Received: February 2017 | Accepted: June 2017

DOI: 10.1111/dpr.12316

ARTICLE

Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe

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Abstract

Using a mixed-methods approach, this article evaluates the equity implications of Zimbabwe's presumptive tax system, introduced in 2005 to raise revenue from the country's growing informal sector. The representative taxpayer method, which compares the hypothetical tax burdens of formal and informal sector taxpayers at varying income levels, shows that the presumptive tax regime undermines both vertical and horizontal equity. In addition, interviews with key informants from the tax authorities, other relevant organizations and informal sector operators were conducted to probe issues around collection, compliance and perceptions of fairness. The qualitative data suggest that weak enforcement, with more visible informal activities bearing the brunt of the tax burden, and selective (and sometimes politically motivated) application of the legislation, compromise equity further.

KEYWORDS

equity, informal sector, presumptive taxes, Zimbabwe

1 | INTRODUCTION

The informal sector, which constitutes a large, and in some cases growing, share of economic activity in developing countries, hinders the ability of governments to raise revenue (Bird & Zolt, 2008). As a way of compensating for the revenue shortfalls, small business tax regimes are now a common feature of many tax systems in developing countries. According to the International Monetary Fund (IMF)

(2007, p. 27), more than 25 of the 44 countries in sub-Saharan Africa and 14 of the 17 countries in Latin America have a special tax regime for small enterprises that are not registered under the standard tax system.

Such taxes are usually targeted at the self-employed and small to medium-sized businesses in the informal or unregistered sector, and commonly take the form of presumptive taxes (Wallace, 2002; Benjamin & Mbaye, 2012; Joshi, Prichard, & Heady, 2014). Presumptive taxes are simplified taxes levied on presumed rather than actual income, and can be based on turnover (where enterprise owners are expected to keep basic records of sales), indicators of income capacity (such as the number of tables in a restaurant) or they can be standard lump-sum assessments paid by all those in a particular activity or occupation (Bird & Wallace, 2003; Loeprick, 2009).

Presumptive taxes are generally favoured for their administrative simplicity and economic efficiency. They are simpler to administer than direct taxes on income as informal sector operators are not required to keep the detailed records necessary under the standard tax regime, and the authorities can avoid the costs associated with the conventional verification and assessment procedures (Terkper, 2003; Loeprick, 2009). Further, particularly in the case of lump-sum taxes, they are considered efficient as behavioural changes are minimized if the tax burden cannot be avoided, while the income accruing from additional work effort (above that associated with the assumed average income in the activity) is taxed at a zero marginal rate (Taube & Tadesse, 1996; Pashev, 2006).

However, informal sector tax systems are unlikely to promote equity. A tax is considered to be fair if individuals at the same economic level incur the same tax burden (horizontal equity) while those with a greater ability to pay contribute more to the Treasury (vertical equity). In addition to the redistributive function, equity in taxation is important for perceptions of fairness and compliance behaviour (Alm, 1996; Torgler, Schaffner, & Macintyre, 2007).

By imposing the same tax liability on those at different income levels, presumptive taxes violate the principle of vertical equity (Taube & Tadesse, 1996; Memon, 2013). Also, presumptive taxes may violate the principle of horizontal equity because they tend not to have tax-free minimum income thresholds as is the case under most personal income tax (PIT) regimes. Consequently, those in the informal sector may bear a higher tax burden than their counterparts in the formal sector who are exempted from taxation at low incomes (Tanzania Revenue Authority, 2011; Memon, 2013). This is of particular concern given the perception that informal sector businesses are mostly marginal with low (and often variable) incomes.

Counter to this, it has been suggested that informal sector taxes may even promote horizontal equity, as allowing large parts of the economy to go untaxed could be viewed as unfair by formal sector firms (Tanzi & de Jantscher, 1987; Engelschalk, 2007). In an early study on the experiences of selected African countries that had implemented presumptive tax regimes, Taube and Tadesse (1996) argued that presumptive taxes may result in more equitable outcomes, in particular between salaried employees in the formal sector, who are generally unable to escape the tax net due to withholding schemes, and the self-employed, for whom tax evasion is much easier. This could improve perceptions of fairness and tax compliance among those in the formal sector.

Although the equity implications of presumptive taxes have been hypothesized in the literature (Tanzi & de Jantscher, 1987; Taube & Tadesse, 1996; Thuronyi, 1996), there has been little empirical work investigating the equity implications of presumptive taxes in countries where they have been implemented. The reason for this may be the difficulty in measuring the equity effects of a tax, particularly in developing countries where data are sparse (Memon, 2013).

This article seeks to contribute to the limited empirical literature on informal sector taxation by investigating the equity implications of presumptive taxes in Zimbabwe. In the face of falling revenues from a shrinking formal sector, the Zimbabwean government introduced presumptive taxes in 2005 in a bid to raise revenue from the country's large informal sector (Government of Zimbabwe, 2005). The Zimbabwean case is a particularly interesting one given the profound impact the economic and political crisis has had on the structure of the economy and the labour market. As job opportunities in the formal sector have declined, the informal economy[1] has shown rapid growth and by 2011 accounted for 84% of the employed in Zimbabwe (ZIMSTAT, 2012, p. 113), compared to only 10% in 1982 (Kanyenze et al., 2003, p. 4). The large informal economy has had to accommodate a wide variety of workers, from well-qualified graduates and professionals to those with only primary education, resulting in a highly heterogeneous sector where survivalist activities operate alongside more profitable unregistered businesses (Chiumbu & Musemwa, 2012).

However, despite being in operation for over a decade, the presumptive tax system in Zimbabwe has remained largely unexamined.[2] In addition to being the first study of equity and informal sector taxes in Zimbabwe (and one of the few in developing countries more generally), a key contribution of this work is the mixed-methods approach adopted. First, the representative taxpayer method is used to assess horizontal and vertical equity by comparing the hypothetical tax burdens of those operating in the formal and informal sectors at varying income levels. Second, this more conventional public finance approach is supplemented with evidence from qualitative interviews conducted both with informal sector operators in a number of different activity classes and with a variety of key informants from the Zimbabwean revenue authority, government, academia and business organizations.

The interviews were used to probe aspects of the presumptive tax system that would not have come to light using standard tax analysis, but were crucial to understanding the fairness of the tax regime, particularly in the context of Zimbabwe's political and economic crisis. More specifically, challenges in implementation and enforcement, and respondents' perceptions of the fairness of the presumptive tax system were examined, as these factors in turn influence tax morale, compliance behaviour and, ultimately, who bears the burden of the tax. A number of interesting findings were uncovered from the qualitative interviews, suggesting this approach may be useful even in countries where more detailed national data on tax incidence are available.

The article is organized as follows. Section 2 motivates the choice of the representative taxpayer approach and gives details of the qualitative interviews. Section 3 describes the evolution and design of the presumptive tax regime in Zimbabwe. Section 4 presents the results on the equity implications of the informal sector tax regime using the representative taxpayer approach. This is followed by a discussion in Section 5 on the additional insights gained from the qualitative interviews. Section 6 concludes, highlighting some key lessons which may be relevant to other countries struggling with the design and implementation of informal sector tax regimes.

2 | ASSESSING THE EQUITY IMPLICATIONS OF PRESUMPTIVE TAXES: METHODS AND DATA COLLECTION

2.1 | The representative taxpayer approach

Assessing the equity effects of a tax involves measuring the tax burden (i.e. the amount of tax paid) as a proportion of some measure of a taxpayer's ability to pay, such as income (Atrostic & Nunns, 1991).

[1]Here, the term 'informal economy' refers to unregistered enterprises (the informal sector) as well as those who are informally employed in both the formal and informal sectors (ILO, 2013).

[2]In earlier work (Dube, 2014), the legal and administrative features of the informal sector tax system in Zimbabwe were described. In this article we focus on the equity implications.

In measuring equity, comparisons are made between those with similar incomes to determine whether their tax burdens are equal (horizontal equity) and those at varying levels of income to determine whether their tax burdens are different (vertical equity).

Typically, to calculate the equity implications of a tax, one of three methods would be used in the public economics literature—economic incidence analysis, a general equilibrium model or the representative taxpayer approach (Atrostic & Nunns, 1991; Mazerov, 2002). The first two methods are highly data-intensive,[3] requiring information from individual tax returns, income and expenditure data and input-output matrices. Comprehensive analyses of equity using these two approaches have presented challenges even in developed countries due to data reconciliation issues (with data having to be merged from different sources), assumptions on shifting of the tax burden that are subject to dispute and data that are of "less-than-ideal" quality (Mazerov, 2002, p. 5).

The third method, the representative taxpayer approach, is less data intensive, as the tax burden for each group of interest is estimated by applying the tax rates to hypothetical levels of income (Shoup, 1972). One of the earliest methods of assessing horizontal and vertical equity, this approach continues to be widely used in developed and developing country policy debates because it is easily understood by non-specialists and is easy to construct given its reliance on the tax code alone (Atrostic & Nunns, 1991; Mazerov, 2002).

A recent example of the use of the representative taxpayer approach is in Grown and Valodia's (2010) work on tax incidence and gender, where the direct tax burden of women and men in single versus married couple households is compared across varying levels of income. One would expect to find differences in the tax burden in countries that tax married couples jointly rather than individually, or where only men or only women can claim tax deductions for dependents, for instance. In a similar vein, Memon (2013), in a study of Pakistan's presumptive tax code, compares the hypothetical tax burdens of the self-employed and employees under the standard and presumptive tax systems.[4]

Given the paucity of publicly available (and reliable) data in Zimbabwe, and particularly on the informal sector, we use a similar approach to analyze equity in taxation among formal and informal sector operators.[5] To assess horizontal equity in this application of the method, the taxes payable by the self-employed or businesses in the informal sector under the presumptive tax regime are compared to the individual and company taxes payable by salaried employees and registered businesses under the standard tax regime. The analysis is further disaggregated by informal sector activity class as the presumptive tax code in Zimbabwe (described in Section 3) differs according to activity (for example, transport, hairdressing, cross-border trading, etc.). To assess vertical equity—that is, whether the tax

[3]In economic incidence models, taxpayers are usually aggregated into a number of income classes, and the proportion of income paid in the form of taxes is calculated and compared across the classes to determine vertical equity (Bradford, 1995). Economic incidence models are most commonly used to calculate the burden of individual level taxes and to estimate the burden of taxes that are paid by businesses but are likely to be passed on to individuals, such as corporate income taxes, sales taxes and property taxes (Mazerov, 2002). The general equilibrium approach examines the interaction between various taxes and transfers and the effects that these have on the allocation of resources within the economy, the income distribution and growth (Ballard et al., 2009). This approach not only provides a way of measuring equity, it can also be used to assess the distortions resulting from taxation (i.e. economic efficiency) (Kesselman & Cheung, 2004).

[4]Although not the focus of his study, Memon (2013) does identify horizontal inequity in the tax code by showing that the self-employed in the informal sector paying the presumptive tax bear the largest burden because they cannot deduct any expenses or benefit from a tax exemption at the minimum tax threshold.

[5]The term "informal sector" is used in this article in the traditional sense (ILO, 2013) to describe self-employed/own account workers or small businesses that are not registered under the standard income tax regime, as this is the segment of the broader informal economy that is targeted by the presumptive tax code in Zimbabwe.

TABLE 1 Informal Sector Activity Classes

Activity class	Location	Number	Monthly income (US$) Range	Mean
Urban transport[1] operators	Designated points, busy intersections	23	250-1000 (n=21)	554
Flea markets	Central Business District and suburban shopping centres	9	600-2000 (n=4)	1025
Cottage industries	Designated sites in high density residential areas	7	300-900 (n=6)	508
Hairdressing salons	Rented buildings in shopping malls, city centre, in and around housing units	8	300-1000 (n=8)	569
TOTAL		47	250-2000 (n=39)	599

Notes. [1]For the urban transport activity class, this study focused on taxi-cabs and minibuses (also called kombis in Zimbabwe).
Source: Own representation

is progressive, proportional or regressive—the hypothetical burdens are calculated at varying levels of income. Further details are provided in Section 4.

2.2 | Qualitative interviews

To supplement the findings from the representative taxpayer approach, interviews were conducted in Zimbabwe's administrative capital and largest city, Harare, also the location of the Zimbabwe Revenue Authority's (ZIMRA) head office. Given the political and economic crisis in Zimbabwe, qualitative interviews were useful in gaining a sense not only of the extent of enforcement of informal sector taxes, but also of the respondents' perceptions of fairness—issues that feed into tax morale and compliance behaviour (Luttmer & Singhal, 2014). While findings from the representative taxpayer approach are indicative of the relative tax burdens if the taxes were being paid, if there are low enforcement and compliance rates, then the uneven coverage itself is a potential source of unfairness.

Two sets of interviews were conducted. The first set was conducted in 2011 and involved semi-structured interviews with 16 key informants from ZIMRA, the Ministry of Small and Medium Enterprises and Cooperative Development (SMECD), academia, business organizations and trade unions. Key informants were selected purposively based on their knowledge of informal sector taxes. The seven ZIMRA officials from junior, middle and senior management levels provided insights into the design and workings of the presumptive tax system, the tax authorities' capacity to collect the taxes and their perceptions of equity. The three academics and two middle management respondents from SMECD provided information on the informal sector's potential as a revenue source, its contribution to the economy and the challenges of operating informally in Zimbabwe. The four respondents from business organizations and trade unions (three economists and a tax consultant) represented formal enterprises and workers (the largest contributors to direct taxes in Zimbabwe). Their views on the fairness of the informal sector tax regime and ZIMRA's ability to effectively administer the taxes were sought.[6]

[6]The response rate was high, with all respondents except those from the Ministry of Finance granting the request for interviews. Although permission was granted, in writing, by the Minister of Finance (a member of the opposition Movement for Democratic Change) in 2011, the Permanent Secretary (the ministry's chief administrator) refused to be interviewed. Without the Permanent Secretary's co-operation, other officials from Treasury could not be interviewed.

The second set of interviews was conducted between 2011 and 2014 with 47 informal sector self-employed or enterprise owners from four activity classes—urban transport, flea market, cottage industry and hairdressing salons.[7] These activity classes were chosen as they are among the most common in Zimbabwe's informal sector that also fall under the presumptive tax legislation. A preliminary analysis in the popular press indicated a focus by the tax authorities on two of these four activity classes—transport and flea market operators—perhaps because of their visibility. Hairdressing salons and cottage industries, although not the focus of tax collection efforts, were also included to incorporate the views of a broader cross-section of informal sector operators and not only those more closely monitored by ZIMRA. Informal sector respondents were selected purposively using snowball methods.[8]

Table 1 shows the number of respondents in each activity class, the locations from which they normally operate, and the mean and range of monthly incomes reported by the respondents. The monthly income values range from \$250 to \$2,000, with a mean of \$599.[9] According to the 2010 Income Tax Act (Chapter 23:06), informal enterprises are officially regarded by the Ministry of Finance and ZIMRA as those earning less than \$6,000 a year and not registered for corporate income tax. Based on the monthly incomes reported by the respondents, 26 of the 39 respondents who provided an income value would be earning more than this annual cut-off. Although ours is not a representative sample of the informal sector, these figures imply that presumptive taxes are capturing income both from enterprises that are considered informal according to the official definition and those that are eligible for the standard company tax but have not registered. However, it is also important to note that incomes in the informal sector are highly variable, so it is possible that, over the year, operators' earnings would not have exceeded the \$6,000 annual threshold.

The divergent set of incomes reported also reflects the varying levels of education among those in Zimbabwe's informal sector. All the informal sector operators in this study had completed primary school, 39 (83%) had completed secondary school and, of these, 30 (i.e. 64% of the respondents) had a tertiary qualification. These high levels of education are consistent with the results reported from the 2011 Labour Force and Child Labour Survey (LFCLS); 51% of those in the informal sector had completed secondary school and 14% had a tertiary qualification (ZIMSTAT, 2012).[10] This is symptomatic of the severity of the crisis in Zimbabwe, with the informal sector absorbing many of those previously employed in the formal sector.

The data collection instrument that was used to obtain information from informal sector operators consisted of two parts. The first was a structured questionnaire made up of 44 questions on the characteristics of the enterprise owner and his/her business that made no mention of taxation. The second

[7]Informal sector respondents were given the option of having the interview conducted in Shona (the language spoken by the majority of Zimbabweans). Only six of the respondents chose this option and even in these interviews, a mix of English and Shona was used, as most urban Zimbabweans are conversant in both languages.

[8]Of the total of 47 informal sector operators, there were nine women and 38 men. This is not representative of the gender distribution in Zimbabwe's informal sector. This is because males tend to dominate the cottage industry and transport activity classes while females tend to dominate the hairdressing salon and street vending activity classes (Kamete, 2004). Street vendors were not part of this study as they are not included in the presumptive tax schedule.

[9]All dollar values in this article refer to US dollars as Zimbabwe's economy was officially dollarized in April 2009.

[10]While the education levels recorded in the national level data suggest our sample is more educated than the average, the figures are not directly comparable as the ZIMSTAT statistics include also employees in the informal sector, as opposed to just the self-employed or small business owners.

TABLE 2 Presumptive Taxes in Zimbabwe (2014)

Type of activity:	Description	Presumptive tax (USD per quarter) 2011
Minibuses	8 to 14 passengers	150
	15 to 24 passengers	175
	25 to 36 passengers	300
	From 37 passengers and above	450
Taxi-cabs	All	100
Goods vehicles	More than 10 tonnes but less than 20 tonnes	1,000
	More than 20 tonnes	2,500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2,500
Driving schools	Class 4 vehicles	500
	Class 1 and 2 vehicles	600
Hairdressing salons	All	1,500
Cottage industries	All	300
Bottle-stores	All	300
Small-scale miners	2% of value of minerals	
Cross-border traders pay Value for Duty Purposes (VDP)	10% of value of goods imported	
Informal traders	10% of rental amount (for those renting premises and who cannot provide proof of having paid any of the above presumptive taxes)	

Note. For minibuses, taxi-cabs and goods vehicles, the tax is charged per vehicle.
Source: ZIMRA (2014a)

consisted of a semi-structured interview on the awareness of and perceptions of informal sector taxes. For respondents who claimed that they were tax compliant (i.e. had paid presumptive taxes), further questions were asked on registration and payment procedures.

Taxation issues are sensitive. Questions posed in this study required ZIMRA officials to comment on the internal operations of the tax authority and present views on its capacity to effectively tax the informal sector. Some informal sector operators were wary of the nature of the study, and a number of those initially approached refused to participate.[11] To protect the respondents, identities were anonymized and interviews were not recorded. This means quotations used in this study contain an element of paraphrasing based on the notes taken during interviews.

[11]The relatively high refusal rate among informal sector operators points to a possible way in which the sample may be biased. In a study of tax payment behaviour, respondents will have different motivations for refusing to participate. For instance, more successful operators who are not paying informal sector taxes are less likely to participate in such a study. Informal sector operators that are not registered with the municipality (e.g. unregistered minibus and taxi-cab operators) are also unlikely to participate (as was the case in this study) as they are operating illegally.

3 | THE PRESUMPTIVE TAX SYSTEM IN ZIMBABWE[12]

The political and economic crisis in Zimbabwe, which reached its zenith in 2008, resulted in declining output in the formal sector, falling tax revenues and high levels of informality (Kanyenze et al., 2003; ZIMRA, 2016). Zimbabwe's semi-autonomous revenue authority was tasked with extracting more and more revenue from the large taxpayers using new taxes and innovative collection methods under very difficult conditions (OECD, 2013). However, this proved increasingly difficult as a result of the shrinking formal tax base. The tax ratio (tax revenue as a share of GDP), which had traditionally been high in Zimbabwe (Stotsky & WoldeMariam, 1997; IMF, 2016), fell from 28% in 1998 to 25% in 2000 before dropping dramatically to about 4% in 2008.

Against this backdrop of shrinking revenues and the rapid growth of the informal sector, the Zimbabwean government decided to broaden the tax base through the introduction in 2005 of presumptive taxes targeted at the informal sector (Government of Zimbabwe, 2005). Zimbabwe is not unique in its attempts to raise revenue from informal sector operators. Many developing country governments (particularly those in sub-Saharan Africa) have introduced some form of simple taxation for small enterprises that are not registered under the standard tax regime, while continuing to define these enterprises as "informal," and without the intention to necessarily graduate them onto the formal tax system (Benjamin & Mbaye, 2012; Dube & Casale, 2016).

Table 2 shows Zimbabwe's presumptive tax schedule for 2014, although these rates have not changed since 2010[13] (ZIMRA, 2014a). It consists predominantly of lump-sum presumptive taxes distinguished by the sector of activity and levied per quarter. There is some attempt in the transport sector in particular to differentiate income-earning capacity through the use of indicators, such as number of seats for minibuses, and the size of the vehicle in tonnes for goods vehicles and driving schools. However, for taxicabs, hairdressing salons, cottage industries and bottle-stores, one lump sum value is levied per quarter. For cross-border traders and small-scale miners, *ad valorem* rates on the value of imports and the value of minerals respectively, apply. Those informal traders who rent business premises and do not provide evidence of having paid the presumptive taxes listed above, are required to pay 10% of the rental amount to the landlord who is supposed to remit this payment to ZIMRA.[14]

To arrive at the values of lump-sum or turnover-based taxes, sectoral research on the average income or profit margins in the various activities is key to the fairness and perceived legitimacy of the tax system (Tanzi & de Jantscher, 1987; Engelschalk, 2007).[15] The design of presumptive taxes in Zimbabwe was informed by research carried out by ZIMRA from 2003 to 2005, but only on the profitability of the informal urban transport sector and, even in this case, it is not clear that the Ministry of Finance took heed of the results. According to one ZIMRA official, a lump sum, equivalent to a tax rate of 18% on profit,[16] instead of the prevailing company income tax (CIT) rate of 30% in 2005, was recommended on "fairness grounds":

[12]A brief description of the presumptive tax system in Zimbabwe is provided here as background to the equity analysis; more detail on the design and implementation can be found in Dube (2014).

[13]Inflation in Zimbabwe after dollarization of the economy in 2009 has been very low, with an average annual rate of 2.2% between 2011 and 2014 (ZIMSTAT, 2015, p. 14).

[14]Only the activities listed in Table 2 are subject to presumptive taxation in Zimbabwe. Other activities or professions (even if they commonly operate in the informal sector) are subject to the rules of the standard tax regime.

[15]A presumptive tax is essentially a tax levied on potential income, and has even been referred to as "potential income tax" in the literature. To ensure equity across activities, the tax liability should be based on the income-generating potential of the businesses in that activity (Faulk et al., 2007).

[16]According to ZIMRA's research department, in their study of the urban transport industry they randomly sampled informal transport operators throughout the country. For each entrepreneur, the data on the number of vehicles (e.g. minibuses or taxi-cabs) that were owned, the size (i.e. seating capacity), the number of daily trips, and maintenance and service costs were collected. Estimates of the enterprise's turnover were then calculated based on the number of trips and fares charged. The profit before tax was estimated after taking the enterprise's operational costs into account.

TABLE 3 Personal Income Tax Applicable by Income Bracket, Zimbabwe (2014)

Monthly table (US$ values)							
Taxable income bands				Rates		Deductions	
from	-	to	250	multiply by	0%		
from	250.01	to	1,000	multiply by	20%	Deduct	50
from	1,000.01	to	2,000	multiply by	25%	Deduct	100
from	2,000.01	to	5,000	multiply by	30%	Deduct	200
from	5,000.01	to	7,500	multiply by	35%	Deduct	450
from	7,500.01	to	10,000	multiply by	40%	Deduct	825
from	10,000.01	and above		multiply by	45%	Deduct	1,325

Source: ZIMRA (2014b)

> *The use of 18% was after realizing that this was the average rate of tax on registered corporates after taking into account some allowable deductions that the informal operators would never be able to claim for deduction given that they are not registered for CIT … The results were then submitted to the Ministry of Finance who then pegged these [amounts] well above our recommendations, especially after dollarization—probably as a way of encouraging informal sector operators to formalise.*
>
> (ZIMRA official, personal communication, September 29, 2011; follow-up email, October 22, 2014)

Other informal sector activities were later added to the presumptive tax schedule, such as hairdressing salons and cross-border traders in 2008 and cottage industry and bottle-store operators in 2009, although, unlike with the urban transport industry, no research was conducted by ZIMRA on the profitability of these activity classes. One key informant who was a former adviser to the Ministry of Finance reported that after dollarization in 2009, the presumptive tax rates that were set were essentially "a *thumb-suck*" (ZIMCONSULT official, personal communication, October 26, 2011). Commenting on the presumptive tax amounts that were set after dollarization, a ZIMRA official said "More research on informal sector taxes needs to be done if informal sector operators are expected to comply with them, instead of relying on assumptions" (ZIMRA official, personal communication, September 7, 2011). As we will discuss further in Section 5, perceptions of high (or uninformed) tax rates affected not only the motivation on the part of ZIMRA officials to enforce the tax legislation, but also tax morale among the informal sector operators themselves.

4 | THE EQUITY IMPLICATIONS OF THE PRESUMPTIVE TAX SCHEDULE: THE REPRESENTATIVE TAXPAYER APPROACH

In this application of the representative taxpayer approach, the tax burden under the presumptive tax regime is compared at varying levels of income with the taxes payable by (1) salaried employees under the standard Personal Income Tax (PIT) system, and (2) registered businesses liable for Company Income Tax (CIT). Three hypothetical monthly income levels were chosen: a minimum level of earnings ($250), twice this minimum ($500) and three times the hypothetical minimum ($750). The hypothetical minimum income level of $250 per month corresponds to the annual $3,000 minimum income tax threshold under the PIT system (applicable from 2012 to 2014). The range of hypothetical income levels chosen was informed by the data available from the 2011 LFCLS on typical incomes in Zimbabwe. Although the survey did not report income on the self-employed in either the formal or the informal sector, the data collected on wage employees indicate that 66% earned between $200 and $1,000 a month, with only 2.3% earning more than $1,000. This range of values is also consistent with the earnings reported by the informal sector operators interviewed for this study (see Table 1). The lowest profit figure reported by the 39 respondents to the question on monthly earnings was $250, while only six respondents reported a value above $750, with three of these earning above $1,000.[17]

Table 3 shows the personal income tax schedule for formal sector workers in Zimbabwe in 2014 (the rates did not change between 2012 and 2014). As with most PIT systems, PIT in Zimbabwe is progressive. The first $250 of taxable income per month is tax-free, and the marginal tax rates increase with income to a maximum of 45% for those whose taxable income exceeds $10,000 per month. In addition to the PIT, employees on a company's payroll are liable for the AIDS levy (introduced in 1999 to provide a source of funding for the government's fight against HIV/AIDS). The employee pays 3% of PIT while the employer pays 3% of CIT, with both payments being based on the income tax payable (and not the taxable income).[18] Using these rates, the tax burden per month at the three hypothetical monthly income levels would be $0 for $250, $51.50 for $500, and $103 for $750, or effective rates of 0%, 10.3% and 13.73% (including the AIDS levy) respectively.

Unlike the PIT system, the CIT does not have a tax-free threshold and is a proportional tax on profits. Between 2012 and 2014 the corporate tax rate was 25%, equating to an effective rate of 25.75% including the AIDS levy at all three hypothetical income levels. The corresponding absolute values levied at the three hypothetical levels would be $64.38, $128.75 and $193.13 respectively.

Table 4 shows the comparison between the formal and informal sector tax burdens at the three hypothetical monthly income levels, applying the presumptive tax code information from Table 2, and the PIT and CIT rates from above. Quarterly lump-sum figures were divided by three to obtain the monthly presumptive tax equivalent, and then converted into effective rates. For example, for hairdressing salons, the quarterly presumptive tax payment of $1,500 (Table 2) equated to a monthly tax amount of $500 or an effective rate of 200% at the $250 hypothetical income level (fifth column in Table 4). Similar calculations were performed for the other sub-sectors (i.e. cottage industry, minibuses and taxi-cabs). In the case of minibuses, effective tax rates were based on the quarterly presumptive tax amount of $175 for minibuses with a seating capacity of 15–24 passengers, as this is the most common form of public transport vehicle used in Zimbabwe. In the case of flea market operators, the 10% *ad valorem* tax on imports was used, as most flea market operators are liable for this tax as cross-border traders.[19]

Comparing across the formal and informal sector taxes, the Table shows that presumptive taxes are generally horizontally inequitable vis-à-vis the PIT in Zimbabwe. At the hypothetical minimum income level of $250, employees in the formal sector have a 0% tax rate, while those in the informal sector would pay between 10% for flea market operators and 200% for hairdressing salon operators.

[17]To further contextualize these values, according to the 2011 LFCLS, the estimated Total Consumption Poverty Line (TCPL) in Zimbabwe for one person was $100, and the TCPL for the average household (of five members) was $497.84 (ZIMSTAT, 2012, p. 54).

[18]There is also the National Social Security Authority (NSSA) contribution of 7% of insurable earnings (employers and employees pay 3.5% each). Contributions to the compulsory government NSSA fund will not be included in the analysis as these are a form of investment not normally enjoyed by those in the informal sector.

[19]Indeed, all the flea market operators interviewed for this study were cross-border traders, as is usually the case in Harare (Tamukamoyo, 2009).

TABLE 4 Comparison of Presumptive Taxes and Formal Sector Taxes

Income level	Type of earner	Monthly income ($)	Presumptive Taxes: Monthly tax ($)	Presumptive Taxes: Effective rate	Formal Taxes: PIT rate	Formal Taxes: CIT rate
Minimum	Hairdressing salon	250	500.00	200.00%	0.00%	25.75%
$250	Cottage industry	250	100.00	40.00%	0.00%	25.75%
	Minibuses	250	50.00	23.33%	0.00%	25.75%
	Taxi-cab	250	33.33	13.32%	0.00%	25.75%
	Flea market	250	50.00	10.00%	0.00%	25.75%
Twice minimum	Hairdressing salon	500	500.00	100.00%	10.30%	25.75%
	Cottage industry	500	100.00	20.00%	10.30%	25.75%
$500	Minibuses	500	50.00	11.67%	10.30%	25.75%
	Taxi-cab	500	33.33	6.67%	10.30%	25.75%
	Flea market	500	100.00	10.00%	10.30%	25.75%
Three times minimum	Hairdressing salon	750	500.00	66.67%	13.73%	25.75%
	Cottage industry	750	100.00	13.33%	13.73%	25.75%
$750	Minibuses	750	50.00	7.76%	13.73%	25.75%
	Taxi-cab	750	33.33	4.44%	13.73%	25.75%
	Flea market	750	150.00	10.00%	13.73%	25.75%

Source: Own calculations

At twice the hypothetical minimum income level, three out of five activity classes, namely hairdressing salons, cottage industries and minibuses, would pay more than formally employed workers who only pay a PIT rate of 10.3%. For the other two activities, taxi-cabs and flea markets, slightly lower effective rates of 6.67% and 10% apply respectively. Only at three times the hypothetical minimum income level would most informal sector operators pay a lower rate than that paid by formal sector workers, with effective rates ranging from 4.44% for taxi-cabs to 13.33% for cottage industries. The exception is hairdressing salon owners who still pay more than formal sector workers at three times the hypothetical minimum income level (66.67% compared to the PIT rate of 13.73%).

Presumptive taxes appear to be fairer when compared to the CIT rate of 25.75% for most of the informal sector activity classes. Apart from hairdressing salon operators who would pay substantially higher effective rates at all three income levels, only the cottage industry operators would pay a higher rate than the CIT, and only at the hypothetical minimum income level (where their tax burden is 40%). The other informal sector activity classes pay a lower rate than the CIT rate at all three income levels, indicating that formal businesses would have a higher tax burden. However, formal sector companies may pay a lower effective rate than identified in the Table due to various incentives and deductions. These do not apply to presumptive taxpayers and therefore any comparison between the informal sector taxes and the CIT is likely to overstate the taxes paid by formal firms.[20]

The results in Table 4 highlight that presumptive taxes are not only horizontally inequitable vis-à-vis the PIT and in some cases the CIT, but they also produce horizontal inequity within the informal

[20]One example of an incentive that is available to formal sector companies in Zimbabwe is the special initial allowance. This is a capital allowance that applies to an enterprise's expenditure on, for example, the construction of buildings and the purchase of materials and utensils that are used in the enterprise's operations. There are also capital allowances for the purchase of motor vehicles up to a limit of $10,000 (ZIMRA, 2014c).

sector itself. Effective rates across the activity classes range from 10% to 200% at the minimum income level, 6.67% to 100% at twice the minimum, and 4.44% to 66.67% at three times the minimum. Hairdressing salon operators are by far the most harshly treated, but even among the other four groups, the highest effective rate is between three to four times the size of the lowest effective rate in that income class.

The lower effective tax rates for the public passenger transport sector compared to the other sectors suggest that ZIMRA's research must have played some role in the determination of the final presumptive tax amounts that were announced by the Minister of Finance in 2005. These rates are in stark contrast to the rates specified for cottage industries and hairdressing salons in particular, which, as reported earlier, were based on guesswork according to the key informants interviewed.

In terms of vertical equity, presumptive taxes are highly regressive. Apart from the flea market operators that pay the 10% proportional tax as cross-border traders, the lump-sum payments payable by the other activity classes regardless of income level result in those with lower incomes paying a higher proportion of their income in presumptive taxes than those with higher incomes. At the minimum income level, the effective rates are twice the size of the effective rates at twice the minimum, and the effective rates at twice the minimum are one and a half times the size of the effective rates at three times the minimum. To take one example, minibus operators earning $250 a month pay 23.33% of their income in tax, while those earning $500 pay 11.67% in tax, and those earning $750 pay 7.76% in tax.

5 | INSIGHTS FROM THE QUALITATIVE INTERVIEWS

The representative taxpayer approach highlights the equity implications of informal sector taxes if informal sector operators were indeed paying presumptive taxes. However, if coverage is low due to poor implementation, then the tax burden calculations are largely hypothetical. This section tries to provide a sense of coverage and implementation based on the experiences of ZIMRA officials and other key informants from academia and business organizations. In addition, information on awareness of and compliance with the tax regulations was collected from informal sector operators. Perceptions of fairness were also probed as these are likely to have an impact on tax morale and therefore compliance behaviour.

ZIMRA does not report consistently on presumptive tax revenue in its annual reports, however ZIMRA's research department was willing to provide information on the total amounts collected on request (figures are not disaggregated by sector of activity). While there was an increase in the presumptive tax revenue collected between 2009 and 2011, informal sector presumptive taxes are still very low when compared to total tax revenues. Presumptive tax collections rose from $1.39 million in 2009, representing 0.14% of total tax revenues, to $13.1 million in 2011 representing 0.45% of total tax revenues. These low figures suggest that the presumptive taxes collected are a long way below the potential revenue from this sector given the extent of informality in Zimbabwe.[21] This is supported by perceptions on the ground among those working at ZIMRA: "We are only collecting taxes from about 10% of people who should be paying. The revenue collection from the informal sector is low given the large number of informal traders in Zimbabwe" (ZIMRA official, personal communication, September 7, 2011).

According to ZIMRA officials, the main method used for enforcement by the tax authority was raiding known informal sector establishments, such as flea markets and hairdressing salons, or in the

[21]While these low figures indicate low enforcement and compliance given the size of the informal sector in Zimbabwe, they are similar to figures reported from other countries such as Benin, Burkina Faso, Senegal, Tanzania and Zambia (Mwila et al., 2011; TRA, 2011; Benjamin & Mbaye, 2012).

case of taxi-cabs and minibuses, mounting roadblocks in conjunction with the police. Informal sector operators who cannot provide proof that quarterly taxes have been paid incur a penalty equal to the value of the tax due (e.g. an additional $100 fine would be levied if the tax payable were $100). There have been cases where flea market operators have had their goods seized when they failed to provide evidence of having paid VDP at the port of entry on imported goods (*NewsDay*, 2010).

A feature of most collection efforts during these raids is the deployment of many ZIMRA officials. However, they tend to have little to show for their efforts, resulting in low levels of commitment to collecting taxes from the informal sector. According to one key informant, "We dispatched a team of officers to Mupedzanhamo [flea market] for the whole week but they collected little revenue. Informal sector taxation *sucks*" (ZIMRA official, personal communication, September 29, 2011). A similar view was expressed by a respondent from the Confederation of Zimbabwean Industries (CZI): "There is no capacity to tax this sector—they do not even have basic registers of these firms. Only the ones that are easy to identify are taxed" (CZI official, personal communication, September 26, 2011).

When asked to name the main constraint that ZIMRA faces in attempting to collect taxes from the informal sector, six of the seven ZIMRA respondents cited the shortage of manpower as the main constraint. However, when asked about the number of employees that would be required to effectively implement informal sector taxes, none of the ZIMRA officials could provide an answer, indicative of the difficulty in trying to implement the tax policy in the face of an unknown quantity of informal sector operators. Due to the high levels of manpower required to carry out the raids on informal enterprises (and the fact that these raids are seen as diverting scarce resources from the business of attending to large taxpayers), they were only conducted sporadically.

The findings from the interviews with the informal sector operators were largely consistent with what ZIMRA officials reported. Apart from those in the transport sector, many of the informal sector operators had never experienced a raid in spite of 12 out of 47 of them having operated for more than seven years. In fact, there was very low compliance among the informal sector operators interviewed. None of the seven cottage industry operators was paying presumptive taxes. Of the 23 urban transport operators in this study, 21 respondents said that they had paid presumptive tax at least once before, of which 10 reported that they consistently paid their taxes, eight said that they sometimes paid and three said that they had stopped paying these taxes. Of the nine flea market operators interviewed, only two of them said that they paid VDP every time they imported goods into Zimbabwe for resale, and another three said that they sometimes paid and sometimes "negotiated" with officials at the border. Of the eight hairdressing salon operators, the two operating from home said they had not heard about presumptive taxes. The other six reported they knew about presumptive taxes, but only four were aware of the $1,500 presumptive tax specified for their sector and none of them was paying it.

However, these six hairdressing salon operators did seem to know about the 10% presumptive tax that is supposed to be paid as part of the rent (to the landlord), and tax compliance in their eyes meant paying this 10% presumptive tax on rentals. One respondent said, "Taxes are the landlord's responsibility. I have an idea about presumptive taxes, but I am not sure about the actual figures. What I know is that the person who receives the rent also charges presumptive tax on the rent" (Salon operator, personal communication, April 25, 2014). Only one hairdressing salon operator reported ever having been raided by ZIMRA (in 2009), although the respondent said that ZIMRA officials had visited the salon after this raid to ask about taxes again. According to this respondent "When ZIMRA officials ask for my tax clearance, I tell them that I pay my rent to my landlord and tax is from the rent I pay. I cannot afford to pay presumptive taxes. I make $500 in a month so where do I find $1,500 to pay

ZIMRA? I just negotiate with ZIMRA officials when they ask why I pay tax on rent and not presumptive tax" (Salon operator, personal communication, April 17, 2013).

While the low manpower levels within ZIMRA and problems with identifying potential taxpayers mean that many in the informal sector go untaxed, another major source of inequity was the selective application of tax regulations, with some informal sector operators allowed to escape the tax net. In some instances, this appeared to be politically motivated. There are a number of locations in Harare which have substantial numbers of informal traders, yet they are not raided by ZIMRA officials. For example, a site occupied by a large number of cottage industry operators involved in the manufacture of furniture in one of Harare's high-density townships seemed to be exempt from ZIMRA raids. The site was run by a committee aligned to the ruling party, Zimbabwe African National Union-Patriotic Front (ZANU-PF), and the informal sector operators at this site felt "protected" from the tax authorities. According to one respondent, "As I explained earlier, here we do not pay taxes, we pay rent and committee fees. If you want to talk about taxes you should talk to the committee" (Cottage industry operator, personal communication, September 7, 2011). Despite the fact that the site from which these respondents operated belonged to the city council, the committee determined who operated from the site (only those who paid committee fees) and provided security at the site.[22]

According to urban transport operators, who were operating from a site in central Harare (less than a kilometre away from ZIMRA's Harare regional office) also run by a committee aligned to the ruling party, in addition to paying monthly "committee" fees of between $10 and $20 in exchange for "protection," they sometimes had to provide free services. One respondent said, "To operate without problems we sometimes have to provide transport for ZANU-PF rallies once a month" (Transport operator, personal communication, September 3, 2011). Most of the transport operators were not averse to this arrangement as they felt that they received specific services (i.e. protection from ZIMRA, police harassment and competition) in return for the fees paid to the committee.

There were other examples of corrupt activities that emerged from the interviews, also involving the selective application of the legislation. A particularly interesting issue raised was the unfair competition from police officers who owned minibuses in Harare. According to one respondent, "There is a conflict of interest. We are now competing with police officers who have kombis. The kombis belonging to police officers are not treated in the same way. Our kombis are targeted at roadblocks" (Transport operator, personal communication, November 24, 2011). Another respondent said, "Even when your things are in order, the police officers will just ask for money and if you don't pay they always find something wrong with your car and write out a $20 ticket. We just bribe them so that they can leave us alone" (Transport operator, personal communication, September 19, 2011).[23]

Informal traders importing goods into the country sometimes paid bribes at the port of entry. According to one respondent, "There are too many taxes at the border. If you pay the taxes you will not make a profit. It is better to talk to the driver who negotiates with ZIMRA officials. The drivers

[22]Associations are voluntary organizations whereas committees are groups of usually self-appointed individuals who run the affairs of the informal sector operators at a particular site. In some cases, these committees are just made up of party-aligned individuals who extort money from those in the informal sector. A particularly ruthless "committee' which terrorized urban transport and flea market operators, and whose power reached its peak in 2012, was Chipangano, which extracted "fees" of $1–$5 per trip from minibus operators (and in some cases a fixed fee from flea market operators). Informal sector operators in this study were afraid of openly mentioning this organization by name. This organization, which started out as a ZANU-PF youth league-controlled militia, was finally disbanded by ZANU-PF after the fragmented minibus operators' associations finally took a united stand at the end of 2012 (see Newsday, 2012; The Zimbabwean, 2012).

[23]In a recent report, Zimbabwe's traffic police were ranked as the most corrupt in the Southern African Development Community (SADC) region (Anti-Corruption Trust of Southern Africa, 2010).

know the ZIMRA officials better and they know what to do" (Flea market operator, personal communication, October 25, 2011).

These practices appeared to affect tax morale and compliance behaviour among the informal sector operators. The selective application of tax regulations was a major concern, especially for the transport operators, and was cited as a disadvantage by 11 out of 23 respondents in an open-ended question about the impact the taxes had on their business operations. Those paying presumptive taxes felt that those who were not had an unfair advantage over them. This was also cited as a disincentive by two of the three transporters who no longer paid presumptive taxes. According to one, "I started paying taxes just after I started operating. Then I stopped paying when I realized that most people were not paying" (Transport operator, personal communication, April 14, 2013).

Another factor affecting tax morale was the perceived unfairness of the tax rates. Many respondents (including most of those within ZIMRA) felt that the presumptive tax amounts, particularly those for hairdressing salons, were unfair. According to one ZIMRA official "They are not fair, especially when you look at hairdressing salons and compare them with other sectors and also when you compare the same activity in different suburbs"[24] (ZIMRA official, personal communication, September 6, 2011). Another ZIMRA official said, "These have largely become nonsense taxes. We do not agree with $1,500 per quarter for hairdressing salons. We need to start with low figures and move from there" (ZIMRA official, personal communication, September 29, 2011).

A key informant from the Zimbabwe Congress of Trade Unions (ZCTU) expressed a similar opinion, "These taxes are too high and merely encourage corruption" (ZCTU official, personal communication, October 14, 2011). Interestingly, even a key informant from the Zimbabwe National Chamber of Commerce (ZNCC), which represents formal sector enterprises, had a nuanced view on the matter, alluding to the possibility that some informal sector operators might be evading taxes, while others were likely bearing an unfair burden: "The informal sector is not made up of only poor people. There is a need to formalize this sector. However, consultations are critical in order to get an appreciation of how these people operate. There is a need for research. Presumptive tax figures are arbitrary and do not promote equity" (ZNCC official, personal communication, October 20, 2011).

Not surprisingly, 16 transport operators out of 23 also said that the presumptive tax amounts were unfair. According to one respondent "These taxes are too high. I had to pay presumptive tax even when one of my taxis had been involved in an accident" (Transport operator, personal communication, April 3, 2013). This example highlights the regressive nature of lump-sum or turnover-based taxes, where profit margins can differ across operators within the same sector.

A respondent who was also a member of a transport operators' association, noted that a proposal was made to the Ministry of Finance in 2010 for a lower rate, but this was unsuccessful. "In March 2010, we had a meeting with the Ministry of Finance where ZNCOOO (Zimbabwe National Commuter Omnibus Operators' Organisation) proposed an amount of $50 per quarter as a fair presumptive tax. This was based on discussions with our members. The Ministry of Finance has done nothing about this issue" (Transport operator, personal communication, November 24, 2011).

There are various other payments that public passenger operators have to make that are regarded as unavoidable "taxes." According to one operator, "They [presumptive taxes] are okay but there are too many payments that we have to make—to the police and to touts" (Transport operator, personal communication, May 6, 2014). Particularly onerous are the payments made to touts,[25] who exact a fee for

[24]There are usually differences in the prices charged for services (e.g. haircuts) based on their location in Zimbabwe, with those operating in low-density suburbs usually charging more, as residents tend to have higher incomes.

[25]Touts are people (almost always men) who solicit business by loudly announcing the taxi's destination to commuters and then demanding a "commission" from the driver. They are considered a nuisance by both drivers and the police.

every trip that the minibuses make—called a "forced permit" by one of the respondents (Transport operator, 4 May 2014). For example, an 18-seater minibus making 10 trips a day for 20 days of the month, and paying the minimum of $0.50 per trip, would pay $100 per month to touts. The amounts paid can in some cases far exceed those that are supposed to be paid to ZIMRA, and are a reminder that operating in the informal sector can have additional costs from which formal businesses are usually protected.

Finally, any analysis of tax administration within the context of a crisis state such as Zimbabwe cannot ignore the political reality in which revenue collection occurs. Perceptions around government legitimacy, accountability and transparency are beyond ZIMRA's control. In a country where the government is failing to maintain the basic infrastructure, for example, it is very difficult to convince people to pay their taxes. Informal sector operators in this study did raise issue with the way tax revenues were used by the state, with little perceived benefit for those paying them. One respondent said, "We also pay toll fees, but the roads are in a poor state. Taxes have to be justified. Taxes should be used to develop the informal sector" (Transport operator, personal communication, September 19, 2011). Although many people in Zimbabwe would be reluctant to question the legitimacy of the state publicly, when asked whether taxes were put to good use by the government, only five out of 42 informal sector operators responded in the affirmative.

6 | CONCLUSION

This article assessed the equity implications of informal sector presumptive taxes in Zimbabwe based on the representative taxpayer approach and evidence from qualitative interviews with key informants and informal sector operators. The findings based on the representative taxpayer approach suggest that presumptive taxes are horizontally inequitable when compared with what formal sector employees would pay under the PIT, particularly at the minimum ($250), and to a lesser extent, twice the minimum ($500) hypothetical income level. This is due to the tax-free threshold and progressive marginal rates built into the PIT system, whereas the presumptive taxes are either lump-sum taxes or proportional turnover taxes. Presumptive taxes are much fairer when compared with the CIT. However, formal businesses are allowed various tax deductions which presumptive taxpayers cannot take advantage of. In contrast, as the qualitative interviews uncovered, informal sector operators, beyond the protection and regulation of the state, are often liable for a number of additional fees or "taxes" that formal businesses would not ordinarily be subject to.

Furthermore, presumptive taxes introduce horizontal inequity *within* the informal sector at comparable levels of income because of the vastly different tax amounts levied across the informal sector activity classes. For example, even at three times the minimum income level ($750), hairdressing salon operators would be paying an effective rate in the order of six times that of flea market operators or cross-border traders, and 15 times that of taxi-cab operators. As one might expect, in the qualitative interviews the hairdressing salon presumptive taxes were singled out by both informal sector operators and ZIMRA officials as being unreasonable, and none of the salon operators interviewed were complying.

Unlike the PIT system which is progressive, and the CIT system which is proportional, the presumptive tax regime is highly regressive. To take the example of the minibus sector, one of the largest informal sub-sectors in Harare, presumptive taxpayers would be paying 23.3% in taxes at the minimum income level, 11.7% at twice the minimum and 7.8% at three times the minimum. This is a well-known problem with lump-sum taxes, which although considered economically efficient, are vertically inequitable.

The representative taxpayer approach is a hypothetical analysis, typically used in the absence of national data to calculate the actual tax incidence among various groups. The findings from this analysis were supplemented with information from the qualitative interviews on collection and compliance. These interviews yielded many additional insights that would not have emerged from secondary data analysis (particularly in the context of Zimbabwe's political and economic crisis), suggesting that this may be a useful approach even in countries where data are not limited.

For example, a number of the discussions with key informants pointed to a disjuncture between the Finance Ministry's interest in, and rationale for, taxing the informal sector, and ZIMRA's ability to collect the taxes with limited manpower and incomplete knowledge of potential taxpayers. This resulted in low levels of commitment on the part of ZIMRA officials to collection, poor and uneven coverage, and those in the more visible parts of the informal sector (such as the transport operators) bearing the brunt of the tax burden. Reports that the Finance Ministry set presumptive taxes at levels much higher than those suggested by ZIMRA following the latter's research into the transport sector's profitability, is further evidence of the lack of cohesion between these two government departments.

Another key finding was the apparent selective enforcement of the regulations which exacerbated perceptions among operators that presumptive taxes were unfair and resulted in low tax morale. Many informal sector operators were escaping, or were allowed to escape, the tax net due to various corrupt activities that at times appeared to be politically motivated. Party-aligned committees collecting their own "taxes" in exchange for protection from officials; police officers (some of whom owned minibuses themselves) selectively targeting minibuses at roadblocks; and officials taking bribes from cross-border traders, were some examples.

There are clearly numerous challenges in raising revenue from the informal sector, particularly in a crisis state like Zimbabwe, not just because of the nature of the sector itself, but because of the capacity (and will) of the authorities to implement and enforce the legislation. Nonetheless, there are some lessons that can be learnt from these findings which may be relevant to other developing countries trying to design and administer informal sector taxes.

First, there needs to be proper co-ordination between the treasury and tax collection authorities around the challenges of implementation in a sector that is large, disparate and often invisible to authorities. For instance, the level at which the presumptive taxes are set needs to be informed by solid research on sub-sector profitability, otherwise those tasked with collecting the taxes are placed in the unenviable position of having to extract unrealistic amounts from those on the ground, and with limited capacity.

Second, there needs to be more emphasis on education or awareness campaigns (Stern & Loeprick, 2007). If a clear rationale exists for the varying rates by sub-sector, this needs to be effectively communicated to informal sector operators. The results of the representative taxpayer approach identified that in most cases the CIT tax burden was higher than the presumptive tax burden at the same hypothetical income levels. However, a lack of awareness of how presumptive taxes compare with formal sector taxes led many in the informal sector to believe that they were being treated unfairly. Such perceptions lead to low tax morale and high levels of non-compliance.

Third, given the difficulties of enforcing presumptive tax legislation in the informal sector, attempts should be made to encourage quasi-voluntary compliance (Bodea & LeBas, 2014). Joshi et al. (2014) suggest that informal sector operators may be more likely to comply with the tax regulations if there were clear benefits that derive from paying these taxes. In Zimbabwe, protection from harassment by police, touts or illegitimate committees would be one example, as a number of informal sector operators saw the associated "fees" as adding significantly to their costs of doing business. Another way to encourage compliance might be through specifying lower presumptive tax rates for enterprise owners that keep basic records of turnover, as has been done in Tanzania (Tanzania Revenue Authority, 2011).[26] Given the high levels of education among those in the informal sector in Zimbabwe, the encouragement of basic record keeping would be feasible, and might also lead to improved enterprise performance

[26]This approach to incentivizing compliance is similar to the concept of the "maximum tax," referred to in Memon (2009). Under this system, the tax liabilities under the presumptive and regular tax regimes are compared, and taxpayers who provide a complete record of transactions are allowed to pay the lower amount (Memon, 2009).

(McKenzie & Sakho, 2010; Bruhn, 2011). In this context, there is also the possibility of implementing more equitable graduated turnover-based taxes (Taube & Tadesse, 1996; Engelschalk, 2007).[27]

Lastly, informal sector operators need to have a forum for engaging the state on issues that are of concern to their particular sector. Research in Ghana, where the state negotiated on taxation issues with informal sector operators through associations (Joshi & Ayee, 2002), suggests that this process may improve administrative effectiveness and compliance. A more recent study by Meagher (2013) provides evidence that negotiations between informal sector associations and the state in northern Nigeria were successful in protecting members from unfair taxation.

Faced with declining revenues from the formal sector, and an informal economy that is now responsible for over three quarters of employment, the Zimbabwean government needs to find ways of broadening the tax base and increasing revenues to the Treasury (IMF, 2016). Of course, efforts need to be made to incentivize those who are eligible, to formalize and to (re)join the standard tax regime. At the same time, however, more effective and more equitable ways of extracting revenue through presumptive taxes will need to be considered, with greater focus on encouraging quasi-compliance from those operating in the informal sector.

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[27]Memon (2009) provides a detailed and technical description of the various presumptive tax designs that have been implemented, some of which may result in more equitable outcomes. For example, with "half presumptive" methods, the small business declares its revenues but not its costs, and deductions are then made by the tax authority on a presumptive basis (Bulutoglu, 1995). With the "optional standard deduction" approach, fixed deductions are allowed for all enterprises in specific sectors such as transport or tourism. We refer the reader to Memon (2009) for further details.

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How to cite this article: Dube G, Casale D. Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe. *Dev Policy Rev*. 2019;37:47–66. https://doi.org/10.1111/dpr.12316