.E and Mazhindu.K (2013). Effectiveness of presumptive tax system in Zimbabwe: Case of ZIMRA Region one, Research Journal of Finance and Accounting, Vol.4. No.7

Vinish. K and Rajesh. R.S.N (2016). Do informal sector wages explain rural poverty? Evidence from India, Journal of Poverty 20:1 73-101

Wadesango, N., Mutema, A., Mhaka, C., & Wadesango, V. O. (2018). Tax compliance of SMEs

Wegner, A. (2005). How to address a finite population in survey sampling. Journal of Statistics Education, 13(1), 1-18.

Weichenrieder, A. (2007). Survey on the Taxation of Small and Medium Sized Enterprises: Draft Report on Responses to the Questionnaire. Paris: Organization for Economic Co-operation and Development

Were, F. (2011) Presumptive income tax system and profitability of small business enterprises in Uganda case study: Nakawa division. Dissertation at Makerere University. Uganda

Zikmund, W. G. (2000). Business research methods. Dryden Press.

Zimbabwe: An avenue for a broadened tax base, stifling of the informal sector

ZIMRA 2016. Revenue Performance Report 96.

ZIMRA, 2021. Presumptive Tax [Online] Available from https://www.zimra.co.zw/index.php? 57 Om.; ptimum=com. content+view+article&id=33&llemid, [Accessed: 19.01.2021

ZIMRA. (2011). Taxation of the Informal Sector in Zimbabwe. Zimbabwe Revenue Authority.

ZIMRA. (2015). Annual Performance Report.

ZIMRA. (2016). Annual Performance Report.

ZIMRA. (2022). Annual Performance Report.

ZIMRA. 2011. Revenue Performance Report 92.

ZIMRA. 2012. Revenue Performance Report 93.

ZIMRA. 2013. Revenue Performance Report 94.

ZIMRA. 2014. November Domestic Taxes Report

Zivanai.O, Manyani.O, Hove.N, Chiriseri.L, Mudzura.M, (2014). Presumptive tax and its impacts on profitability of SMEs in Zimbabwe: Case of Commuter Transport Operators in Bindura, Research Journal: vol.2.no.7.

# APPENDIX I QUESTIONNAIRES

**Instruction: Select the relevant response**

**Section A: Preliminary Questions**

1. **SEX**

|  |  |
| --- | --- |
| Female | Male |
|  |  |

1. **Age Bracket**

|  |  |  |
| --- | --- | --- |
| Less than 30 years | Less than45 | 46 years and Above |
|  |  |  |

1. **Number of Bottle Stores or Restaurants owned**

|  |  |  |
| --- | --- | --- |
| Less than 3 | 3-5 | 6 and Above |
|  |  |  |

**4) Highest Level of Education Attained**

|  |  |  |  |
| --- | --- | --- | --- |
| Below O Level | O & A Levels | Degree | Further Qualification |
|  |  |  |  |

**Specify(Other Qualification)………………………………………………………………………**

**5) Business Duration**

|  |  |  |
| --- | --- | --- |
| **Under 2 Years** | **2-5 Years** | **Over 5 Years** |
|  |  |  |

**SECTION B**

**6) Are you aware of presumptive tax?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**7) If yes are you aware of presumptive tax rates applicable to your business that you operate?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**8) Have you been to any tax seminar /workshop organised by ZIMRA in relation to presumptive tax?**

|  |  |
| --- | --- |
| Yes | No |
|  |  |

**9) Have you benefited from ZIMRA’s workshop?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**10) Do you pay presumptive on time?**

|  |  |  |
| --- | --- | --- |
| Yes | No | Never Paid |
|  |  |  |

**11) What do you think is the reason for avoidance?**

|  |  |  |
| --- | --- | --- |
| Others are not paying | Don’t know where to pay it | It increases my operating |
|  |  |  |

**12) Does ZIMRA conduct regular follow ups on presumptive tax?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**13) Is your business registered for presumptive tax?**

|  |  |
| --- | --- |
| Yes | No |
|  |  |

**14) Do you know how presumptive tax is assessed?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**15) Do you agree that ZIMRA is justified in collecting presumptive tax?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**16)Do you think charges for avoidance of presumptive tax are effective enough?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|  |  |  |  |  |

**17) Which one of the following measures do you encourage ZIMRA to adopt in order to improve presumptive tax collection?**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Strategy | Strongly Agree | Agree | Not Sure | Disagree | Strongly Disagree |
| Conduct Tax Seminars |  |  |  |  |  |
| Reduce presumptive tax |  |  |  |  |  |
| Prosecution |  |  |  |  |  |
| Engage tax Agents |  |  |  |  |  |

**18) How would you rate ZIMRA on educating bottle-store and restaurant operators about presumptive tax?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Very Good | Good | Fair | Poor | Very Poor |
|  |  |  |  |  |

# APPENDIX II: INTERVIEW GUIDE

Researcher's introduction and explanation of the goal of the research to the interviewee**.**

**Section 1: Basic Information**

1. How many bottle stores or restaurants do you operate?
2. For how long have you been in this business?
3. Are you happy with your business returns?

**Section 2: Presumptive Tax**

1. Are you a registered presumptive tax payer?
2. Do understand the process of determining presumptive tax, if yes are you satisfied with the method used or what are your recommendations on the improvements to be made?
3. Do you agree that ZIMRA is justified in collecting presumptive tax from bottle-stores and restaurant operators? Justify your answer
4. Are presumptive tax amounts reasonable?
5. What do you think are some of the reasons why people refuse to pay presumptive tax?
6. Do you think there is effective collection of presumptive tax by ZIMRA?

**SECTION 3**

1. What do you think ZIMRA must do to make restaurants and bottle store operators understand presumptive tax?
2. Any other suggestions you can make?

END OF INTERVIEW

**Interview guide questions for ZIMRA staff**

Self-introduction by researcher and explaining purpose of the researcher to interviewee

Section 1

Name of the organization …………………………………………………………….

Occupation…………………………………………………………………………

Time on the job ……………...............................................................................

**Section 2**

**Presumptive tax issues**

Explain what presumptive tax is?

What criteria are used to come up with presumptive tax amounts?

What problems if any faces your organization from collecting presumptive tax from restaurants and bottle-stores in Bindura?

What has ZIMRA done or is doing to increase tax revenues from this tax base?

**Section 3**

How effective is presumptive tax collection regarding restaurants and bottle-store operators in Bindura?

Basing in your own assessment, do you think presumptive tax system benefits the taxpayer or ZIMRA?

Justify your answer.

Do you think the presumptive tax amounts applicable to bottle-stores and restaurant operators are reasonable?

**END OF INTERVIEW**