



**Midlands State University**

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# **DEPARTMENT OF ACCOUNTING**

**An investigation on the appropriateness of prevailing presumptive tax rates  
in Zimbabwe.**

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**SUBMITTED IN FULLFILLMENT OF BACHELOR OF COMMERCE  
ACCOUNTING HONORS DEGREE AT MIDLANDS STATE UNIVERSITY**

**GWERU: ZIMBABWE**

**2016**



DECLARATION FORM

I, Lennon Kamuteku Registration Number R124491X, do hereby declare that this dissertation is my own work, except to the extent specified in the references and the acknowledgements. It is submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree at the Midlands State University. This dissertation has been submitted in part or in full to any other university for any other degree. As such, no part of this research may be reproduced in any form, electronic or photocopy, for any other purposes other than academic without absolute permission from the undersigned. This research was approved by the Department of Accounting at Midlands State University.

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## **DEDICATIONS**

I dedicate this project to my parents Mr. Kamuteku and the late Mrs Kamuteku.

## **ACKNOWLEDGEMENTS**

To God we all give glory.

I would like to sincerely render my gratitude to my supervisor Ms Takachicha for her tireless effort in guiding, correcting, fruitful comments to make this project a reality. I also give much thanks to my family especially to my aunt Amai Chiradza for financial assistance throughout the past four years of my degree programme.

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## **ABSTRACT**

*The research project was carried out to investigate on the appropriateness of the prevailing presumptive tax rates levied on informal sector as some informal firms are not paying presumptive tax. The researcher was enticed to study the prevailing presumptive tax rates as presumptive tax head has been under-performing which results in ZIMRA missing the presumptive tax target for the past five years except in 2014. Results of the study revealed out that the presumptive tax rates levied by the ministry of finance are inappropriate and should be revised downwards. Paying presumptive tax affects negatively the informal sector business hence the researcher recommended that presumptive tax rates be reviewed downwards in light of this plight. Results also showed that presumptive tax system is not taxing all the eligible informal sector operators. The research recommends that ZIMRA should enforce compliance on informal sector operators to pay presumptive tax as some informal firms are not paying tax. The research has shown that informal sector participants are oblivious of how presumptive tax obligation is arrived at hence the involvement of these stakeholders will increase presumptive tax revenue.*





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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION**

This chapter serves on to introduce the research problem and what the researcher aims to achieve at the end of the research. It looks at the background of the study, the statement of the problem, research objectives, and sub-research questions, significance of the study, delimitations, limitations, and definition of terms and finally a summary of the chapter.

#### **1.1 BACKGROUND OF PROBLEM STUDY**

Zimbabwean government in its quest to broaden its revenue base introduced a tax system known as presumptive tax. The introduction of presumptive tax was in response to the paradigm shift in economic activity which is now occurring more in the informal sector (ZIMSTAT, 2011). Presumptive tax legislation was introduced to broaden the revenue base in view of the increase in informal business activities. Presumptive tax is an indirect form of taxation where tax liability is based on presumed income (ZIMRA, 2015). In Zimbabwe different rates of presumptive tax apply to different sectors of the economy ([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 28/02/2016, 2100hrs).

According to minutes on the Informal Traders meeting held in September 2014 between ZIMRA and one of the Informal sector representative, Zimbabwe Chamber of Informal Economy Associations (ZCIEA), informal businesses acknowledged that they are not paying the informal traders' presumptive tax required to the council arguing that it's too high as compared to the profits they make (ZIMRA Region 2 meeting minutes, 2014). On 29 January, 2014 ZIMRA presented a paper at a Business Breakfast Talk and Networking (BBTN) at Rainbow hotel focusing on Informal traders and it said most informal traders are not paying presumptive tax and are characterized by non-adherence to tax laws and minimal compliance (ZIMRA January 4th Week Head Office Report, 2014). The Ministry of Small to Medium Enterprises also held a meeting in March 2015 with ZIMRA in Bulawayo Regional Office in trying to seek reasons why informal sector businesses was resisting to pay presumptive tax to ZIMRA and informal sector

representatives' present argued that they are not refusing to pay but their problem was that the amount needed by ZIMRA was unrealistic and ZIMRA should review its rates. During the meeting informal business argued that one cannot be expected to pay \$1500 per quarter as tax for Hair Salon which they barely make as gross revenue. ZIMRA also held a breakfast meeting in Harare for players in the transport industry and some of the operators coined that they are not paying presumptive tax because the rates are too high considering the economic hardships they are facing (ZIMRA November Domestic Taxes Report, 2014). The non-payment by some other informal players of presumptive tax has seen ZIMRA missing its targets of presumptive tax in 2011, 2012, 2013 and 2015 (ZIMRA Revenue Reports 2011, 2012, 2013, and 2015). There is a strong positive correlation between the Gross Domestic Product and revenue collected in any year (ZIMRA Revenue Report, 2015). In 2012 according to Zimbabwe Statistics Agency informal sector contributed 19.5% (\$1.7 billion) to Gross Domestic Product whilst presumptive tax in 2012 according to ZIMRA contributed 4% (\$122, 561.5) to fiscus confirming that a substantial number of informal sector players are not paying their dues to treasury. According to several economic reports by Ministry of Finance presumptive tax was performing below expectations (Treasury Quarterly Bulletins, 2014 and 2015, Mid Term Fiscal Policy, 2015, State of The Economy, 2015).

The minutes of ZIMRA National Works Council meeting of 2014 revealed that the board of ZIMRA and Ministry of Finance were not happy with the inability by ZIMRA to tax the informal sector and this among other reasons has seen the suspension of rewarding quarterly performance awards to employees and this according to the minutes stifles innovation thereby perennial failure to meet revenue targets.

The inability by ZIMRA to apply the principle of equity in taxation where all sectors of the economy shares the burden of taxation by including all economic players in taxation burdens other tax payers alone. For an authority (ZIMRA) who is encouraging voluntary tax compliance all sectors of the economy should be in the tax bracket because total voluntary compliance will not be achieved hence potential tax loss (ZIMRA First Quarter Management Meeting, 2015)

Government has been the biggest hit by the underperformance of presumptive tax among other tax heads as more than 80% of its budget revenue goes towards recurrent expenditure leaving little for capital projects (National Budget, 2014). The Zimbabwean government in 2013

enunciated economic blue print ZIM-ASSET and its success hinges on the ability to raise domestic revenue through taxes and its success is bleak as little revenue is there (National Budget, 2015). This underperformance of presumptive tax head among other tax heads is detrimental to the government as it borrows to finance its budget deficit and other economic problems (Monetary Statement, 2015)

## **1.2 STATEMENT OF PROBLEM**

Not all informal sector players have been paying presumptive tax and this is a huge set back to the treasury. It is against this background that the research seeks to unravel the reasons behind the non-participation of some informal players in paying presumptive tax paying particular attention on the rates set by ZIMRA.

## **1.3 MAIN RESEARCH OBJECTIVE**

This study seeks to investigate the appropriateness of the current presumptive tax rates on the informal sector in Zimbabwe so as to increase government revenue.

## **1.4 SUB-RESEARCH OBJECTIVES**

- x To identify the use of presumptive tax in informal economy.
- x To analyse the prevailing presumptive tax rates in Zimbabwe.
- x To analyse whether or not the payment of presumptive tax threatens the informal sector operations.
- x To analyse if the informal sector businesses are registered for presumptive tax in line with Income Tax Act.
- x To ascertain the impact presumptive tax revenue can have on the economy.

## **1.5 RESEARCH QUESTIONS**

- x Is there presumptive tax in the informal sector?
- x What are the prevailing presumptive tax rates in the informal sector players?

- x How does the payment of presumptive tax affect the operation of informal sector businesses?
- x Is there total compliance by informal businesses in regards to presumptive tax obligation?
- x What impact can presumptive tax revenue have on the economy?

## **1.6 JUSTIFICATION OF THE STUDY**

### **1.6.1 To the researcher**

The researcher will delve deeper in presumptive tax matters and thereby amassing a great deal of knowledge which will be imparted to ZIMRA in form of recommendations on the best possible way to take regarding taxing the hard to tax informal business. This research is in partial fulfilment of the Bachelor of Commerce Honours Degree in Accounting at Midlands State University.

### **1.6.2 To Midlands State University**

This research will be used by future researchers as reference material for their studies especially Midlands State University students.

### **1.6.3 To ZIMRA**

The findings of this project will assist ZIMRA in providing valuable fiscal advice to the government and to achieve its objective of optimum revenue collection for the government. Informal businesses have proven to be difficult for ZIMRA to tax them and this research will go a long way in finding some of the reasons why informal businesses are engaged in spirited resistance to pay presumptive tax.

## **1.7 ASSUMPTIONS OF THE STUDY**

The research is based on the following assumptions:

- x Critical ZIMRA personnel will cooperate with the researcher during the period of the research considering that the researcher is a former attaché.
- x There will be faithful representations by the ZIMRA officials.



- x The study will be objective in data collection, analysis and presentation.
- x Informal business will provide information truthfully.
- x The respondents have a clear understanding on the questions they will be required to answer.

## **1.9 DELIMITATION OF STUDY**

The research is not an attempt to conduct a comprehensive study of the overall presumptive taxation but rather zero in and deliberate on the presumptive tax rates on informal business. The research will make use of ZIMRA officials in answering questionnaires and interviews and selected informal sector businesses.

## **1.10 LIMITATIONS OF THE STUDY**

- x Lack of financial muscle had affected the researcher to carry out his research but however donations from relatives' overcame this problem.
- x Since the respondents are ZIMRA employees, some information may be withheld in the interest of protecting such things as personal reputation, ignorance of the correct procedures and or impact of the initiatives under investigation. The authority to study had to be sort from ZIMRA to assure respondents that everything was done above board.
- x Some small businesses were not willing to give out their information hence the researcher had problems in securing primary data essential for data analysis. The researcher had to assure respondents that their information was vital and it was for their cause.
- x The researcher had a tight time schedule to meet thus the study had to be designed to fit within the allocated time.

## **1.11 DEFINITION OF KEY TERMS**

Presumptive Tax- Is a tax based on notional or estimated business income or some presumed values, like turnover, assets, number of employees, wealth, among others (ZIMRA, 2015)

Informal sector – Refers to activities and income that are partially or fully outside government regulation, taxation and observation (Jewell, 2013).

## **1.12 ACRONYMS/ABBREVIATIONS**

GDP- Gross Domestic Product

ZIM-ASSET- Zimbabwe Agenda for Sustainable Socio-Economic Transformation

ZIMRA – Zimbabwe Revenue Authority

ZIMSTAT- Zimbabwe National Statistics Agency

## **1.13 SUMMARY**

This chapter looked on the background of the research, statement of the problem, research objectives, and research questions, assumptions made in the research, limitations and delimitations of the study, definition of terms and acronyms. The next chapter is chapter 2 which will look at literature review.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter will look at what other scholars say about presumptive tax in general and the empirical evidence from other countries who have implemented presumptive tax. In reviewing what others scholars say about the subject area in particular attention will be given in examining the research objectives mentioned in Chapter one

#### **2.1 INTRODUCTION OF PRESUMPTIVE TAX**

The oldest example of presumptive tax can be found in Egypt where they presumed the amount of corn to be delivered to the treasury in kind which were different from year to year. The increase in informal sector has necessitated the introduction of a tax known as presumptive tax around the globe. The government of Zimbabwe experienced economic difficulties due to different reasons and this caused job losses in the formal economy which has resulted in the increase of the informal economy which was not being taxed. In Zimbabwe presumptive tax came into effect in 2005 and in 2006 other sectors of informal sectors players were brought in and it (presumptive tax ) was further enhanced in 2011([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1700hrs). The introduction of presumptive tax on informal traders, small scale miners, and commuter omnibus and taxi operators came into effect on 1 September 2005 whilst for driving schools and transporters it came into effect on 1 January 2006 (ZIMRA, 2012).

#### **2.2 METHODS OR FORMS OF PRESUMPTIVE TAX**

Yitzhaki (2012) highlighted four types of presumptive tax methods which comprise creating a discontinuous tax base from a continuous one (use of category data), potential income, a floor or a ceiling, using relatively easy to measure inputs and other observable characteristics of the business to estimate income.

Thuronyi (2015) also suggested four methods of presumptive tax which are: contractual method, the percentage of gross receipts, imposition of a fixed amount based on profession of trade, the standard assessment guide

Logue and Vettori (2013) suggested five types of presumptive tax methods which can be used in taxing the informal sector which are: lump sum business tax (fixed amount), pure gross receipts (turnover) tax, modified gross receipts (MGR tax: using historical line of business profit ratio to estimate net income, taxing Asset values, taxing multiple factors (Israel tachshiv or standard assessment guides).

Zivanai et al (2014) cited that there are certainly two approaches that have been used and implemented in developing countries in respect of presumptive taxation that is French Forfait and Tachshiv. Utaumire et al (2013) assert that tachshiv presumptive tax system has been used in Zimbabwe. Tachshiv can be summarized as follows, an estimate will be made concerning sales per worker and the respective ratio between inventory and turnover, correlation between water consumption, the aforementioned factors are then used to estimate total sales, the final stage will less or deduct presumptive or documented expenses to estimate gross income (Thuronyi,2015). French forfait is a presumptive tax which is negotiated between the taxpayer and the tax authority or tax administrator (Jonathan, 2014). Countries like Argentina, Colombia, Mexico and Venezuela uses asset base as their yardstick of presuming presumptive tax (Petre and Bantos, 2014) whilst Romania uses lump sum method in taxing informal sector (Logue and Vettori,2013). Tanzania, Kenya, Ghana and Brazil uses turnover based presumptive tax and in Brazil it is called SIMPLES (Reiners, 2011). Also South Africa uses turnover based presumptive tax system as most the micro (informal) firms keep accounting records (South Africa Tax Guide for Micro Business, 2011).

Reiners (2011) pointed that the use of turnover based presumptive tax has been beneficial to the Ghana revenue authority as it has managed to tap most of the informal economy revenue. South Africa has experienced a mixed success in terms of revenue from the informal sector through the use of turnover based presumptive tax as some provinces are complying and pay their dues and other provinces are characterized by non -payment of presumptive tax([www.sars.org](http://www.sars.org) accessed on 20/03/2016:1720hrs). Bantos (2014) argued that in Venezuela the use of asset based presumptive tax has been a success as revenue from informal sector has increased considerably. According to

Thuronyi (2003, 2015) the use of tacshiv (a presumptive tax system which uses different bases for presuming tax expense to different informal traders) presumptive tax system in Israel was a good method of taxing the hard to tax (informal sector operators) as it managed to tap almost all hard to tax, tax payers into the tax bracket.

### **2.3 OBJECTIVES OF PRESUMPTIVE TAX**

The main objectives of presumptive tax are to simplify tax administration processes, collect revenue from informal firms or players and educating them on their tax issues with the aim of bringing them to the tax net (Dube, 2014). Yitzhaki (2012) also argues that presumptive tax is less costly to the government hence its main objective is to reduce cost yet collecting the desired tax revenue.

### **2.4 ADVANTAGES OF PRESUMPTIVE TAX**

The merits of presumptive tax will depend on the method of presumptive tax under consideration as they are quite different methods which have been adopted by developing and developed countries. However generally to the government the use of presumptive tax (any method) reduces administrative costs of auditing tax returns and reduces tax avoidance (Petre and Bantors, 2014). Peicre (2015) content that the use of tacshiv presumptive tax ensures that they is simplicity and lower compliance costs, increased efficiency, provide fair opportunity to taxpayers to choose either presumptive tax route or to keep records of accounting and it reduces administrative cost to the tax administrator. The use of asset based presumptive taxation leads to simplicity, combats tax avoidance or tax evasion, leads to more equitable distribution of tax burden, rebuttable presumptions can encourage tax payers to keep proper books of accounts (Kerkper, 2013). According to Reiner (2011) turnover based presumptive tax is advantageous to small firms (informal sector) as it results in lower tax than would under corporate if they were to be assessed like corporate firms because the rate for presumptive tax is very low as compared to that of corporate tax. Phillips (2011) argued that tacshiv presumptive tax method will result in a fairer or equity between informal tax payers as it uses different bases to ascertain presumptive tax.

## **2.5 DISADVANTAGES OF PRESUMPTIVE TAX**

According to Yihzhaki (2012) tacshiv presumptive tax can lead to horizontal inequity as the same traders in the same industry might have different ability to pay the required tax. Utaumire et al (2013) also queried this in their study in Harare Central Business District that a salon in Borrowdale and a Salon in Chihota cannot be said to have the same ability to pay the required presumptive tax of \$1500 per quarter as their income is different because of different clientele base therefore different profits. The use of turnover based presumptive tax affects negatively informal sector start-ups as they may not have enough revenue to finance their operations (Reiner, 2011). According to Jonathan (2014) the use of French forfait is disadvantageous to the tax administrator as it is prone to corruption by the tax officials.

## **2.6 RATIONALE OF USE OF PRESUMPTIVE TAX**

The main virtue of presumptive taxation is that it may be the only effective way to tax the informal sector economy (Logue and Vettori, 2011). It assesses taxpayer when they are not able to use double entry or when they do not keep proper books of accounts (Thuronyi, 2015). The desired base for taxation (direct or indirect) is not known therefore it is inferred from a certain simple indicators. Maseko and Manyani (2011) assert that informal businesses in Zimbabwe do not keep proper books of accounts hence taxing them using presumptive method can only be the best way if they are ever going to be taxed. Terkper (2013) postulated that informal business cannot be taxed objectively as they do not keep proper books of accounts hence resorting to presumptive taxation methods.

## **2.7 METHODS OF COLLECTION OF PRESUMPTIVE TAX**

Presumptive tax collection can be outsourced to other departments of the government to reduce administrative costs and improve convenience to the informal tax payers. The collection of presumptive tax from transport sector (transport operators, taxi cabs and driving schools) has been with effect from 1 January 2015 been administered by ZINARA ([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:2145hrs). Also the payment of presumptive tax from informal traders has been outsourced or has been collected by the city councils on behalf of ZIMRA ([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:2108hrs). These agents withhold maximum 10% of the collected revenue as administration fee for their services and those agents should have in

terms of tax have up to date VAT returns and tax clearance. In Ghana the appointment of agents to collect presumptive tax on transport sector and informal traders on behalf of Ghana revenue authority has been a success as it has reduced administration costs and collected more than targeted revenue (Colin and Loana, 2015). In Uruguay if the appointed agents are in tax debt for more than two consecutive years they are disqualified to continue as agents (Almed and Rider, 2015). The success of this scheme in developing countries depends on the sound management of those appointed agents that is they will have up to date audited financial statements, up to date tax returns with no tax debt (Tusubira and Nkote,2013). In Zimbabwe this cannot be said to be prevailing on the ground as City of Harare one of the appointed agents by ZIMRA to collect informal traders' tax has a \$40 million tax debt resulting from unpaid taxes, interest, penalties to ZIMRA (ZIMRA Debtors Annual Report, 2014). According to the auditor general ZINARA last submitted its financial statements to be audited in 2012 (Auditor General Report, 2014).

## **2.8 THE LEVEL OF PRESUMPTIVE TAX RATES**

According to ZIMRA website [www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1710hrs the following are presumptive tax rates and their due dates:

### **2.8.1 Transport Operators' Presumptive Tax**

**Table 2.1 Transport Operators' Presumptive tax rates**

<b>Operators of:</b>	<b>Description</b>	<b>Presumptive Tax (US\$ per quarter for each vehicle)</b>
Omnibuses	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
Driving	Class 4 vehicles	500
Schools	Class 1 and 2 vehicles	600
Goods Vehicles	More than 10 tonnes but less than 20 tonnes	1000
	More than 20 tonnes.	2500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2500

(Source: [www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1705hrs)

Taxicab and omnibus operators are required to carry a tax clearance certificate in the respective vehicle. Failure to carry or produce the tax clearance certificate renders the person in charge of the vehicle liable to a fine of 100% of the amount due or if in default of payment, imprisonment for a period not exceeding six months. Failure to pay the presumptive taxes in time also renders the operators liable to interest charges.

### **2.8.2 Hairdressing Salon Operators' Presumptive Tax**

In Zimbabwe every operator of a hair dressing salon is required to pay presumptive tax amounting to US\$1 500.00 per quarter. Amounts not paid by the due date are subject to interest charges.



### **2.8.3 Informal Traders' Presumptive Tax**

All persons in receipt of rental income from an informal trader in respect of residential accommodation, premises or a place on which trade is carried on are required to withhold an additional amount of presumptive tax equal to 10% of the rental and remit it to ZIMRA. This includes local authorities.

The amount should be remitted within 30 days from the date the amount is recovered. Failure to recover or remit the presumptive tax renders the lessor personally liable for the payment of the presumptive tax and a penalty of 100% of the amount due. Failure or refusal on the part of the informal trader to pay the presumptive tax constitutes a breach of the lease and allows the lessor to terminate the lease without notice.

### **2.8.4 Small-Scale Miners' Presumptive Tax**

Every agent who buys any precious metals or precious stones from a small scale miner is required to withhold 2% of the gross amount payable and remit the amount to the Commissioner General. The only exception is where the small-scale miner holds a valid tax clearance certificate. The amount should be remitted by the 10<sup>th</sup> of the following month in which payment was made. Failure to recover or remit the presumptive tax renders the agent liable for payment of the tax, penalties at 100% and interest charges. However small scale miners presumptive tax was reduced to 0% by the Ministry of Finance with effect from 1 January 2015 ([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1900hrs)

### **2.8.5 Cross-Border Traders' Presumptive Tax**

Cross border traders who import commercial goods into Zimbabwe are required to pay a presumptive tax equal to 10% of the value for duty purposes (VDP) of the commercial goods. The only exception is cases where the trader is registered with ZIMRA for Income Tax purposes and is up to date with submission of tax returns and payment of all taxes due.

## 2.8.6 Operators of Restaurants or bottle-stores

Every operator of a restaurant or bottle store is required to pay presumptive tax amounting to US\$300 per quarter.

## 2.8.7 Cottage Industry Operators

Every person who owns or is in charge of a cottage industry regardless of it being licensed or not is required to pay presumptive tax amounting to US\$300 per quarter. Cottage industry operators include those in the furniture-making or upholstery trade, metal fabrication and any other cottage industry that the Minister may, by notice in a statutory instrument, prescribe. Interest is chargeable where the amounts due are not paid by the due date.

## 2.8.8 Commercial Waterborne vessels

With effect from 1<sup>st</sup> January 2012, presumptive tax is charged to operators of commercial waterborne vessels used for the carriage of passengers for profit and fishing rigs.

Table 2.2 Commercial Waterborne vessels Presumptive tax rates

<b>Operator of:</b>	<b>Carrying capacity inclusive of cabin crew/description</b>	<b>Presumptive tax per quarter per vessel in US\$ with effect from</b> <b>1 January 2012</b>
Waterborne Vessel	Up to 5 passengers	250
	6 to 15 passengers	500
	16 to 25 passengers	1 000
	26 to 49 passengers	1 500
	50 passengers and above	2 000
Waterborne Vessel	Fishing rigs	350

(Source: [www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1710hrs)

### 2.8.9 Due Dates for Presumptive Tax (Excluding Informal Traders Tax)

Table 2.3 Due Dates for Presumptive Tax

Period of each year	Due Date
1 <sup>st</sup> Quarter (Jan to March)	10 <sup>th</sup> April
2 <sup>nd</sup> Quarter (April to June)	10 <sup>th</sup> July
3 <sup>rd</sup> Quarter (July to September)	10 <sup>th</sup> October
4 <sup>th</sup> Quarter (October to December)	10 <sup>th</sup> January of the following year

(Source: [www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:1710hrs)

The presumptive tax rates should be kept as high as possible to reduce the level of hard to tax firms in the tax bracket (Chidoko et al 2014). Very high presumptive tax rates and sheer ignorance operate as a service disincentive in the informal sector tax compliance resulting in very low revenues from this sector (Dube, 2014). Presumptive tax rates should be very high but should be within the tenets of principle of fairness and political acceptability (Thuronyi, 2015). Thuronyi (2015) went further to say that in practice it is very difficult to set high rates of presumptive tax rates due to politics. The level of non-compliance in a country by tax payers depend on the tax structure (tax rates and tax base), (Ahmed and Rider, 2013)

## 2.9 ECONOMIC STATE OF THE COUNTRY AND PRESUMPTIVE TAX RATES

According to Pabwaungana (2011), presumptive tax rates should be reviewed down to cater for the economic doldrums of the Zimbabwean economy as the country is facing financial constraints. Ability to pay is one of the rules or principle which needs to be implemented in a tax administration so as to avoid non-compliance of tax regulations (Slemrod and Yizhaki, 2009). Ability to pay the required tax is affected by the income levels and income level is affected by the performance of the economy (Slemrod and Yizhaki, 2009). Wallace (2015) is of the view that the tax structure (tax rates and tax base) itself has a bearing on the amount of taxes to be collected. High presumptive tax rates may result as a tax burden to the tax payers especially where the country faces economic difficulties which may lead to tax evasion especially if the probability of being caught is very low (Nzoro et al, 2012). Colins (2014) argued that high presumptive tax rates will lower number of participants in the informal economy especially if the

economy is in a difficult state. Zimbabwe is facing chronic economic challenges and informal sector is the major sector being the worse affected as they cannot borrow because of lack of collateral security, so any reduction in costs is especially welcomed.

Utaumire et al (2013) argue that the absence of concerned stakeholders in determining presumptive tax rates has resulted in perennial resistance to pay the required presumptive tax by ZIMRA. Utaumire et al (2013) went further arguing that presumptive thresholds should be revised down to adapt to the changing economic environment in Zimbabwe. According to Dube (2014) the Ministry of Finance in Zimbabwe in 2009 after dollarization specified new rates to be paid by informal operators without consulting ZIMRA and the informal sector players. According to the Income Act (Chapter 23:06) the presumptive tax rates are specified every year in the charging act (Finance Act) but however according to Revenue Act, ZIMRA should provide fiscal advice to the Ministry of Finance hence any fiscal issue acted upon by the ministry should have been advised by ZIMRA. In other countries like Rwanda which are facing economic challenges their revenue authority before raising or decreasing presumptive tax rates they first consult their tax payers and this has led to better relationship between the tax collector and informal tax payers which has increased compliance levels of paying presumptive tax([www.rra.org](http://www.rra.org) accessed on 20/03/2016:2000hrs).

Ghana is one of the few countries that have successfully and consistently been able to tax the informal sector using presumptive tax method in relation to its economic situation (Dube, 2014). A study in Ghana by Kagaya (2012) also revealed that Ghana have successfully implemented the presumptive tax system with most of its informal sector players saying presumptive tax rates is within their capability. Kagaya (2012) went further to say Ghana has reduced its turnover presumptive tax system from 5% to 3% of turnover in light of the economic problems and the results were amazing as most informal players increased their participation in the economy through paying presumptive tax. A study in Ukraine by Fursin and Lyasko (2014) stresses that presumptive tax rates should be in tandem with the economic situation of that country. There is always a tradeoff or impasse between high presumptive tax rates and the provision not to attract or entice formal firms to enter the informal sector. If government reduces the level of tax rates in one sector it will face pressure from other tax payers to reduce their tax obligations or tax rates (Alm and Khan, 2015).

Presumptive tax rates set by the tax administrator should be very effective as informal businesses are not homogenous (Kerper, 2013). Presumptive tax rates should consider location of informal tax payers assuming that there is a range of income (or as economists would say heterogeneity) among tax payers (Logue and Vettori, 2011). Utaumire et al (2013) also shares the same view above in their study of informal traders in Harare concluded that government should consider levying different presumptive tax to informal traders in the same industry but different locations as they are likely to make considerable different profits. A revised presumptive tax rates that provides for new thresholds and rates on turnover, location and business activity ([www.ura.org](http://www.ura.org) accessed on 14/01/2016: 1800hrs). They are probably differences in scope and profitability of the informal sectors operating in the various regions of the same country and it will be prudent to levy different presumptive tax rates depending on regions (Bikalas et al, 2012).

In a study carried out by Zivanai et al (2014) in Bindura transport sector it revealed that amongst the transporters studied 95% of them argued that presumptive tax rates set by ZIMRA were high to very high. Also Hove et al (2013) conducted a study in Bindura Small to Medium Enterprises (SMEs) revealed that SMEs are not comfortable with the current prevailing presumptive tax rates as they are on the top notch. However Utaumire et al (2013) in their study which they conducted in Harare Central Business District reveals that contrary to public perception not all informal traders are unwilling to pay presumptive tax. According to Golab (2015) in a study he carried in sub Saharan Africa shows that cross border traders businesses are thriving very well and they are able to pay the 10% VDP (value for duty purposes) in Zimbabwe.

Colin and Muhammad (2016) revealed that informal sector operators are very worried about high presumptive income tax which they are being made to pay by the Pakistani Revenue Authority.

## **2.10 PRESUMPTIVE TAX RATE AND EQUALITY**

The presumptive tax rates used in most developing countries perpetuate income inequality as it is regressive (Leffer et al, 2011). A research carried out in Korea by Dunghun (2011) revealed that lowering the tax rate on informal sector will increase income inequality despite increasing the tax base. Presumptive tax system in Pakistani does not adhere well with the principles of efficiency and equity because it does not effect neutral tax principle as Value Added System (Memon, 2013)

## **2.11 PRESUMPTIVE TAX, COMPLIANCE AND TAX EVASION**

Usually when results of non-compliance by taxpayers and tax evasion are witnessed there is high probability that tax payers view the tax system as unfair. Udoh (2015) argued that informal sector firms are the largest number of tax defaulters which will increase cases of tax evasions leading to leakages in government revenue. Welch et al (2012) are of the view that tax payers evade tax when others are evading and it's like a norm as there is less probability of being caught by the tax administrator. A study in Italy by Santoro (2015) revealed that informal sector businesses are the highest tax evaders depriving government of its potential revenue through presumptive taxes.

Tax knowledge and tax education is of utmost importance to tax payers especially informal sector as it will improve compliance hence it will improve the view informal traders have on presumptive tax (Ndiranga, 2014). However Maseko (2014) in a study of informal sectors in Harare, Chitungwiza and Bindura reveals that tax knowledge is divorced from compliance. According to Nyamwanza et al (2014) informal sector in Zimbabwe are characterized by noncompliance on tax remittances which has seen them contributing no meaningful revenue to the fiscus. However Utaumire et al (2013) postulated that some informal sector players are oblivious of the existence and objective of the presumptive tax head in Zimbabwe. Also Dalu et al (2015) assert that ZIMRA should improve on the awareness of presumptive tax head if meaningful revenue is to be realized. A study carried in Ghana by Carrol (2013) also postulates that some informal sector participants are unaware of the existence of presumptive tax head.

Colin and Loana (2015) assert that tax education campaigns are essential as it will change norms, values and beliefs of taxpayers hence improving their tax compliance. Utaumire et al (2013) pointed out that ZIMRA uses seminars, workshops, and radio in reaching out the informal sector but however these methods are not effective in enticing informal sector players as it always attracts the already complying informal tax payers.

According to eMarketer, B2B and B2C marketers they have named video as a top three most effective social marketing strategy ([www.emarketer.org](http://www.emarketer.org) accessed on 25/04/2016:2100hrs). Stefansky (2015) postulated that companies should have an effective and comprehensive video strategy that it uses to advertise its brands as social media have taken center stage in human life. Stefansky (2015) went further arguing that companies need to maintain their video strategy to

keep an engaged audience. In Zimbabwe several companies due to the advent of technology have also been using informal advertisements like conveying of messages through social media video clips. Institutions like Old Mutual used social media video in advertising its life plan, Nash Paints used it to advertise its credit facility, Reserve Bank of Zimbabwe used it to promote the use of bonds coins, Ministry of Higher and Tertiary Education, Science and Technology Development used it to promote its STEM(science, technology, engineering and mathematics) programme.

Rwanda revenue authority has been implementing or celebrating tax payers appreciation day where compliant tax payers are honored for their timely payment of tax since 2002 and as a way of luring informal players to comply on presumptive tax it included a category of informal sector and this recognition has seen its revenue from informal sector increasing ([www.rra.org](http://www.rra.org) accessed on 20/03/2016:2035hrs). Zimbabwe Revenue Authority introduced tax payer appreciation day in 2011 and it has no category dedicated for informal sector players ([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 20/03/2016:2120hrs). According a study in Nigeria by Odoom (2015), informal sector players need some sort of inducements for them to comply like recognition.

## **2.12 IMPACT OF PAYING PRESUMPTIVE TAX ON INFORMAL SECTOR OPERATIONS**

Yitzhaki (2012) argued that the payment of presumptive tax should not force informal sector firms into bankruptcy. The payment of presumptive will affect negatively the performance of informal sector businesses as they is positive relationship between poverty and informal sector (Vinish and Rajesh, 2016). According to Anuradha et al (2014) the payment of informal taxation (presumptive tax) negatively affects the operations or viability of the concerned informal sector player. Joshi et al (2013) argues that the imposition of presumptive tax on poor informal sector employees will negatively hinder their growth. Presumptive tax payment in informal or small firms affects their cash flow, financial capacity, growth and their survival.

In a study of Gweru informal sector by Nyamwanza et al (2014) they argued that small to medium enterprises are struggling to meet their presumptive tax obligations and this is made worse by stiff penalties imposed on them by ZIMRA. Also a study in Bindura transport operators revealed that they is negative relationship between payment of presumptive tax and viability of

informal sector businesses (Zivanai et al, 2014). The jobs in the informal sector are merely survivalist and are temporary in nature and by imposing presumptive tax on them the government will be merely killing the informal sector, this is what Njaya (2015) concluded in a study of informal sector businesses in Harare Metropolitan Province. A recent study in Gweru reveals that informal sector firms faces the challenge of complex and high cost or registration, punitive tax rates which affect their viability (Moyo, 2016). Also a research conducted by Dalu et al (2013) in Harare shows that presumptive tax is burdensome to the informal sector with only 21% of the respondents saying they are paying their presumptive tax with little or no effect on their operations. However in a study carried out in Mbare Magaba by Masirirambi (2013) revealed that most of the informal traders in Mbare Magaba were making more than \$500 per month which is above the tax free threshold of \$300. Magara and Were (2014) in their case study of Nyakach Constituency revealed that they was negative relationship between payment of presumptive tax and small to medium enterprises growth.

According to Nyamwanza (2014) small to medium enterprises (informal sectors players) lack managerial acumen to manage their operations and this is why they is low survival rate as they do not retain income from their operations to pay statutory obligations like presumptive tax. The payment of presumptive tax affects financial decisions as they will be less income to conduct other business operations. Informal sector players are faced with poor financial management skills to contain or manage business expenses and the payment of presumptive tax will be a huge blow to their ineffective financial management policy (Nyamwanza et al, 2012). A study in Nairobi Kenya by Karuga (2013) has pointed out that presumptive tax is a major threat to the financial management policy of small to medium enterprises. Mapetere et al (2012) argue that small firms (informal firms) lack effective leadership skills to formulate sound strategic management and this will be worsened by the statutory requirement of paying presumptive tax.

Memon (2013) says high compliance costs of presumptive tax threaten the cash flow of informal sector businesses. A study in Uasin County, Kenya by Kamar (2015) shows that they is negative relationship between paying presumptive tax and small to medium enterprises performance as the business will have no cash flow to cater for day to day running of the business.



## **2.13 COMPLIANCE OF INFORMAL SECTOR ON PRESUMPTIVE TAX REGULATIONS**

In developing countries they are weak tax administrations and they cannot offer to devote scarce resources in the informal sector hence presumptive methods is virtually the only alternative available if such tax payers are to be taxed at all (Thuronyi,2015). Informal sector businesses have been always proved difficult to tax by tax administrators as they do not register for tax purposes (Omutunde, 2013). The most problem of tax reform in any country is that informal sector businesses do not register for presumptive tax purposes (Uky, 2014).

According to Dalu et al (2015) they carried out a study on informal firms in Harare and they found out that most informal traders are not registered, transact in cash and are not knowledgeable about their presumptive tax obligation. A study by Nirosha and Stuart (2016) in Sub Sahara African micro small to medium enterprises revealed that most informal businesses are not registered with the tax administrations for tax purposes. A case study in Pakistani by Memon (2013) revealed that Pakistani presumptive income tax is a turnover based it has failed to reduce compliance burden and collect optimum revenue as significantly large chunk of informal traders are not registered with Pakistani revenue authority. According to Hossein et al (2015) carried a study in Iran and says most informal sector enterprises are not registered for tax purposes hence why they are contributing less to the government. Zambia's informal sector has been contributing less to the Zambian revenue authority as most of them are not registered for presumptive tax (Mwasa and Chileshe, 2013). A study carried out in Benin, Burkina Faso, and Senegal by Mbaye et al (2014) reveals that a great deal of micro enterprises is not registered for tax. However in Ghana most of the informal sector participants are registered for presumptive income tax (Reiners, 2011).

Huerta (2015) argues that for informal firms to register for tax purposes government has to view them as economic contributors and merely not as economic outcast.

## **2.14 REASONS FOR NOT REGISTERING FOR PRESUMPTIVE TAX**

Most informal firms in the developing countries do not register for tax purposes as they is inappropriate tax micro simulation models used to determine their tax structure (Legoro et al,2015). Most informal sector firms in developing countries are not registered for presumptive

tax purposes as they engage in tax evasion (Randlane, 2016). Ghana revenue has been engaging stakeholders in pursuit to reduce the registration process and it has reduced registration days from 15 days to 4 days to entice informal sector to register for presumptive income tax ([www.gra.org](http://www.gra.org) accessed on 05/04/2016:2120hrs). In Zimbabwe according to Mutefura (2014) registration of presumptive tax is very simple.

Maseko and Manyani (2011) argued that the cost of complying with presumptive tax for informal sector is far much higher than the payment of presumptive tax itself hence why informal sector firms decide to play hide and seek with the revenue authority. This is also supported by a research done by Dalu et al (2015) in Harare that some informal sector firms do not register for presumptive tax purposes because the cost of complying with presumptive tax is so high.

Kangave et al (2016) in Ghana argued that the non-registering of some informal sector operators is because of the lack of collaboration by government arms in particular city councils and tax administrators. The research also suggested that the city authorities should not give an informal trader license to trade if the informal operator does not have presumptive tax clearance issued by the tax administrator. Informal sector operators for them to register for presumptive tax there must be a well shared vision between city councils and the revenue authorities by establishing by-laws or statutory instrument that no informal operator will be awarded a license without paying presumptive tax (Odoom, 2015). According to a research in Midlands' province by Moyo (2016) it argued that for informal sector firms to register they must be some incentives because the cost of complying with presumptive tax is too high and the penalty levied against them when they do not comply should be repealed off for them to register for presumptive tax. In Zimbabwe the payment of presumptive tax is not related to having a license issued by the city council ([www.ministryosme.org](http://www.ministryosme.org) accessed on 05/04/2016:2140hrs). Informal sector operators (hair salons, restaurants, bottle stores) renew their operating licenses quarterly with the exception of informal traders who renew their licenses monthly to the city councils ([www.hararemunicipality.org](http://www.hararemunicipality.org) accessed on 25/04/2016: 1400hrs). Goods vehicles, omnibuses, taxi cabs, driving schools also renew their vehicle and permits licenses quarterly to Zimbabwe National Roads Administration ([www.zinara.co.zw](http://www.zinara.co.zw) accessed on 25/04/2016:1420hrs). On the other spectrum informal sector operators are required to pay presumptive tax quarterly

([www.zimra.co.zw](http://www.zimra.co.zw) accessed on 25/04/2016: 1500hrs). According to Kangave et al (2016) for this scheme to be practical renewal dates for business licenses and presumptive tax due date must be the same.

### **2.15 PRESUMPTIVE TAX AND NATIONAL BUDGET**

According to Nzaro et al (2012) if the revenue collection system fails to net all potential tax payers the financing of the national budget is negatively affected. Revenue mobilization in developing countries is challenging and especially so when it comes to generating taxes from small enterprises to finance their national budgets (Fox and Murray, 2014). Small or informal businesses cannot be a major revenue source for the government because the traditional cost recovery requirement of a tax regime or system will not be attained even by the most efficient presumptive tax system (Phillip, 2011). Udoh (2015) argues that taxing the informal sector is noble idea as they is large potential revenue inflow to the government.

### **2.16 PRESUMPTIVE TAX REVENUE AND ECONOMIC GROWTH**

Benjamin and Mbaye (2014) are of the view that economic development will be problematic if the major economies activities are being carried out in the informal sector as less revenue usually find its way to the relevant tax authority. The closing or significant closing of the presumptive tax gap (by paying presumptive tax) on sole traders can be of great importance to the economic development of the American economy as the economy is moving away from stimulus mode or economy to a debt reduction mode of economy (Logue and Vettori, 2011). The major disadvantage of the informal sector is low tax yield which will mean that they will be low economic growth as little revenue is being realized by the relevant government (Mapp and Moore, 2015).

Colin (2014) asserts that high level of informal sector in a country will cause underdevelopment of the country as little revenue will be realized. Joshi et al (2014) argued that informal sector yield low revenue but they are benefits of economic growth for informal taxation. The tax structure particularly the presumptive taxation in developing countries proves to be difficult in yielding the much expected tax revenue as it supposes to affect negatively economic growth (Omotunde, 2013). Beegle and Recanatini (2014) are of the view that the complex and non-

transparent trading systems of informal sectors can be discouraging to foreign investors and can otherwise undermine trade policy and the international competitiveness of developing countries. Potential revenue yield by taxing the informal sector will be low and administration costs will be high (Keen, 2012). Joshi et al (2013) are of the view that taxing the informal sector is likely to be regressive since their potential revenue yields is considerably low coupled with high administration costs to the tax administrator.

According to a study in Zimbabwe which was carried out by Dzingirai and Tambudzai (2014) from 1980-2012 revealed that there is independent relationship between economic growth and total given tax revenue. According to AFRODAD (2011) report in Zimbabwe there is a positive relationship between revenue collected and economic growth or development hence if government wants to increase economic growth it must increase its tax base. A research which was done in Kenya by Masika (2011) showed a positive correlation ship between taxes revenue and economic growth of 0, 93 suggesting that for economic growth to be registered there must be increase of tax revenue as government mostly relies on tax revenue.. However this conflicts the study which was also conducted in Kenya by Njaga (2015) who concluded that there is negative relationship between presumptive tax revenue and GDP (economic growth) therefore government has to lower presumptive tax rates to increase economic growth as more informal players will be paying presumptive tax which will ultimately increase tax revenue.

In Nigeria according to a study conducted by Ohaka and Zukbee (2015) revealed that informal sector businesses are not yielding enough revenue to the government because few informal sector players are paying presumptive tax hence affecting negatively economic growth, so the government must devise ways to lure informal sector operators to pay presumptive tax as this will increase economic growth. According to a study in Zambia by Phiri and Kabaso (2012) revealed that revenue from informal sector has increased the economic growth of the Zambian government considerably because some of the micro enterprises have been paying presumptive tax religiously.

## **2.17 SUMMARY**

The chapter has looked at literature concerning the presumptive tax, advantages, disadvantages, presumptive tax rates among other things. Literature reviews looked at the relationship between

presumptive tax and national budget, economic growth and effects of complying with the current presumptive tax rates on the informal sector operations. The chapter has also looked at what others countries have been doing to lure informal traders into the tax net and their presumptive tax rates. Chapter three will focus on research methodology used in gathering data.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

The purpose of research is to find out the truth or hidden aspects or to discover something that has not been done (Kothari, 2005). According to Jankowicz (2010), research methodology is an analysis and rationale for the method(s) used in a particular or given study and in other studies of that type in general. The researcher made use of structured and semi-structured interviews and structured questionnaires. The chapter looks at the research design, study population, ethical consideration, reliability and validity, data collection techniques, data presentation and research instruments, and justifications for the methods used and impact on the findings of the study.

#### **3.1 RESEARCH DESIGN**

According to Vans (2011) research design is a plan of work detailing how the researcher is going to solve or to give evidence upon a particular problem or research. Research design entails the logical manner in which the researcher is going to employ measures to achieve certain objectives that is it is a means to an end. The research under consideration used descriptive research together with mixed methods approach that is quantitative and qualitative method so as to investigate the appropriateness of prevailing presumptive tax rates.

##### **3.1.1 DESCRIPTIVE RESEARCH**

Descriptive research encompasses or focuses on fact finding enquiries of different kinds in research projects (Kothari, 2004). Descriptive research is employed to gain an accurate profile of events, persons and or situations. In descriptive research the researcher has no control over variables thereby making it an efficient tool in gathering data. The writer's objective was to portray faithfully the situation regarding the subject area. The study made use of interviews and questionnaires in collecting data.

### **3.1.1.1 MIXED METHOD RESEARCH**

According to Saunders et al (2016) mixed methods research is the branch of multiple methods research that combines the use of quantitative and qualitative data collection techniques. Qualitative research aims at rooting up the motive and desires concerning a certain behavior trend (Kothari, 2004). Qualitative research makes use of the words expressed by the respondents concerning a certain behavior of trends under consideration. Qualitative research makes use of different methods of gathering data which are efficient and effective depending on the research objectives. The study under consideration made use of interviews to ZIMRA managers in corroborating data from non-managerial ZIMRA employees.

Quantitative research is often used as a synonym for any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data whilst in contrast qualitative is often used as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorising data) that generates or uses non- numerical data (Saunders et al, 2016).

#### **3.1.1.1.1 JUSTIFICATION OF MIXED METHOD RESEARCH**

Qualitative research is suitable for semi-structured interviews where the researcher can ask questions beyond the interview guideline. Mixed methods were used because it ensured that triangulation was achieved whereby data was combined to ascertain if the findings from one method mutually corroborate the findings from the other method, this was not going to be achieved if one method of data method was used. The use of mixed methods increased the level of confidence which can be put on the research methods as the use of single method might be ineffective in some instances. In this research it was inappropriate to employ descriptive research method only as ZIMRA managers did not have time to fill the questionnaires hence qualitative (interviews) was employed on them. Use of mixed methods allowed meanings and findings to be elaborated, enhanced, clarified, confirmed, illustrated or linked.

### **3.3 RESEARCH POPULATION AND TARGET POPULATION**

Rubin *et al* (2003) described the population as an aggregation of all the elements in the sampling frame (complete list of target population). According to Saunders et al (2016) population is the full set of cases or elements from which a sample is taken. Target population is a subset of the

population where the population is redefined to focus on a target group or focus group. This aggregation must be in terms of elements and sampling units. The researcher focused on the informal sector players: transport sector (driving schools, taxi operators and kombis), hair salons, bottle stores, cottage industries, restaurants, informal traders who operate at different locations but within Gweru and ZIMRA Gweru officials as the source of data. The research population was all ZIMRA officials in Region 3 and all Gweru informal sector enterprises.

Table 3.1 Research and Target Population- ZIMRA

	<b>Population</b>	<b>Target Population</b>
Regional Managers	2	1
Domestic Taxes Managers	15	4
Supervisors	30	6
Revenue Specialists	169	20
Revenue Trainees	30	10
Attaches	10	4
Accounts Staff	15	0
HR and Administration Staff	20	0
<b>TOTAL</b>	<b>291</b>	<b>45</b>



Table 3.2 Target Population in Informal Sector

<b>Description</b>	<b>Target Population</b>
Omnibuses	5
Taxi-Cabs	5
Driving Schools	5
Hairdressing	5
Informal traders	10
Cottage Industry	4
Restaurants and	5
Bottle stores	4
<b>TOTAL</b>	<b>43</b>

### **3.4 RESEARCH SAMPLE**

A research sample is a part of the whole population to be studied which has the attributes or characteristics of the whole thus phenomenon identified in the sample can be used with some degree of accuracy to describe the whole. In this study a sample was selected from the target population as illustrated by the table 3.3 and table 3.4

Table 3.3 Sample Size ZIMRA

<b>Description</b>	<b>Target Population</b>	<b>Sample</b>	<b>Percentages (%)</b>
Regional Managers	1	1	100%
Domestic Taxes Managers	4	4	100%
Supervisors	6	6	100%
Revenue Specialists	20	10	50%
Revenue Trainees	10	4	40%
Attaches	4	2	50%
<b>TOTAL</b>	<b>43</b>	<b>27</b>	<b>63%</b>

Table 3.3 Sample Size Informal Sector

<b>Description</b>	<b>Target Population</b>	<b>Sample</b>	<b>Percentages (%)</b>
Omnibuses	5	5	100%
Taxi-Cabs	5	4	80%
Driving Schools	5	3	60%
Hairdressing	5	5	100%
Informal traders	10	10	100%
Cottage Industry	4	3	75%
Restaurants	5	4	80%
Bottle store	4	3	75%
<b>TOTAL</b>	<b>43</b>	<b>37</b>	<b>86%</b>

Stratified random sampling was used so as to get a representative sample. A representative sample (probability sampling) is one that has all the important characteristics of the population from which it is drawn (Hardon et al, 2014). The method allows for the inclusion of all classes of the population to be studied thus a sample drawn using this method is more representative of the population to be studied. The representativeness of the sample increases the validity and hence the reliability of the study. Sample stratification also reduces sampling error thereby increasing representativeness. Stratified sampling was used because it ensured that a relatively small sample was taken from a large group in the study population. The questionnaires used were marked to enable identification of the class of respondents at data analysis stage. The sampling method as opposed to census method was used because it was impractical to survey the entire population of ZIMRA Region 2 employees and all informal sector enterprises in Bulawayo. Budget constraints also forced the researcher to conduct stratified random sample as it was very costly for the

researcher to conduct the research on the entire population. The project operated under certain deadline so for the researcher to meet the deadline stratified sampling was employed.

### **3.5 SOURCES OF DATA**

Sources of data are various supportive evidence of information used in conducting a research (Hair et al, 2015). In this category of collecting information, the only primary data collection tools that were employed were interviews and questionnaires. Interviews were employed to capture data form ZIMRA managers. Data in research can be divided into two categories which are primary and secondary data (Saunders et al, 2009).

#### **3.5.1 PRIMARY SOURCES**

Primary data is data collected from original sources. A primary source can be a person with direct knowledge of a situation, or a document created by such a person. This data may be collected through interviews, questionnaires or observations. The researcher mainly used primary data in this study since first-hand information was the basis for the research. The researcher collected data using questionnaires and interviews.

##### **3.5.1.1 JUSTIFICATION OF USING PRIMARY DATA**

The main advantage of using primary data is that it provides relevant and up to date information. The reliability of primary data was enhanced by using structured questionnaires and semi structured interviews which ensured consistency and further probing.

#### **3.5.2 SECONDARY DATA**

Secondary data is data that is collected by other researchers which will be used by the researcher (Bryman and Bell, 2015). The researcher made use of annual reports, company minutes, monthly reports, revenue performance reports, quarterly management reports of ZIMRA, journals. The researcher having been a former accounting attaché at ZIMRA and had been given study authority it was easy to access the required company information.

##### **3.5.2.1 JUSTIFICATION OF USING SECONDARY DATA**

Secondary data provides valuable information pertaining to the study area which is authoritative. Secondary data ensured that the researcher developed an analytical mind-set as some authors differed in opinion. The secondary data was used because it enabled the researcher to answer

various research objectives. Permission was granted to the researcher to use company information (ZIMRA) hence the secondary data was used. The secondary data was use because it was deemed reliable by the researcher as the data contained author, institution or organisation sponsoring the data and work experience.

### **3.6 RESEARCH INSTRUMENTS**

Research instrument is a device for obtaining much needed information which is useful in a research and it can be in the form of interviews, questionnaires, observations (Wilkinson and Birmingham, 2014). The researcher used structured questionnaires and semi-structured interviews to gather data from the respondents. They are many scaling models of questionnaire but the researcher made use of Likert scale. The Likert scale entails varying responses (five) from strongly agree to strongly disagree.

#### **3.6.1 QUESTIONNAIRE**

A questionnaire is a research instrument used to collect data for further analysis and presentation and highlighted three types of questionnaires that are mail survey where the questions are sent via mail, group administered where the questions are hand delivered to a group of respondents and household drop-off survey (Saunders et al, 2009). A questionnaire contains questions designed to solicit for data regarding a particular problem which is the subject matter of a research. Questionnaires can be in the form of closed questions, multiple choice or ranking questions and open ended questions. The researcher made use of open ended questions in collecting data from ZIMRA managers. The researcher also made use of Likert type of questions. Likert scale type of questions was used because they were quicker and easier to answer as they require minimum writing by the respondents. Likert scale questions responses were easier to analyse and compare because they had been predetermined. In this study the researcher designed and distributed two questionnaires, one questionnaire was sent to ZIMRA officers while the other questionnaire was sent to informal sector participants. Open ended questions were employed because respondents were free to express their answers without any restrictions and the responses were helpful since they disclosed some areas of concern missed by the researcher during structuring the questions. The table (3.2) below illustrates the use of Likert scale

Table 3.4 The Likert scale

Remark	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Point	1	2	3	4	5

### 3.6.1.1 JUSTIFICATION FOR USING STRUCTURED QUESTIONNAIRES

Questionnaires are cheap and efficient way of gathering data in a structured and manageable manner. They are also simple and tend to focus on one area making it easy to analyse data from respondents. Questionnaires were employed because it enabled the researcher to interpret data easily as responses were in a uniform manner. Structured questionnaires also made it possible for the researcher to analyse the variability in responses hence making it easy to draw conclusions and recommendations.

### 3.6.1.2 JUSTIFICATION OF USING THE LIKERT SCALE

Through the use of the Likert scale data was easy to collect and analyse as it shows different attitudes of responses. Likert scale was used in the research because it ensured a pre-determined response which was easy for data analysis. The sample size under consideration was fairly big so the use of Likert scale reduced time to analyse and it ensured conformity.

### 3.6.1.3 PILOT SURVEY

Before embarking on the main data collection, the researcher conducted a pilot survey in which two (2) managers, three (3) supervisors, three (3) Revenue officers and four (4) Revenue Trainees were interviewed and asked to respond to the questionnaire to test the validity and reliability of the data collection instruments. Following the administration of the pilot study, the questionnaire for the informal sector had to be changed questions 7 and 9, ZIMRA questionnaire 11 and 13 relevant to the objects of the study.

## 3.6.2 INTERVIEW

Research interview is a purposeful conversation between two or more people, requiring the interviewer to establish rapport and ask concise and unambiguous questions to which the interviewee is willing to respond to and to listen attentively (Saunders et al, 2016). This was used only for managers and supervisors who had been chosen in the sample but were thought to have

problems in attending to the questionnaire due to time constraints that were as a result of the places they operated in. The interviews were carried out using the interview guide which guided the researcher in keeping to the requirements and objects of the study. They are four types of interviews which are structured, semi-structured, unstructured and non -directive interview (Gray, 2004). The researcher used semi-structured interview which enables the interviewer to probe more questions which are not on the interview guide. An interview guide should include appropriate topics, the level of detail, draft questions, order questions, list any probes or prompts and pilot questions (Bhanari, 2004).

#### 3.6.2.1 JUSTIFICATION OF USING SEMI STRUCTURED INTERVIEWS

An interview allows probing of information from the responder which would not have been acquired had the structured questionnaire route used. In using interviews there was good return response rate, it allowed acquiring of personalized information by the researcher and it ensured ironing out ambiguity information. The pilot survey conducted by the researcher in ZIMRA Gweru offices revealed that managers were very busy to the extent that they were unable to fill the questionnaires and return them in 2 days. The researcher then devised a plan to conduct short semi-structured interviews with ZIMRA managers after setting up a meeting first to gather the essential data needed.

### 3.7 RELIABILITY AND VALIDITY OF RESEARCH INSTRUMENTS

Validity is the extent to which the interpretations of the results test are warranted (Kimberly and Stan, 2013). Reliability evaluates the stability of measures, and internal consistency of measurement instruments (Kimberly and Stan, 2013). Reliability is the extent to which the same finding will be obtained if the research was repeated at another time by another researcher. If the same finding can be obtained again, the instrument is consistent or reliable ([www.googlebooks.com](http://www.googlebooks.com) accessed on 05/04/2016:2000hrs) Reliability concerns the confidence level which can be put on the research by other scholars. Validity has something to do with depicting what it purports to represent that is the research will represent what it purports to represent. The research made much strides in using authoritative sources using mostly current information from 2011 to ensure reliability of research. The study also ensured that questions were straight forward and asked relevant questions with less deviants to the core study area to ensure best validity.

### **3.8 RESEARCH ETHICS**

Ethics refers to the appropriateness of your behaviour in relation to the rights of those who become the subject of your work or are affected by it (Saunders et al, 2009). The researcher ensured that the research was ethical in all consideration like maintaining confidentiality of respondents, their privacy and consent of using certain information. All sources used were duly acknowledged complying with ethical behaviour expected in academia. Due diligence care was employed in analysing gathered data to ensure minimum or no harm on the respondents.

### **3.9 DATA PRESENTATION AND DATA ANALYSIS**

Data are the raw material to be analysed. Quantitative and qualitative methods of data analysis were employed so as to produce an informative study. The data collected was presented using tables, graphs and charts because these instruments of presentation are easy to construct, comprehend and interpret. As aids to the data analysis, microsoft excel and packages were used to assist with the statistical presentation and analysis. Interview responses were analysed by transcript summary where key points were summarized. Also the researcher presented responses from interview by employing analytical process whereby themes with the same meaning was aggregated.

### **3.11 SUMMARY**

The researcher used secondary and primary data in gathering data through interviews and questionnaires in conducting the project. The data was consolidated and presented and analysed in the following chapter.



## CHAPTER FOUR

### DATA PRESENTATION AND DATA ANALYSIS

#### 4.0 INTRODUCTION

The preceding chapter focused on the research methodology used in the study. This chapter will present and analyse the data collected from primary sources using tables, graphs, pie charts and in some cases statistical analysis will also be used

#### 4.1 QUESTIONNAIRE RESPONSE RATE

The researcher issued two questionnaires, one for informal sector businesses and the other for ZIMRA employees. The response rate for questionnaires for ZIMRA employees and informal sector is tabulated below respectively

Job Description	Issued Questionnaire	Returned Questionnaire	Response Rate
ZIMRA Employees	27	27	100%
<b>TOTAL</b>	<b>27</b>	<b>27</b>	<b>100%</b>

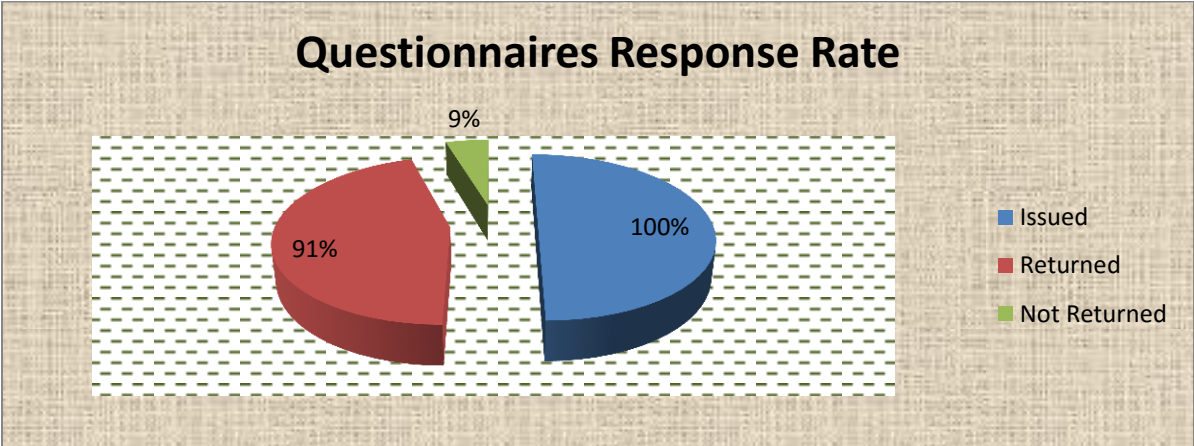
Table 4.1- ZIMRA Questionnaire Response Rate

Type of Business	Issued Questionnaires	Returned Questionnaires	Response Rate
Hair Salon	5	5	100%
Omnibus	5	5	100%
Cottage Industry	3	3	100%
Restaurant	4	3	70%
Bottle Store	3	1	33%
Informal Trader	10	7	70%
Driving School	3	3	100%
Taxi	4	4	100%
<b>TOTAL</b>	<b>37</b>	<b>31</b>	<b>84%</b>

Table 4.2 Informal Sector Questionnaire Response Rate

A 100% response rate was achieved from ZIMRA employees thereby making the data more reliable and a response rate of 84% was recorded on the informal sector thereby making the data collection fairly reliable. A total of 64 questionnaires were issued to respondents and 58 were returned. The overall response rate is depicted in Fig. 4.1

Fig 4.1- Overall Questionnaire Response Rate



#### 4.1.1 Educational Qualifications

Respondents were asked on their qualification level so as to assess how the data collected can be relied upon. The more the education possessed by the respondents the more reliable research findings can be (Christensen et al, 2011). The table 4.3 shows the qualification level of ZIMRA respondents or employees

<b>Qualification Level</b>	<b>Percentages</b>
Undergraduate Degree	60%
'A' Level	-
Master's Degree	33%
Diploma	-
Higher and National Diploma	-
Postgraduate Degree	7%
<b>TOTAL</b>	<b>100%</b>

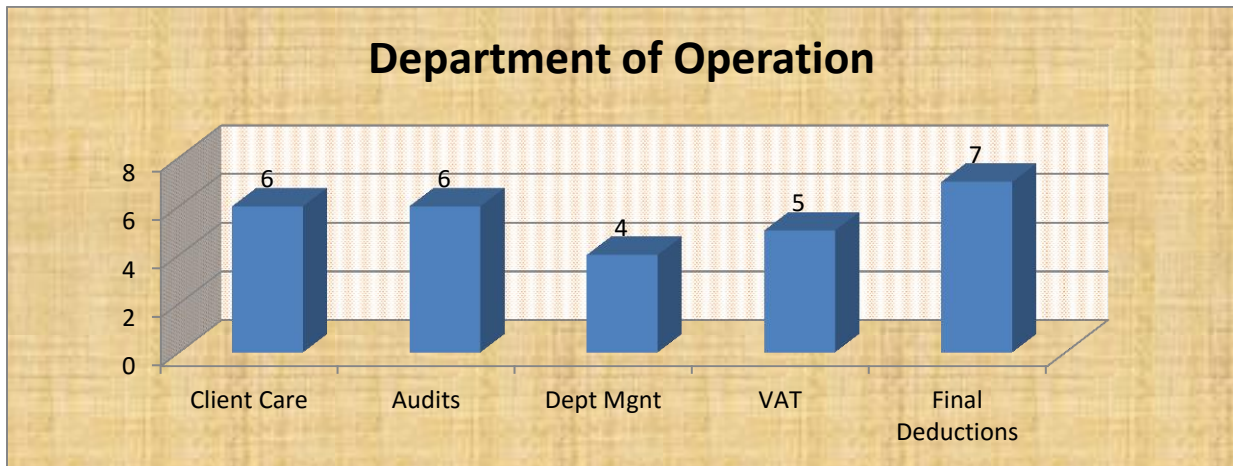
Table 4.3 ZIMRA Employees qualifications

From table 4.3 of 27 respondents, 60% had undergraduate degree as their highest qualification, 33% had master's degree as their highest qualification and 7% had postgraduate degree as their highest qualification. The educational level of ZIMRA respondents enhances the reliability of research findings.

#### 4.1.2 Department of Operation

Respondents were asked their department of operation to ascertain their departmental duties since the process of paying presumptive tax can affect every department for example when an informal sector is in presumptive tax debt it will affect debt department and when informal sector applies for tax amnesty it will affect audit department. Fig 4.2 illustrate various departments

**Fig 4.2- Department of Operation**



From fig 4.2 above client care had 6 respondents, audits had 6 respondents, debt management had 4 respondents, VAT had 5 respondents and final deductions had 7 respondents. Each department was fairly represented enhancing reliability.

#### **4.1.3 Presumptive tax policies**

This question was posed to ascertain if revenue specialist were well versed with the presumptive tax policy in operation. Table 4.3 show the various responses concerning presumptive tax policy

<b>Responses</b>	<b>Percentages</b>
Strongly Disagree	0%
Disagree	0%
Neutral	4%
Agree	63%
Strongly Agree	33%
<b>TOTAL</b>	<b>100%</b>

Table 4.4 Presumptive tax policy

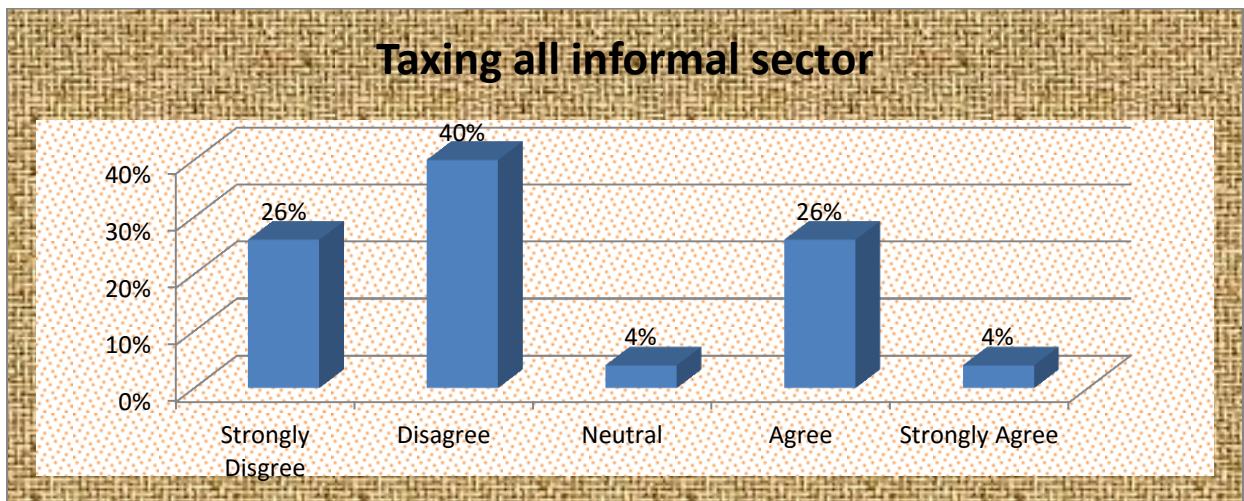
From the table 4.4 above 4% of the respondents were neutral, 63% of the respondents agreed that presumptive tax policy is well defined out to the employees and 33% strongly agreed that

presumptive tax is well defined out to revenue officers. The research findings are that the majority of respondents (96%) are of the view that presumptive tax policy is well defined by management to revenue specialist. This differs with what Dube (2014) postulated that presumptive tax polies are not clearly communicated to tax officials.

#### 4.1.4 All informal sector operators are being taxed

The question sought to find if the current presumptive tax legislation is taxing all eligible informal sector businesses.

**Fig 4.3- Taxing all informal sector**

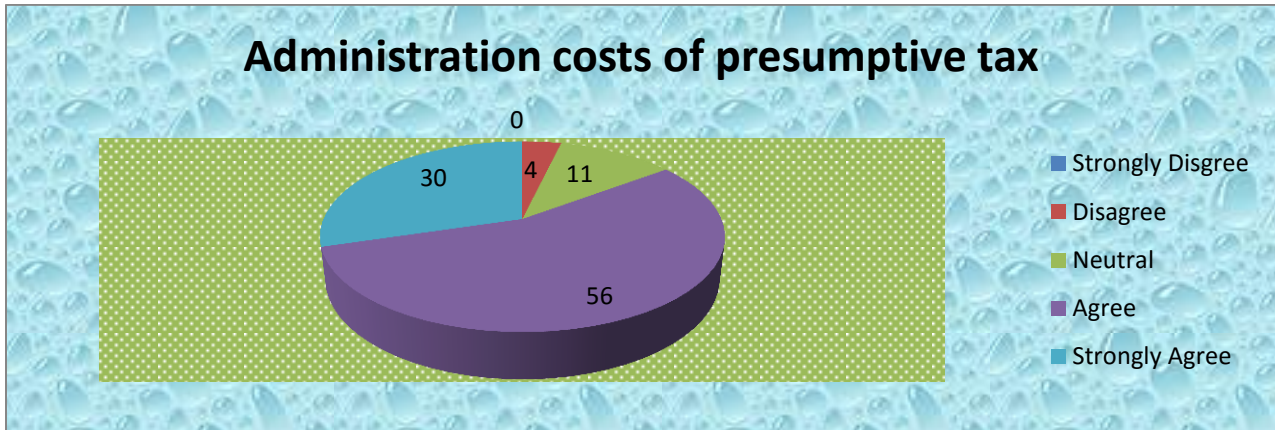


With reference to fig 4.3 above 26% strongly disagree, 41% disagree, 4% was neutral, 26% agree and 4% strongly agree. Findings showed that there is room for improvement in terms of taxing all eligible informal tax payers. Thuronyi (2015) postulated that the presumptive tax system should bring all eligible informal sector firms into the tax net.

#### 4.1.5 Administration costs of presumptive tax

The objective of the question was to find out is presumptive tax is less costly to ZIMRA since tax expense are predetermined quarterly. Fig 4.4 show the results

**Fig 4.4- Administration costs of Presumptive tax**



With reference to fig.4.4 0% strongly disagree, 4% disagree, 11% were neutral, 56% agree and 30% strongly agree. Research findings indicate that presumptive tax system result in low cost of assessing tax expense. Yitzhaki (2012) highlighted that presumptive tax system result in low costs of administration to the tax authority.

**4.1.6 Determination of presumptive tax considers the location of the business**

The objective of the question was to establish if the current determination of presumptive tax obligation considers the location of the business as this affects the profits made by the informal sector businesses. The research findings are shown in table 4.4

<b>Response</b>	<b>Percentages</b>
Strongly Disagree	44%
Disagree	52%
Neutral	4%
Agree	-
Strongly Agree	-
<b>TOTAL</b>	<b>100%</b>

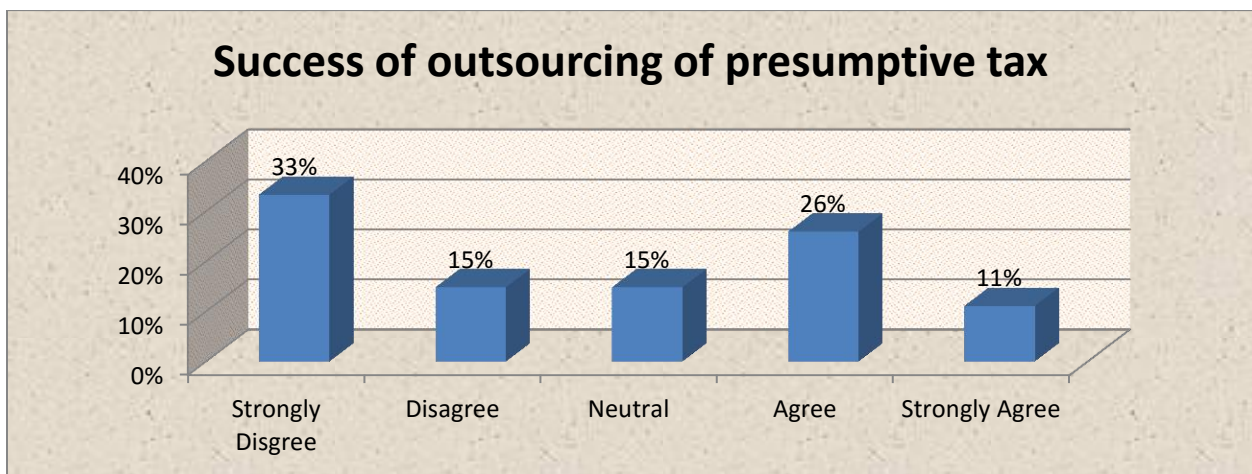
Table 4.5- Presumptive tax considers location of the business

From table 4.4 above 44% strongly disagree, 52% disagree and 4% were unsure. The research findings show that presumptive tax determination excludes the location of the business as a factor which should be considered. Logue and Vettori (2011), Bikalas et al (2012) and Utaumire et al (2013) share the same view that determination of presumptive tax should consider the location of the business as this affects profits made by the informal sector firms in different locations.

#### 4.1.7 Outsourcing of presumptive tax to tax agents

The question sought to find out if outsourcing of revenue by ZIMRA to other government departments (city councils and ZINARA) has been a success. The research findings are depicted in fig 4.5

**Fig 4.5-Success of outsourcing of presumptive tax**

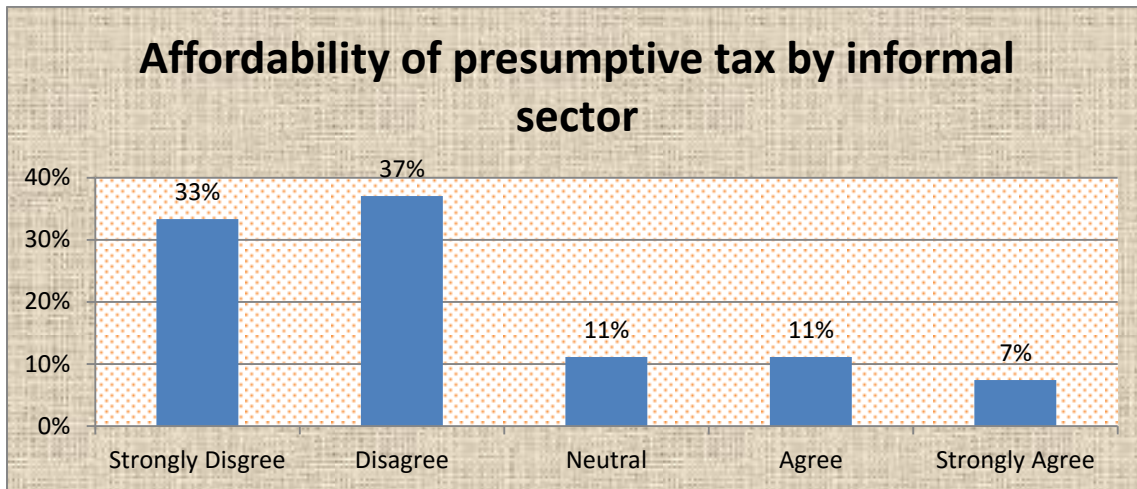


With reference of the Fig 4.5 above 33% strongly disagree, 15% disagree, 15% were unsure, 26% agree and 11% strongly agree. Research findings revealed that outsourcing of revenue is not effective. In Ghana according to Colin and Loana (2015) outsourcing of presumptive tax has been a success.

#### 4.1.8 Affordability of presumptive tax

This question sought to answer if the prevailing presumptive tax rates are affordable by informal sector firms. Fig 4.6 depict the research results

**Fig 4.6-Affordability of presumptive tax by informal sector**



From fig 4.6 33% of respondents strongly disagree, 37% disagree, 11% were neutral, 11% agree and 7% strongly agreed. Findings revealed that the current presumptive taxes are not being afforded by informal sector. According to Paubwangana (2011) presumptive tax rates currently in force are not affordable by most informal sector firms.

#### **4.1.9 Prevailing presumptive tax rates**

The question was posed in a bid to ascertain if presumptive tax rates should be revised downwards. The research finding are tabulated in table 4.5

<b>Response</b>	<b>Percentages</b>
Strongly Disagree	4%
Disagree	15%
Neutral	-
Agree	33%
Strongly Agree	48%
<b>TOTAL</b>	<b>100%</b>

Table 4.6- Revision of presumptive tax rates

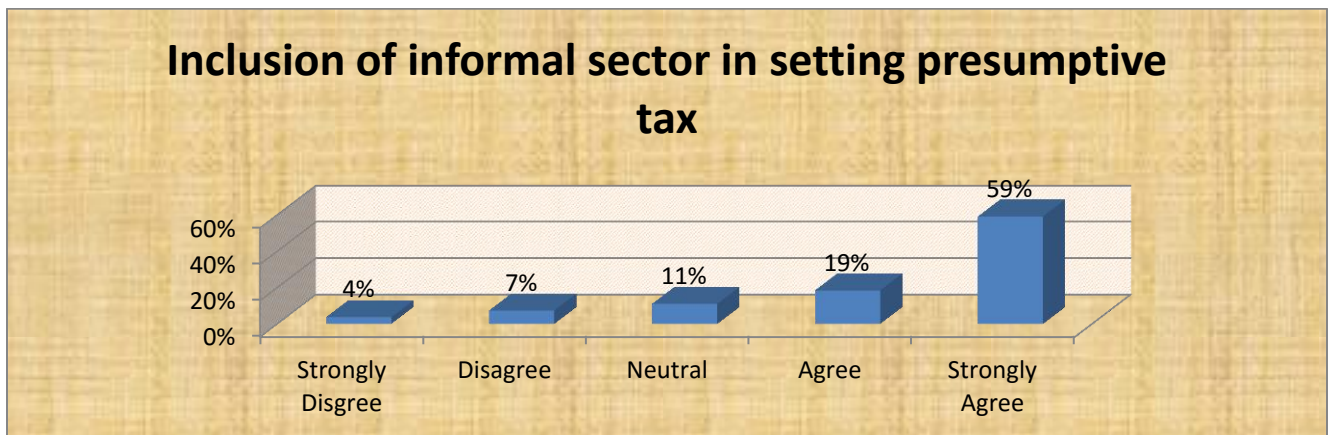


With reference to table 4.5 4% strongly disagree, 15% disagree, none were unsure, 33% agree and 48% strongly agree. The findings show that presumptive tax rates should be revised downwards. Dube (2014) pointed out that the current high presumptive tax rates operate as a disincentive to the informal sector. Utaumire et al (2013) are of the view that presumptive tax rates should be revised down.

**4.1.10 Informal sector should be included in setting presumptive tax rates**

The objective of the question was to find out if informal sector should be involved in the process of setting presumptive tax rates. Fig 4.5 illustrate the research findings

**Fig 4.7- Inclusion of informal sector in setting presumptive tax**

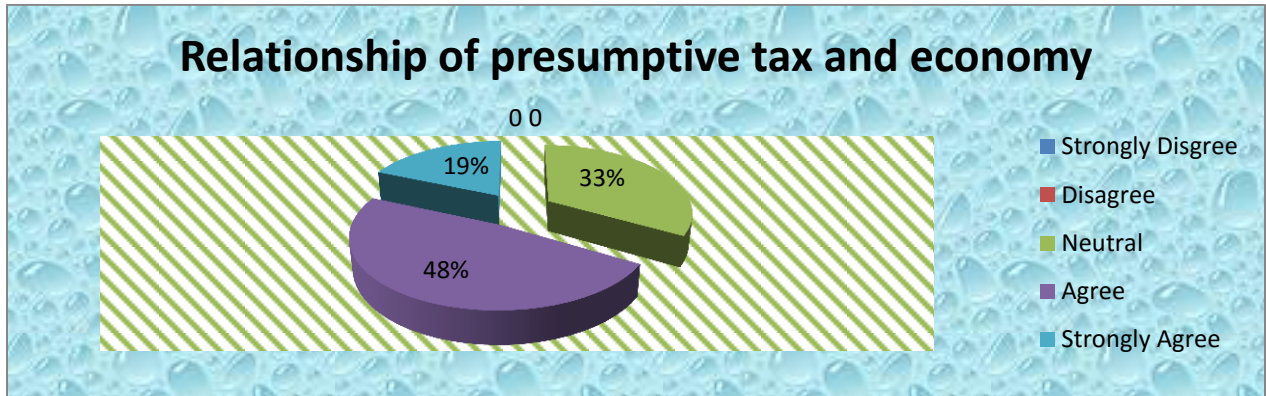


From fig 4.5 4% strongly agree, 7% disagree, 11% were unsure, 19% agree and 59% strongly agree. The research findings show that majority of the respondents think that informal sector firms should be involved in presumptive setting process. Utaumire et al (2013) postulated that the absence of concerned stakeholders in the determination of presumptive tax obligation had resulted in perennial resistance by informal sector to pay presumptive tax.

**4.1.11 Relationship of presumptive tax and the economy**

The objective of the question was to ascertain if respondents were of the view that the level of presumptive tax rates should consider the economic situation of a country. The research results are presented below in fig 4.8

**Fig 4.8- Relationship of Presumptive tax and Economic situation**



With reference to fig 4.8 none strongly disagree, also none disagree, 33% were unsure, 48% agree and 19% strongly agree. The findings clearly show that majority of the respondents' content that presumptive tax level should relate to the economic state of the economy. Fursion and Lysko (2014) argue that presumptive tax rates in a country should be in tandem with the current economic position.

#### **4.1.12 Social media strategy in luring informal sector**

The question was asked to try to find out if social media videos have been employed by ZIMRA in advertising or enticing informal sector. The research findings are tabulated below in table 4.6

<b>Responses</b>	<b>Percentages</b>
Strongly Disagree	44%
Disagree	56%
Neutral	-
Agree	-
Strongly Agree	-
<b>TOTAL</b>	<b>100%</b>

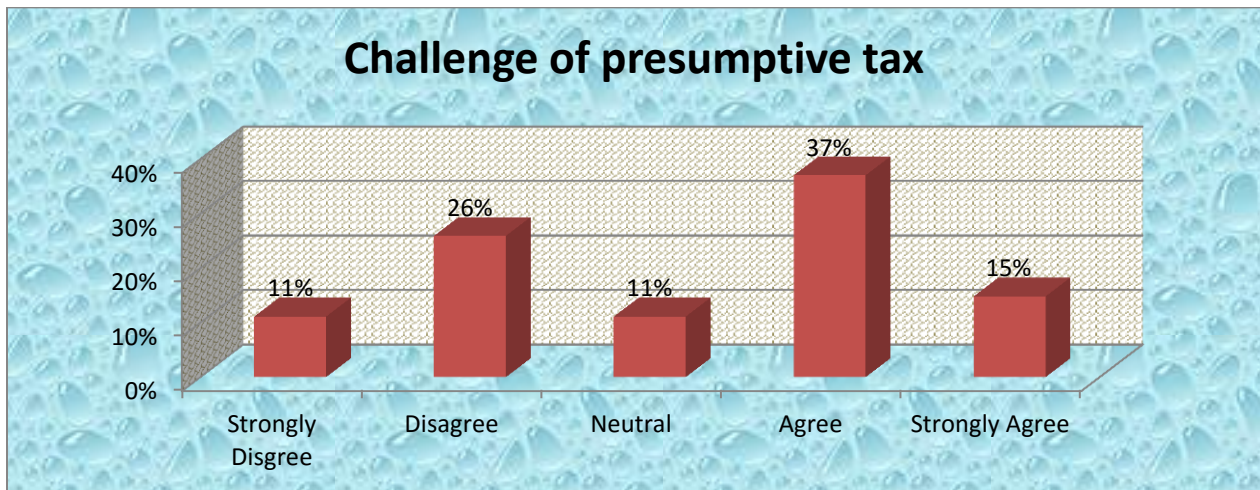
Table 4.7- Enticing informal sector through social media comedy videos

From table 4.6 44% strongly disagree, 56% disagree, none were unsure, 0% agree and none strongly agree. Findings indicate that ZIMRA should employ this type of enticing informal sector into the tax net.

#### 4.1.13 Presumptive tax poses as a challenge to informal sector

The objective was to establish if presumptive tax poses as a challenge to informal sector. The research analysis is presented in fig 4.9

**Fig 4.9- Challenge of presumptive tax on informal sector**

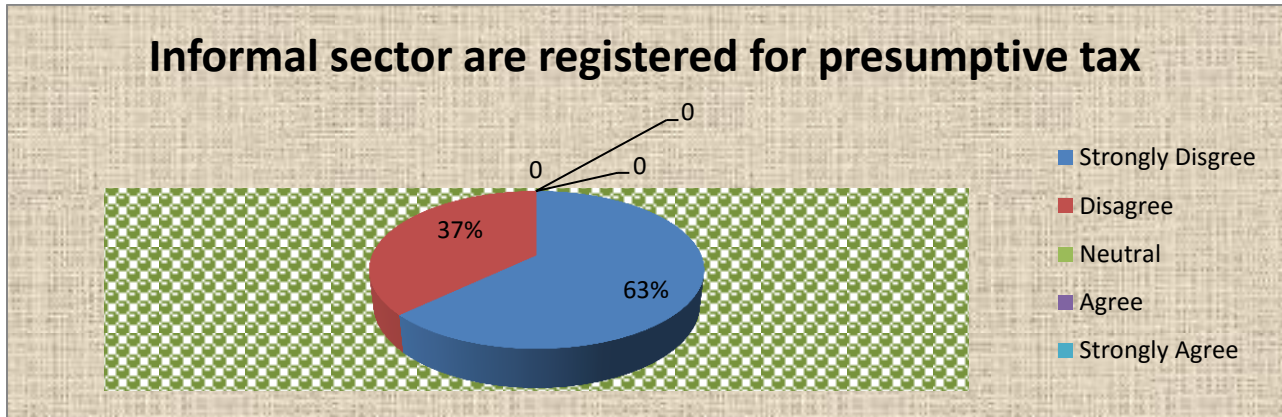


With reference to fig 4.9 11% strongly disagree, 26% disagree, 11% were unsure, 37% agree and 15% strongly agree. Findings of the research reveal that more than half of the respondents content that presumptive tax is a challenge to informal sector. This view is supported by Njaga (2015), Vinish and Rajash (2016) and Zivanai et al (2014) that presumptive tax affects negatively the business.

#### 4.1.14 Informal Sector Firms are registered for presumptive tax purposes

The objective of the question was to analyze if all informal sector firms pay presumptive tax. The results are presented in fig 4.10

**Fig 4.10- Informal sector firms registration for presumptive tax**

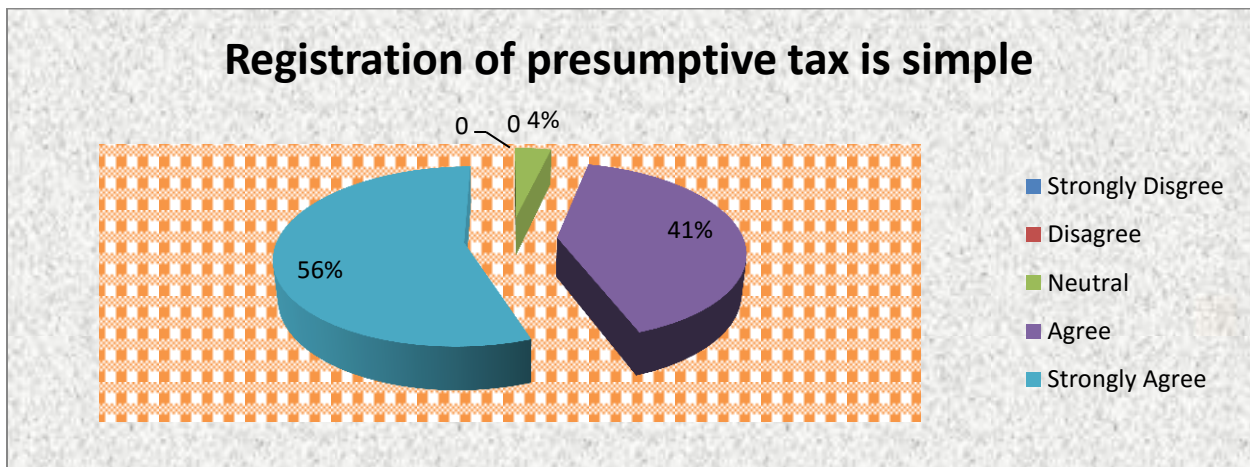


With reference to fig 4.10 63% strongly disagree, 37% disagree, none were neutral, 0% agree and none strongly agree. The majority of the respondents reveal that informal sector shy away paying presumptive tax. This is supported by Dalu et al (2015) and Nirosha and Stuart (2016) who argued that most informal do not register and pay presumptive tax.

**4.1.15 Procedure for registering presumptive tax is simple**

The question sought to ascertain if the process of registration presumptive tax is simple. The results of the research are show under fig 4.11

**Fig 4.11- Procedure for registration of presumptive tax**



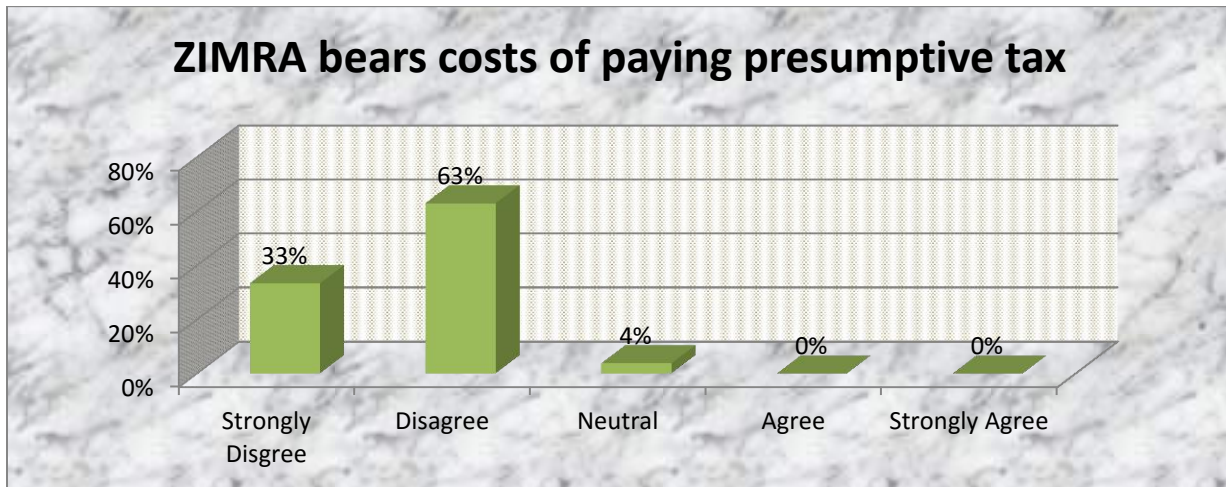
From fig 4.11 it can be established that none strongly disagree, 0% disagrees, 4% were unsure, 41% agree and 56% strongly agree. The research findings which can be drawn from fig 4.11 is

that procedure for registering for presumptive tax is simple. This is supported by Mutefura (2014) who argued that registration for presumptive tax is simple in Zimbabwe.

#### 4.1.16 ZIMRA bears costs of paying presumptive tax for informal sector

The question was posed to analyze if ZIMRA offers any incentive for informal sector businesses when they pay presumptive tax. The results of the research are depicted below in fig4.12

Fig 4.12- ZIMRA bearing costs paying presumptive tax for informal sector



With reference to fig 4.12 33% strongly disagree, 63% disagree, none were unsure, 0% agree and none strongly agree. Findings show that ZIMRA should offer some sought of incentive for the compliant informal tax payers. Moyo (2016) argued that informal sector need incentive of some sought to comply with presumptive tax requirements.

#### 4.1.17 ZIMRA works with other arms of government

The objective of the question was to ascertain if ZIMRA engages services of other government arms in enforcing compliance of presumptive tax. The research findings are tabulated in table 4.7

<b>Responses</b>	<b>Percentages</b>
Strongly Disagree	4%
Disagree	11%
Neutral	7%
Agree	33%
Strongly Agree	48%
<b>TOTAL</b>	<b>100%</b>

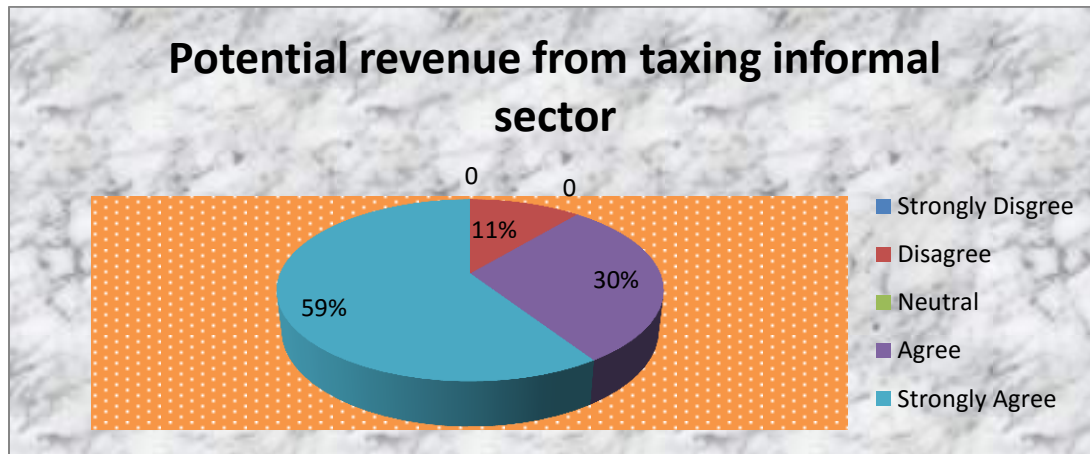
Table 4.8- Engaging of other government departments in enforcing presumptive tax

Table 4.7 establishes that 4% strongly disagree, 11% disagree, 7% neutral, 33% agree and 48% strongly agree. Research results indicate that ZIMRA is not engaging well with other government department in enforcing compliance of presumptive tax. Odoom (2015) argued that the tax authority should work with other government departments in enforcing presumptive tax.

#### **4.1.18 Potential revenue from informal sector**

This question sought to establish if there was potential revenue in taxing informal sector through different presumptive tax rates. The findings are shown in fig 4.13

**Fig 4.13- Potential revenue from taxing the informal sector**



With reference to fig 4.13 none strongly disagree, 11% disagree, none were unsure, 30% agree and 59% strongly agree. Majority of respondents shared the same view that there is large potential revenue that can be realized by continuing taxing the informal sector through presumptive tax. Small or informal businesses cannot be a major revenue source for the government because the traditional cost recovery requirement of a tax regime or system will not be attained even by the most efficient presumptive tax system (Phillip, 2011).

## **4.2 Informal Sector Questionnaire Response rate**

### **4.2.1 Type of Business Operation**

This was used to ascertain the representation of the population. Table 4.8 gives the statistics.

Type of Business Operation	Percentages
Taxi	13%
Hair Salon	16%
Omnibus	16%
Informal Trader	26%
Driving school	8%
Cottage Industry	13%
Restaurant	8%
Bottle Store	3%
<b>TOTAL</b>	<b>100%</b>

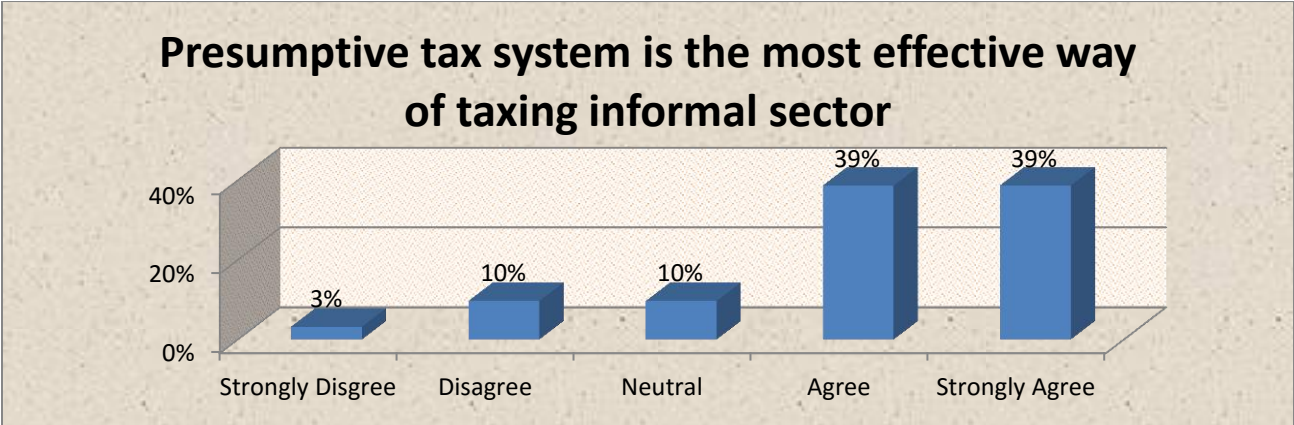
Table 4.9 Type of business operation

From table 4.8 business operation represents a fair share relative to their target population.

**4.2.2 Taxing informal sector using presumptive tax**

This question sought to analyze if presumptive is the most effective and efficient way of taxing the informal sector. The findings are shown in fig 4.14

**Fig 4.14 Presumptive tax system is the most effective way of taxing the informal sector**





With reference to fig 4.14, 3% strongly disagreed, 10% disagreed, 10% were unsure, 39% agreed and 39% strongly agreed. Findings show that the majority of respondents contented that presumptive tax is the most effective way of taxing the informal sector businesses. This is also supported by Terkper (2013) who argued that presumptive tax system is the most effective way of taxing the informal sector.

#### 4.2.3 Informal Sector keeps books of accounts

The main objective of the question was to find out if respondents deliberately avoid keeping books of accounts. Fig 4.15 depict the findings

**Table 4.15 Informal sector willingly avoid keeping books of accounts**

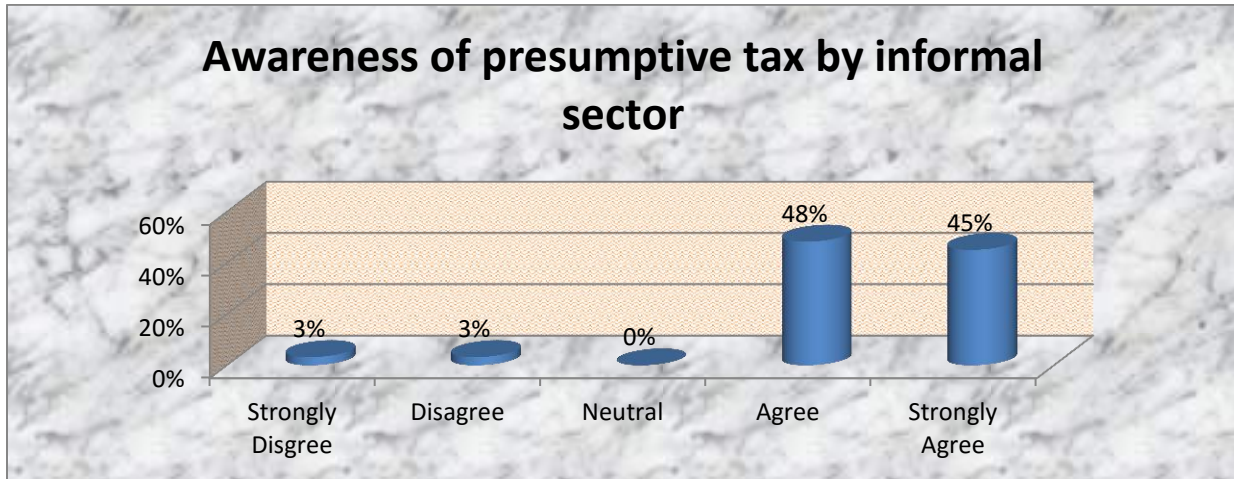


From table 4.15, 26% strongly disagree, 26% disagree, 16% were unsure, 23% agree and 10% strongly agree. The research findings pointed out that informal firms do not deliberately avoid keeping proper books of accounts. However Maseko and Manyani (2011) pointed out that informal sector firms deliberately keeps no books of accounts.

#### 4.2.4 Awareness of presumptive tax

The question sought to establish if informal sector is aware of presumptive tax obligation. Fig 4.16 show the findings

**Fig 4.16- Awareness of presumptive tax by informal sector**

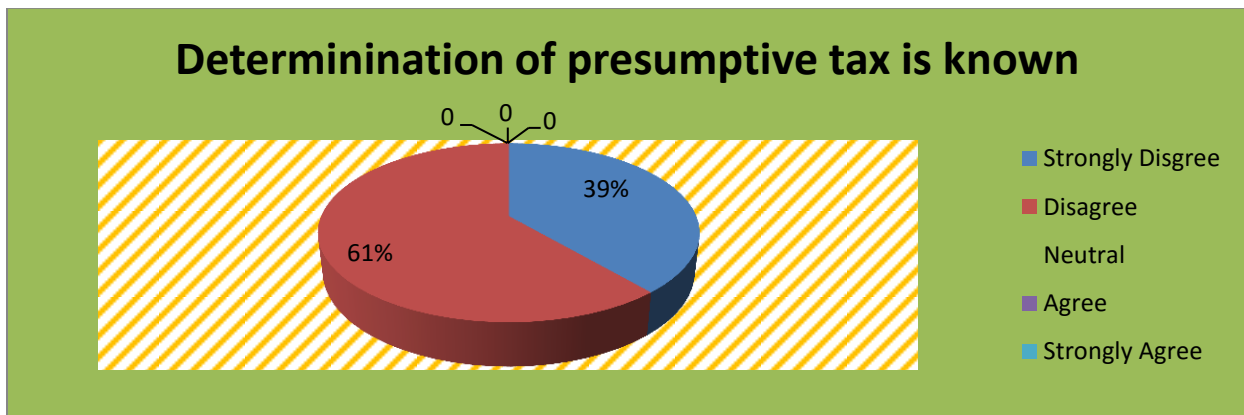


With reference to 4.16 3% strongly disagree, 3% disagree, none were unsure, 48% agree and 45% strongly agree. The research findings reveal that the informal sector businesses are not oblivious of the existence of presumptive tax. This contradicts a research done by Dalu et al (2015) who argued that informal sector are unaware of the existence of presumptive tax. Also Utaumire et al (2013) contented that some informal sectors operators are oblivious of the existence of presumptive tax.

**4.2.5 The determination of presumptive tax obligation is understood by informal sector**

The objective of the question sought to find out if informal tax payers know how the presumptive tax obligation is arrived at. The research results are depicted in pie chart fig 4.17

**Fig 4.17- Determination of presumptive tax obligation is understood by informal sector**

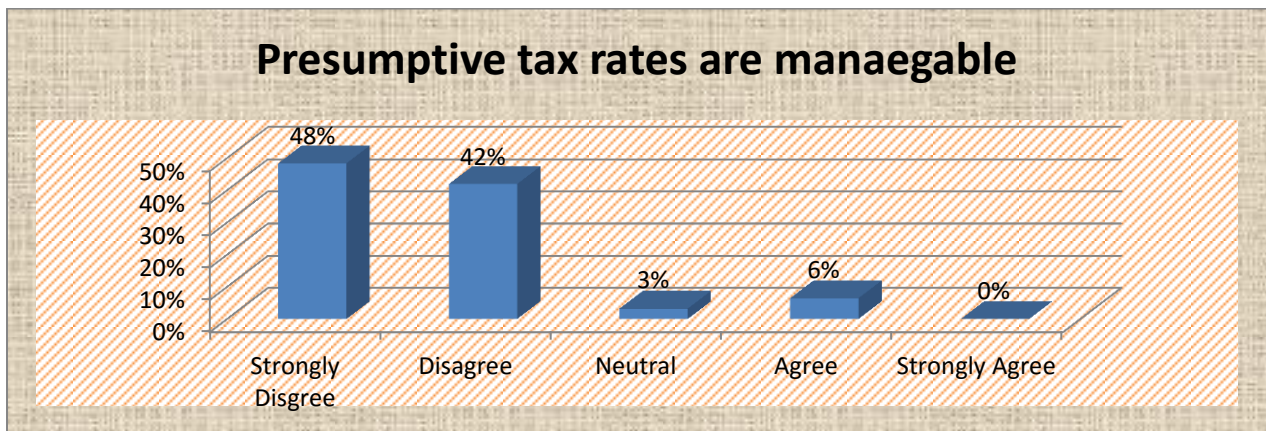


With reference to fig 4.17 39% strongly disagree, 61% disagree, none were unsure, 0% agree and 0% strongly agree. Findings reveal that informal sector firms do not understand how presumptive tax obligation is being determined. Utaumire et al (2013) bemoaned the lack of involvement of informal sector in determining presumptive tax rates.

#### 4.2.6 Prevailing presumptive tax rates are manageable by informal sector

This question sought to ascertain if the prevailing presumptive tax rates in force are being manageable by the informal sector. Research finding are shown in fig 4.18

**Fig 4.18- Prevailing presumptive tax rates are manageable by informal sector**

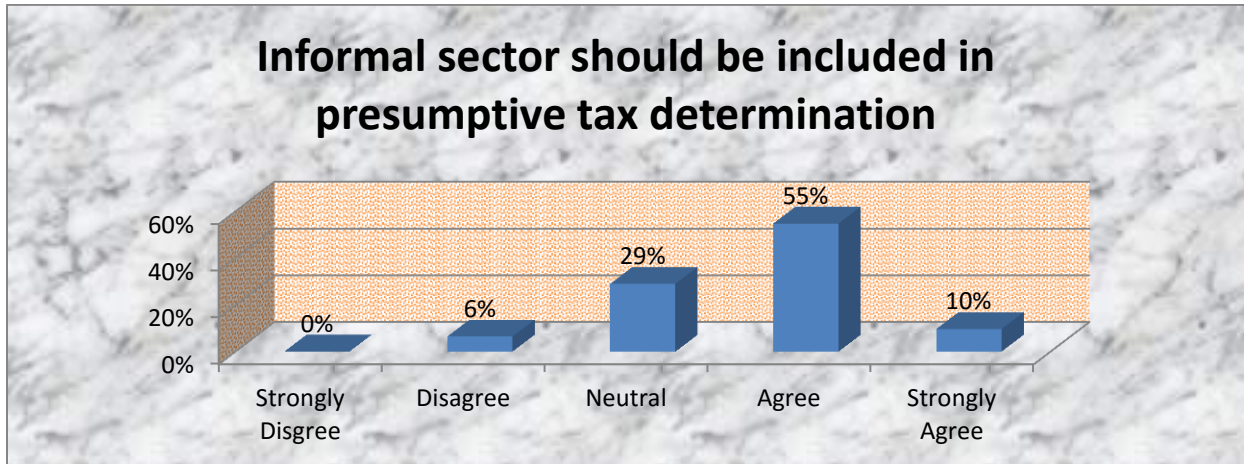


From fig 4.18 it can be established that 48% strongly disagreed, 42% disagreed, 3% was unsure, 6% agreed and none strongly agree. It can be concluded that prevailing presumptive tax rates are not being manageable by informal sector. Also Hove et al (2013) is of the view that the current presumptive tax is not being managed well by the informal sector.

#### 4.2.7 Inclusion of informal sector in tax obligation determination

The objective of the question was to establish if the inclusion of informal sector operators in the process of determining presumptive tax expense will result in improvement of compliance. Fig 4.19 show the findings

**Fig 4.19- Involvement of informal sector in presumptive tax determination**



With reference 4.19 none strongly disagree, 6% disagree, 29% were unsure, 55% agree and 10% strongly agree. Research findings reveal that the involvement of informal sector participants in determining their tax expense will result in compliance. Odoom (2015) argued that informal sector need some sought of recognition so that they comply with presumptive tax regulations.

#### **4.2.8 Level of presumptive tax should relate to the economic conditions of a country**

The question sought to establish if presumptive tax levied on informal sector should relate to the economic difficulties of a country. Research results are shown in fig 4.20

**Fig 4.20- Presumptive tax rates should relate to the economic situation of a country**

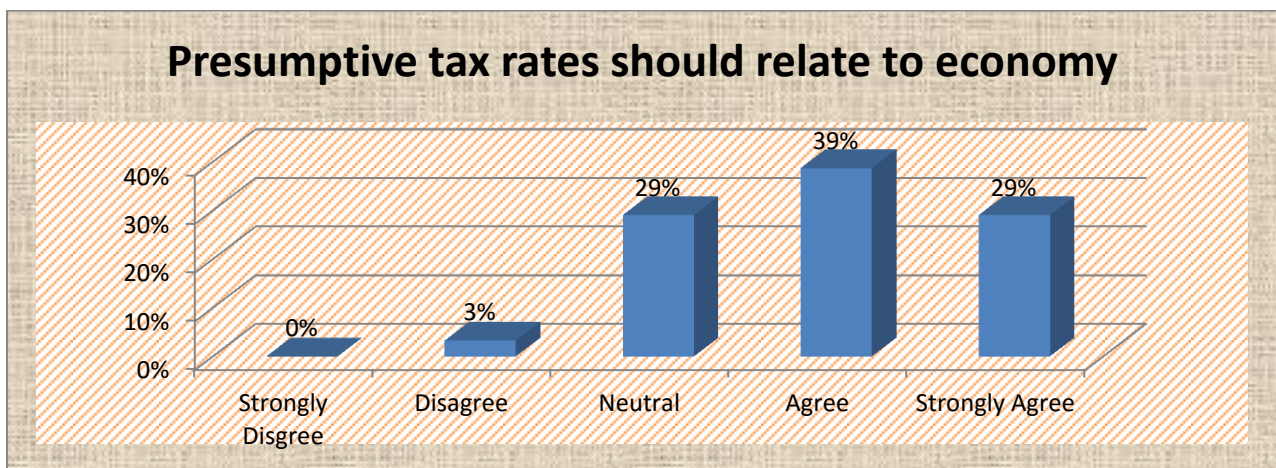


Fig 4.20 reveals that none strongly disagree, 3% disagree, 29% were neutral, 39% agree and 29% strongly agree. The research findings indicate that presumptive tax rates should be in tandem

with economic state of a country. This is in agreement with results of questionnaire 4.1.11 which was solely conducted on ZIMRA respondents only.

**4.2.9 Presumptive tax obligation should also consider the location of business as this affect the ability to pay**

The question was posed in trying to establish if the presumptive tax determination should consider the location of the business as this affects profits of the business. The findings are tabulated in table 4.9

<b>Responses</b>	<b>Percentages</b>
Strongly Disagree	0%
Disagree	0%
Neutral	0%
Agree	23%
Strongly Agree	77%
<b>TOTAL</b>	<b>100%</b>

Table 4.10- Presumptive tax should consider the location of the business

From table 4.9 none strongly disagree, 0% disagrees, none were unsure, 23% agree and 77% strongly agree. The research findings indicate that presumptive tax determination should also consider location of the business. This opinion was shared by Utaumire et al (2013) as evidenced by responses on question 4.1.6.

**4.2.10 Paying presumptive tax affect negatively the business operation**

The question sought to ascertain if there is negative relationship between paying presumptive tax and business operation. Fig 4.21 depict the results

**Fig 4.21- Paying presumptive tax affects negatively the business operation**

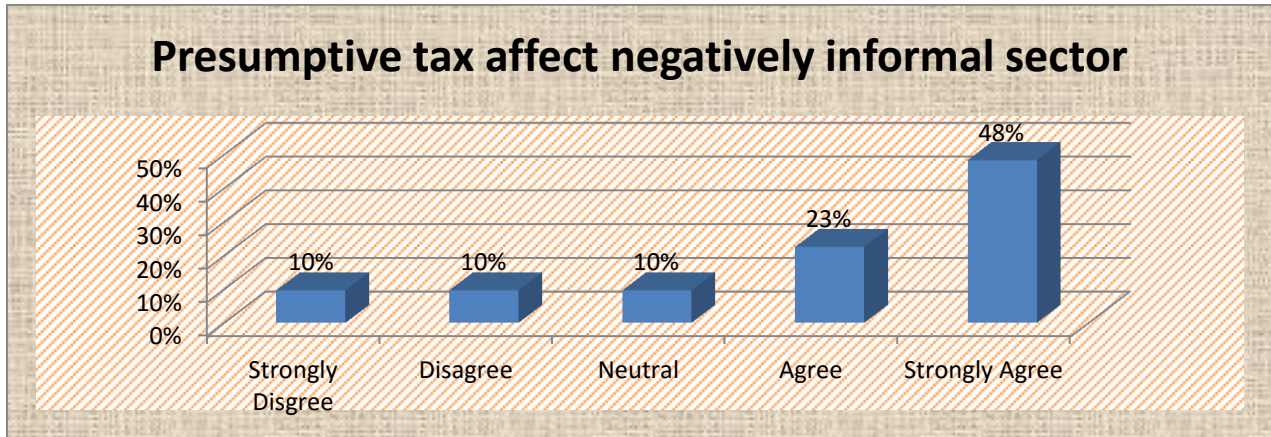
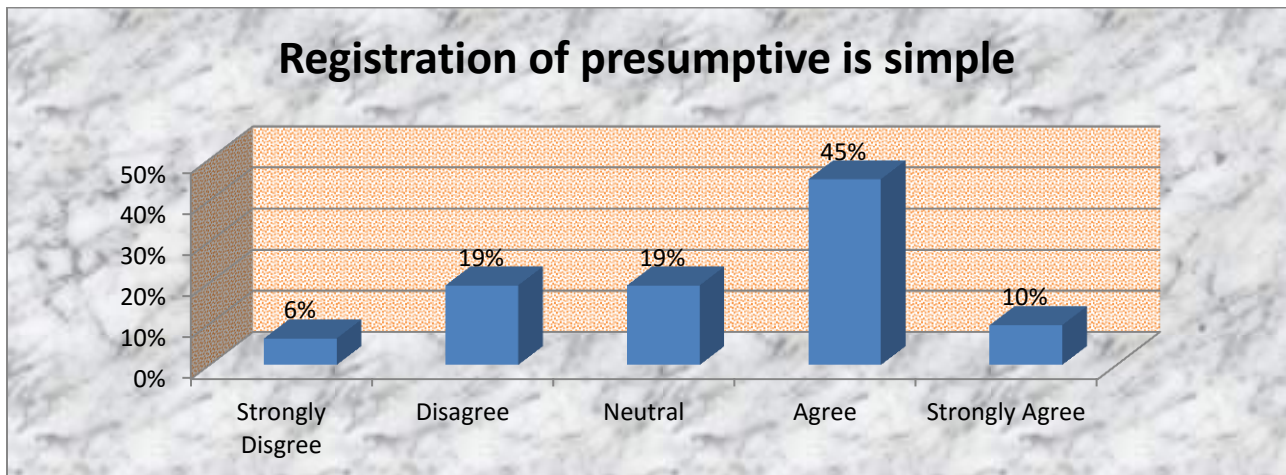


Fig 4.21 reveals that 10% strongly disagree, 10% also disagree, 10% were unsure, 23% agree and 48% strongly agree. Research findings show that paying presumptive tax affects negatively the business operation of informal sector. Aruradha et al (2014) also share the same opinion which is also supported by the responses got on questionnaire 4.1.13.

#### **4.2.11 Registration for presumptive tax is simple**

The question was asked so that it can be established if the process of registration of presumptive tax is simple. Fig 4.22 show the results

**Fig 4.22-Registration for presumptive tax is simple**



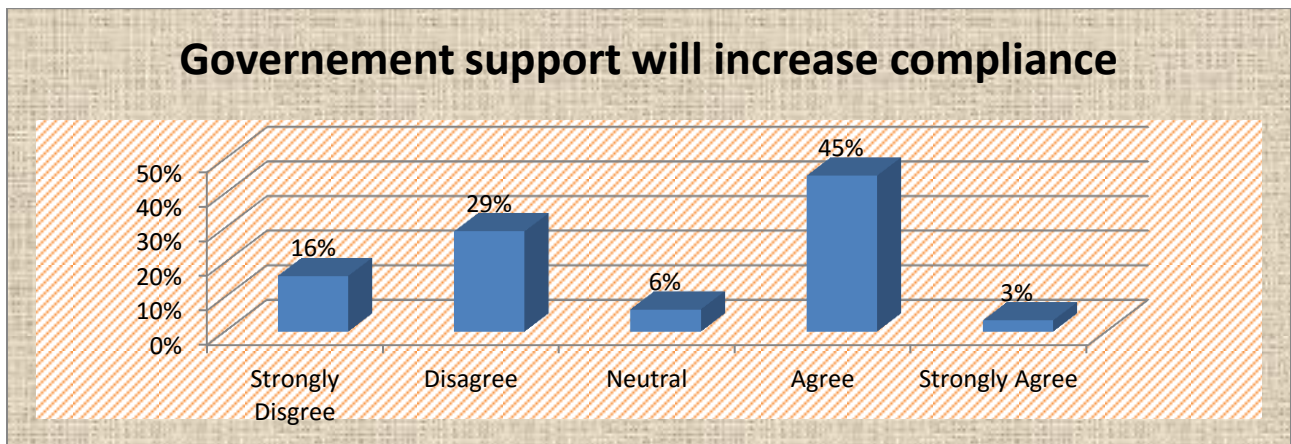
From fig 4.22 indicate that 6% strongly disagree, 19% disagree, 19% were unsure, 45% agree and 10% strongly agree. Findings show that registration of presumptive tax is simple. This

agrees with the work of Mutefura (2014) that registration of presumptive tax is simple in Zimbabwe.

#### 4.2.12 Incentive for informal sector compliance

This question sought to establish if government support and positive recognition on informal sector can result in informal sector registering for presumptive tax. Fig 4.23 depicts the results.

**Fig 4.23-Government support will result in compliance with presumptive tax**

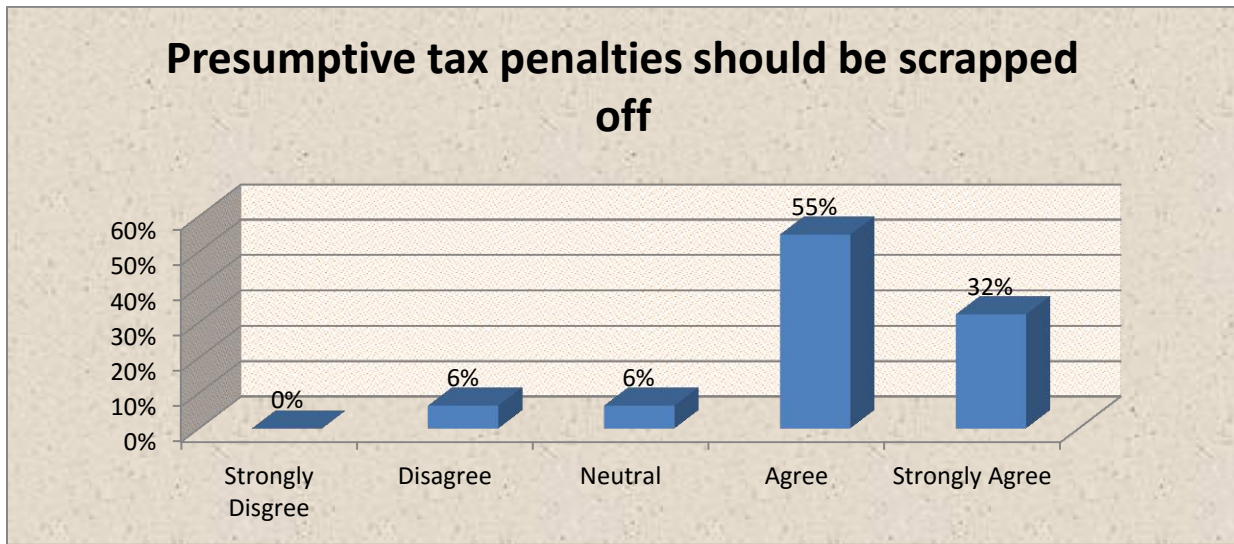


With reference to fig 4.23, 16% strongly disagree, 29% disagree, 6% were indifferent, 45% agree and 3% strongly agree. The findings have shown that government support is not related to compliance of informal sector with presumptive tax. However Moyo (2016) is of the view that government recognition will increase compliance by informal sector concerning presumptive tax.

#### 4.2.14 Effect of penalties on presumptive tax compliance

The question sought to find out that if penalties were scrapped for non-compliance with presumptive tax, informal would pay presumptive tax. Fig 4.25 depicts the results

**Fig 4.24- Presumptive tax penalties should be scrapped off**



With reference to fig 4.25 none strongly disagreed, 6% disagreed, 6% were unsure, 55% agreed and 32% strongly agreed. The findings show that majority of the respondents were of the view that if penalties were scrapped informal sector would pay presumptive tax. Nyamwanza et al (2014) contented that penalties levied on non-compliant informal sector by ZIMRA affect the business negatively.

#### **4.2.15 Presumptive tax as an instrument for economic growth**

The question sought to establish if economic growth would increase as a result of reduction of presumptive tax rates as more informal sector will be paying their tax expenses. Table 4.10 show the findings



Responses	Percentages
Strongly Disagree	0%
Disagree	0%
Neutral	3%
Agree	29%
Strongly Agree	68%
<b>TOTAL</b>	<b>100%</b>

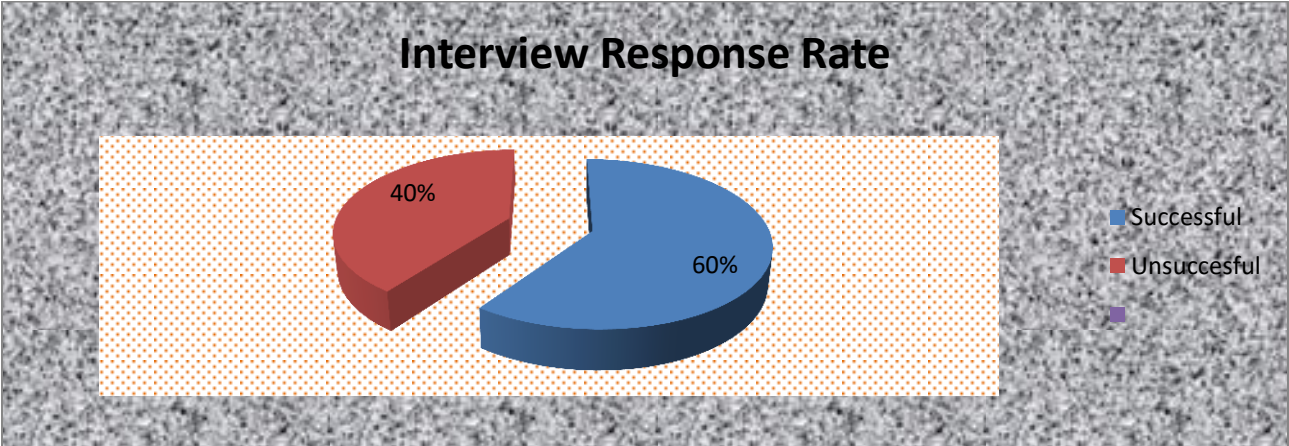
Table 4.11- Presumptive tax rates should be lowered to increase economic participation through taxes

With reference to table 4.10 none strongly disagreed, 0% disagrees, 3% were neutral, 29% agreed and 68% strongly agreed. Research findings indicate that presumptive tax rates should be lowered. Joshi et al (2013) argued that reduction of presumptive tax rates will have little effect on the economic growth as they is low revenue yield that can be generated from informal sector.

**4.3 INTERVIEW RESPONSE RATE**

The researcher conducted interviews on 3 ZIMRA managers but the target was 5 managers. Fig 4.26 depict the response rates

**Fig 4.25-Interview Response Rate**



From the above fig 4.26 3 managers were interviewed and 2 were not interviewed. The reason why the other two managers were not able to be interviewed was because they were said to have went to results based management training in Harare.

#### **4.3.1 What presumptive tax policies are being communicated to the tax authority officials?**

This question sought to find out policies which are being disseminated to the tax officials regarding presumptive tax. Three respondents reiterated of the presumptive rates which were gazetted by the Minister of Finance in 2009 which has not changed up to 2016 save for the addition of waterborne vessels which was introduced on 1 January 2012. Respondents from questionnaire 4.1.14 were of the opinion that presumptive tax policies are clearly defined to revenue officers as evidenced by 63% who agreed and 33% who strongly agreed that presumptive tax policies are being clearly defined to revenue specialists. However Dube (2014) is of the view that presumptive tax policies are not being clearly communicated to tax officers.

#### **4.3.2 Which measures are being put in place to make sure that presumptive tax is being understood by tax officials?**

The objective of the question was to find out measures which are being employed by the authority to its workforce so that they will be well versed with presumptive tax matters. Three respondents coined out that the most important tool they are using is training. ZIMRA has a training calendar which addresses various tax issues including developments on presumptive tax. All respondents pointed out that every revenue officer or revenue specialist undergo a 2 year programme where the participants will be taught all various tax matters (presumptive tax included). ZIMRA also provide its employees with legislation updates through electronic mails via the legal and corporate division. Respondents from questionnaire 4.1.15 contented that they are well versed with presumptive tax matters as can be witnessed by 41% respondents who agreed and 56% respondents who strongly agreed that procedure for registration of presumptive tax is simple, which position can be arrived at only if tax officials are being taught about presumptive tax. Colin and Loana (2015) assert that education on tax officials is an essential ingredient in capacity building of the tax administrator.

### **4.3.3 What controls have been put in place by ZIMRA to ensure that every informal sector pays tax when due?**

The objective of the question was to find controls which have been implemented by ZIMRA in enforcing compliance by informal tax payers. Three interviewees highlighted that if an informal taxpayer defaults on payment the authority will levy 100% penalty on the amount overdue and interest will start to be charged on the respective owing balance. Two respondents also postulated that the authority has been conducting tax payer education through radio, television, exhibitions, workshops, seminars. This according to the respondents has resulted in improved compliance by informal sector tax payers. Three ZIMRA managers pointed out that the authority has been conducting presumptive tax blitz of notable is in 2012 and 2013 so that informal sector pays their dues religiously to the treasury. Two ZIMRA managers pinpointed that the authority conducts tax audits on clients and investigation on tax matters. According to two ZIMRA managers taxpayer education (informal sector), audits, investigations are designed to foster compliance to informal sector concerning presumptive tax. Two interviewees postulated that 100% penalty levied on noncompliant informal sector is used as a deterrence not to comply. Respondents from questionnaire 4.2.14 opposed this position by ZIMRA as evidenced by 55% who agreed and 32% who strongly agreed that if penalties were to be reduced on informal sector, compliance would increase. Nyamwanza et al (2014) postulated that penalties levied on informal sector affects negatively the business.

### **4.3.4 Which measures are being put in place by ZIMRA to ensure that there is accurate informal tax payer database?**

The question sought to establish if there are any measures being employed by ZIMRA so that accurate informal tax payer database is there. Two members of management coined out that they is what is called taxpayer segmentation where tax payer are segmented according to their size. These two interviewees further by stating that informal sector are classified under medium and small clients' offices where ZIMRA offers specialized service for informal sector. ZIMRA regularly conducts audits and investigations on informal sector to check if they are registered and if not ZIMRA would compel registration on those informal sector. Respondents on questionnaire 4.1.4 were of the opinion that presumptive tax is not taxing all informal sectors as evidenced by 40% who disagreed and 26% who strongly disagreed that the current presumptive tax is taxing

all eligible informal sectors. Thuronyi (2015) argued that a good presumptive tax system should tax all eligible informal sector operators.

#### **4.3.5 How often would ZIMRA assess the suitability of presumptive tax rates on informal sector?**

The question was posed because the researcher wanted to find out if ZIMRA regularly review taxation rates since it is obliged to provide fiscal advice to the Ministry of Finance. The information gathered revealed that ZIMRA often receives feedback on the effectiveness of its presumptive tax rates on workshops, exhibitions, seminars where tax payers will be querying on the rates being imposed on them. Respondents on questionnaire 4.1.4 were of the opinion that presumptive tax rates should be reviewed downwards as evidenced by 48% who agreed and 33% who agreed that presumptive rates should be reviewed down. Dube (2014), Utaumire et al (2013) and Hove et al (2013) all share the same view that presumptive tax rates should be revised down.

#### **4.3.6 What social media techniques have been employed by ZIMRA to reach out to the informal sector?**

The question sought to find out if ZIMRA was keeping abreast with technology. All three ZIMRA interviewees pointed out that ZIMRA has been moving with the trends of technology. According to the three members of management interviewed, ZIMRA has a Facebook account where it updates its stakeholders on various events. ZIMRA according to respondents has a twitter handle account where tax matters and any organizational matter can be discussed. Respondents also pointed out that ZIMRA has opened a YouTube account where it posts videos relating to the on goings of ZIMRA. However according to two ZIMRA managers, ZIMRA does not have a WhatsApp platform where informal tax payers can cheaply and easily further their tax queries. All the ZIMRA managers respondents postulated that on YouTube account ZIMRA post videos of tax payer appreciation among others and it should also posts social media videos where they will be advertising to their tax payers of particular interest is the Bhutisi and Keda social media videos. Three members of management highlighted that although ZIMRA makes use of Facebook, it does not make use of WhatsApp and social media videos as videos posted on YouTube are of informative nature and not of attracting (persuading) informal tax payers to comply with presumptive tax. Respondents on questionnaire 4.1.12 were of the opinion that ZIMRA is not using social media videos in advertising to informal sector as evidenced by 56%

who disagreed and 44% who strongly disagreed that ZIMRA is using such method of enticing informal sector. With content consumption and viewing habits shifting dramatically nearly all platform and distribution channel has released video advertising products and audiences love it ([www.eMarketer.org](http://www.eMarketer.org) accessed on 25/04/2016:2100hrs).

#### **4.3.7 What challenges are you facing in the collection of presumptive tax?**

The question sought to find out challenges being faced by the tax authority in collecting presumptive tax. The major challenge ZIMRA managers coined out is that informal sector resists paying presumptive tax. All interviewed respondents also highlighted that the economy is facing difficulties and informal sector are defaulting on their obligations and debts are accumulating. The solution to that according to the interviewees is that presumptive tax rates should be revised downwards to cater for the economic difficulties the informal tax payers are operating in. Respondents on questionnaire 4.1.11 were of the view that presumptive tax rates should be in tandem with the economic condition as evidenced by 48% who agreed and 19% who strongly agreed. Fursin and Lysko (2014) postulated that presumptive tax rates should in line with the prevailing economic condition of a country. This is also supported by the ZIMRA revenue performance report (2015) which highlighted that the inability by ZIMRA to collect the increasing debtors is not ineffectiveness by ZIMRA but rather it's reflective of difficult economic conditions on the country.

#### **4.4 SECONDARY ANALYSIS**

During data collection the researcher got hold of the ZIMRA strategic plan for the period 2016-2018. The strategic plan emphasized that in line with the economic blueprint ZIM-ASSET on sub cluster on fiscal reforms, ZIMRA vigorously taxes the informal sector already (ZIMRA Strategic Plan, 2016-2018).

#### **4.5 SUMMARY**

The chapter consisted of the presentation, analysis and interpretation of the data collected through primary research instruments and secondary analysis. Responses to questionnaires and interviews that asked on presumptive tax rates, effect on business survival, compliance of informal sector on presumptive tax, techniques used to entice informal sector to pay presumptive

tax among other concepts were presented, analyzed and interpreted in the chapter. Chapter five will be on the summary of the researcher to the entire study, overall conclusions and recommendations.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECCOMENTATIONS**

#### **5.0 INTRODUCTION**

The chapter contain chapter summaries, major research findings overall conclusion of the study, recommendations and further area of research. Research findings will be linked to research objectives.

#### **5.1 CHAPTER SUMMARIES**

Chapter one covered a brief background of the study, the problem statement, the research objectives, main research question including sub-research questions, significance of the study, assumptions, definition of major terms, delimitation of the study, limitations and the summary.

Chapter two reviewed literature from other researchers on the appropriateness of the prevailing presumptive tax rates levied on informal economy. The chapter compared, contrasted and discussed ideas by other scholars from books, journals, internet, and as well as published and unpublished literature. The literature review was on identifying the use of presumptive tax on informal sector, analysing the presumptive tax rates, analysing compliance by informal sector on presumptive tax rates, analysing the effect presumptive tax has on informal sector and analysing the impact presumptive tax can have on the economy.

Chapter three discussed the research design, population, target population and sampling techniques, research instruments, data collection and data analysis plan. Data was mainly collected from primary sources using semi-structured interviews and structured questionnaires and from secondary data using ZIMRA information. Situational analysis was employed. Open ended questionnaires and Likert type of questions were used. Data presentation and analysis, summary, ethical consideration and validity and reliability were also covered.

Chapter four looked at data presentation and analysis in line with key areas of the research guided by the interviews and the questionnaires sent to the target population of the study. Open

ended questionnaires and Likert type of questions were used. Data was analysed and presented through tables, charts and graphs and summary analysis.

## **5.2 MAJOR FINDINGS**

### **5.2.1 Use of presumptive tax on informal sector**

The study revealed that current presumptive tax system is the most effective way of taxing the ever growing informal sector as it is less costly for ZIMRA to administer. Presumptive tax policies are well understood by the revenue officers or revenue specialists and informal sector is aware of presumptive tax obligation. The researcher established that outsourcing of presumptive tax to city councils and ZINARA has not been an effective venture for the tax authority. The study indicates that locations of the informal sector affect the business profits.

### **5.2.2 Prevailing presumptive tax rates**

The prevailing presumptive tax rates are not being afforded by the informal sector hence why informal sector participant are not paying presumptive tax. Informal sector operators desire to be included in the determination of presumptive tax obligation. It was established that informal sector is oblivious of how the presumptive tax expense is arrived at. The researcher established that there is positive relationship between presumptive tax rates and the economic conditions of a country.

### **5.2.3 Presumptive tax on informal sector operation**

The researcher established that presumptive tax threatens the survival of informal sector and affect negatively their operations. Also penalties levied on non -complying informal sector business exacerbate the situation informal sector faces.

### **5.2.4 Compliance of informal sector on presumptive tax**

The research findings indicate that informal sector firms are not complying with presumptive tax regulations despite knowing fully what to do. The research findings indicate that ZIMRA were not engaging other government arms like police in enforcing compliance by informal sector on presumptive tax regulations as ZIMRA alone is finding it difficult to enforce compliance.



### **5.2.5 Impact of presumptive tax on the economy**

It was established that there is much potential revenue that can be realised from taxing the informal sector because not all of them are registered for presumptive tax purposes. Economic growth can be spearheaded by tapping the untapped informal sector participant in revenue generation.

### **5.3 CONCLUSION**

The research focused on investigating the appropriateness of prevailing presumptive tax rates on the informal sector. The research revealed that the prevailing presumptive tax rates are considered to be high by the informal sector hence why the non-compliance by informal sector. The current presumptive tax rates affect negatively the informal sector business as it threatens the survival of informal business. The study was successful because the researcher was able to critically investigate the appropriateness of prevailing presumptive tax rates levied on informal sector and concluded that presumptive tax rates are not appropriate hence should be revised downwards.

### **5.4 RECOMMENDATIONS**

The recommendations stemmed from the research findings gathered by the researcher.

- ZIMRA when determining the presumptive tax obligation should take into account the location of the business as business location affect profits made by an entity. Utaumire et al (2013) suggested that tax authorities should levy different presumptive tax depending on the location of the informal sector operator.
- ZIMRA should also tighten or deploy officers to government arms who would have been given a green light to collect revenue on their behalf. Kangave et al (2016) argued that if the outsourcing of revenue to other government arms is not effective, the tax authority should chip in and provide its officers to assist in their operations.
- Informal sector should be included or consulted when presumptive tax rates are being set through their representatives in forums like workshops and seminars. Utaumire et al (2013) assert that the absence of concerned stakeholders in the determination of

presumptive tax has resulted in spirited resistance by informal sector to pay presumptive tax.

- The tax authority should regularly review presumptive tax rates in line with the changing macro-economic conditions. Fursion and Lysko (2014) postulated that tax administrators should regularly review their tax rates to cater for economic upheavals.
- The tax authority should make use of social media videos in enticing informal sector to pay presumptive tax and WhatsApp platform as currently video strategy employed is of informative nature not persuasive. With content consumption and viewing habits shifting dramatically nearly all platform and distribution channel has released video advertising products and audiences are loving it (eMarketer, 2015)
- Continual training of tax officials in area of presumptive tax is also encouraged. Colin and Loana (2015) assert that tax education is necessary for tax officials to keep abreast with the current presumptive tax matters.
- ZIMRA should also provide incentive for informal sector to comply with presumptive tax like a dedicated category of tax payer appreciation day. Moyo (2016) argued that tax incentive on informal tax will improve compliance.

## **5.5 SUGGESTED AREA FOR FURTHER STUDY**

A further research can be carried on the estimation of potential revenue loss due to non-participation of some informal sector in paying presumptive tax. Also a further study can be carried on the effect of revenue automation on presumptive tax collection.

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## **APPENDICES**

### **APPENDIX 1: AUTHORITY TO CARRY OUT RESEARCH**

Midlands State University

P. Bag 0955

Gweru

17 February 2016

Human Resources Head Office

Zimbabwe Revenue Authority

6<sup>th</sup> Floor ZB Centre

Cnr First Street/ Kwame Nkurumah Avenue

P O Box 4360

Harare

Dear Sir/Madam

**RE: APPLICATION TO CARRY OUT AN ACADEMIC RESEARCH AT REGION 2**

I hereby seek permission to carry out a purely academic research at Region 2. I am a final year student at Midlands State University, studying a **Bcom ACCOUNTING HONOURS DEGREE**. I was once attached at your organization during the period of September 2014 to August 2015 in Region 2 hence the desire to conduct out my research with your organization. In partial fulfillment of my studies, I am required to carry out a research. I desire to conduct a study under the following topic:

**“An investigation on the appropriateness of presumptive tax rates in the informal sector considering the non-participation of other informal players.** As such, I seek your authorization to conduct this study and information given would be used solely for academic purpose only and promise to furnish you with a copy of the final research document.

Your assistance in this matter will be greatly appreciated.

Yours faithfully

Kamuteku Lennon

ID Number 63 2460344 V 05

Phone Number 0776668419/0717635451

Email: lennonkamuteku@gmail.com

**APPENDIX 2: INFORMAL SECTOR QUESTIONNAIRE**

**Instructions**

For each of the following questions below, please indicate the extent of your agreement or disagreement by placing a tick in the appropriate box.

1. Type of Business:

Hair Salon	<input type="checkbox"/>	Restaurant	<input type="checkbox"/>
Omnibus/Kombis	<input type="checkbox"/>	Bottle Store	<input type="checkbox"/>
Cottage Industry	<input type="checkbox"/>	Informal Trader	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>
Taxi		Driving School	

2. Presumptive tax is the most effective way of taxing the informal sector

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

3. Informal sector deliberately avoid keeping proper books of accounts

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

4. Informal sector is aware of presumptive tax obligation

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

5. The determination of presumptive tax obligation is understood among informal tax payers

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

6. The current prevailing presumptive tax rates are manageable by informal sector

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

7. The involvement of informal sector businesses in the process of determining presumptive tax expense will result in low resistance to pay presumptive tax

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

8. Level of presumptive tax should relate to the economic conditions of a country

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

9. Presumptive tax obligation should also consider the location of the business as this affect the ability to pay

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

10. There is relationship between paying presumptive tax and business survival

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

11. Paying presumptive tax affect negatively the business operation

Strongly Disagree      Disagree      Neutral      Agree      Strongly Agree

12. Registration for presumptive tax is simple.

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

13. Government support and positive recognition will ensure that informal sector registers for presumptive tax

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

14. If the requirement for obtaining a business license was to first pay presumptive tax, informal sector would pay presumptive tax

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

15. If penalties for non-compliance with presumptive tax were reduced or scrapped, informal sector would pay presumptive tax

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

16. Presumptive tax revenue can have a positive impact on the economy

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

17. Presumptive tax rates should be lowered to increase participation of informal sector in revenue generation

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

18. Government should increase regulation on the operations of informal sector to increase transparency

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

## APPENDIX 3 : ZIMRA QUESTIONNAIRE

### Instructions

For each of the following questions below, please indicate the extent of your agreement or disagreement by placing a tick in the appropriate box.

#### 1. Highest educational Level:

'A' Level	<input type="checkbox"/>	Diploma	<input type="checkbox"/>
Higher National Diploma	<input type="checkbox"/>	Undergraduate Degree	<input type="checkbox"/>
Post Graduate Degree	<input type="checkbox"/>	Masters' Degree	<input type="checkbox"/>
Other .....			

#### 2. Department:

Debt Management	<input type="checkbox"/>	Audits	<input type="checkbox"/>
			<input type="checkbox"/>

VAT  Client Care

Final Deductions  Debt Management

3. Presumptive tax policies are clearly articulated to revenue officers

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

4. Presumptive tax currently in place brings in all informal sector into the tax net

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

5. Presumptive tax is less costly to ZIMRA as they is no administration cost of assessing tax expense

Strongly Disagree Disagree Neutral Agree Strongly Agree

6. Presumptive tax consider the location of informal sector because it affect business profits

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

7. Collection of presumptive tax by city councils and ZINARA on behalf of ZIMRA has been effective

Strongly Disagree Disagree Neutral Agree Strongly Agree

8. Presumptive tax rates levied on the informal sector are affordable

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

9. Presumptive tax rates should be revised downwards

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

10. Informal sector should be included in setting presumptive tax rates

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

11. Presumptive tax should relate to the state of the economy

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

12. ZIMRA has been using social media like comedian videos in advertising presumptive tax

Strongly Disagree  Disagree  Neut  A  Strongly  ee

13. Presumptive tax on informal sector poses as a challenge to the informal sector

Strongly Disagree  Disagree  Neut  A  Strongly  ee

14. All informal sector firms are registered for presumptive tax purposes

Strongly Disagree  Disagree  Neut  A  Strongly  ee

15. Procedure for registering for presumptive tax is simple

Strongly Disagree  Disagree  Neut  A  Strongly  ee

16. ZIMRA bears cost of paying presumptive tax for informal sector

Strongly Disagree  Disagree  Neut  A  Strongly  ee

17. ZIMRA works with other government departments to ensure that informal sector complies with presumptive tax

Strongly Disagree  Disagree  Neut  A  Strongly  ee

18. There is large potential revenue from taxing informal sector through presumptive tax

Strongly Disagree  Disagree  Neut  A  Strongly  ee

19. Taxing the informal sector is regressive as there will be low revenue yield

Strongly Disagree  Disagree  Neut  A  Strongly  ee



## **APPENDIX 4: INTERVIEW GUIDE**

### **Interview Guide for ZIMRA MANAGERS**

1. What presumptive tax policies are being communicated to the tax authority officials?
2. Which measures are being put in place to make sure that presumptive tax is being understood by tax officials?
3. What controls have been put in place by ZIMRA to ensure that every informal sector pays tax when due?
4. Which measures are being put in place by ZIMRA to ensure that there is accurate informal tax payer database?
5. How often would ZIMRA assess the suitability of presumptive tax rates on informal sector?
6. What social media techniques have been employed by ZIMRA to reach out informal sector?
7. What challenges are you facing in the collection of the presumptive tax?

Thank you for your time and co-operation

