

CORRUPTION IN TAX ADMINISTRATION IN ZIMBABWE

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Introduction

Rampant corruption in political, social, and economic spheres of development has been the core driver of economic meltdown over the past two decades in Zimbabwe. In response, the Zimbabwean economy went through an economic depression whose impacts are widespread. The associated economic and humanitarian crisis has limited the ability of the state to mobilise resources to finance its own development. On the other hand, the huge external debt burden further exposed Zimbabwe's vulnerability for its over reliance on external resources. This left the country with no other option but to look inward in terms of mobilising resources. Taxation became the ultimate source of revenue coupled with domestic debt which rose from US\$276 million in 2012 to US\$9.2 billion as of December 2019. Both external and domestic debts affected the country's debt profile and the government had to minimise the issuance of treasury bills. Pursuant to the rising social, economic and infrastructure needs, the government introduced additional taxes including the infamous intermediated money transfer tax (IMTT) commonly known as the 2% tax. However, the ability of the revenue authority to mobilise resources is undermined by leakages associated with tax evasion, avoidance, and corruption. Whilst taxation cements the social contract between the government and the citizens, rising corruption has affected tax compliance. The Reserve Bank of Zimbabwe estimates that the country lost US\$3 billion between 2015 and 2017 to illicit financial flows. Corruption acts as both a source and an enabler of illicit financial flows. Therefore, the fight against corruption should remain a priority for the Government of Zimbabwe in order to safeguard public resources. Against this backdrop, this week's Weekend Digest relooks at the findings and recommendations from the study we conducted in 2019 on corruption in tax administration and revenue mobilisation in Zimbabwe.

Corruption in tax administration

The impact of corruption on tax administration attracts wide debate not only in Zimbabwe but globally. A 2019 report by the International Monetary Fund (IMF) revealed that curbing corruption in all countries would result in an additional US\$1 trillion in tax revenue annually across the world. It is estimated that developing countries lose US\$1.26 trillion annually due to corruption, bribery, theft and tax evasion. In 2018, the Government of Zimbabwe (GoZ) launched a Transitional Stabilisation Programme (TSP) in a bid to set the economy on a recovery path. The TSP recognises the role of domestic resource mobilisation in financing the transformation of the Zimbabwean economy towards upper-middle-income status by 2030.

Taxes are a major source of Government revenue. Revenue through tax has on average contributed 88.1% between 1980 and 1989, and about 89% between 1990 and 1999,

before peaking at 98% in 2005. More recently, according to the 2020 Midterm Fiscal Review, taxes constituted 97,6% of Government revenue. Despite these figures clearly showing that taxes are the source of resource mobilisation to finance expenditures by the GoZ, tax administration in the country is marred by a lack of transparency and corruption. The paradox over the years has been the increasing rate of informalisation of the economy. With the increasing levels of informalisation compounded by a challenging macro-economic environment, three things remain clear;

1. The levels of informalisation are associated with tax evasion, tax avoidance and corruption.
2. With the private sector challenged by the deteriorating macro-economic challenges and stifling business environment, tendencies for corruption, tax evasion and tax avoidance are high.
3. The GoZ's scope to domestically mobilise revenues through formal channels is challenged by the informalised economy.

In conducting the study, TI Z was cognisant that there is a vast body of research on the impact of corruption on the broader economy. Therefore, its research sought to identify and describe drivers of corruption in tax administration which then compromises revenue mobilisation.

The essential objective of tax administration is to ensure the maximum possible compliance by taxpayers with their taxation obligations. Therefore, a robust tax administration system ensures the collection of the right amount of tax at the right time, at minimal cost to the government, while imposing the least burden on taxpayers. However, corruption continues to worsen the country's macro-economic situation, with inflation currently pegged at 837%. Good governance which encompasses the absence of systemic corruption, is therefore vital for macro-economic stability as well as sustainable and inclusive economic growth. According to the IMF, the resulting damage of corruption on tax compliance, revenue collections and respect for the wider tax system can be chronic, and the 'effects in shaping its real incidence profound.' However, a problem affecting studies measuring the impact of corruption on tax administration is that corruption is difficult to detect and quantify because by its very nature, it is illegal and secretive. As such TI Z was cautious in the selection of taxes to focus on in the research. The research was confined to customs duties and presumptive taxes.

Findings

Causes of corruption in tax administration

The economic environment as proxied by poverty, inflation and economic volatility was regarded as the major cause of corruption in tax administration. Given the challenging macro-economic environment and highly informalised economy, worsened by increasing poverty most economic players (individual and private business) are in a survivalist mode. According to the World Bank (2018), Zimbabwe ranked the third (60.6%) at international level in terms of the share of shadow economy (informal economy) after Georgia and Bolivia. It is generally accepted that as the size of the informal economy grows at the expense of the official economy, government's tax revenue base is further eroded. The higher the levels of informalisation, the greater the tendencies for business operations to go under the tax radar and the higher the prevalence of corruption, as small businesses and other informal economy operators evade paying taxes which they regard as proportionately too high for business viability.

The inefficient tax administration system. Inefficient tax administration in this case referred to porous corruption system, loopholes in the tax collection system and slow tax clearance at borders.

Impunity, politics, and bad governance. Respondents stated that they were of the view that political leadership sustains and often creates and protects corruption. They indicated that the impunity afforded to politically exposed persons and the elites has resulted in the spread of corruption even at lower levels. The “catch and release” approach coined by citizens indicates the perception of citizens towards the country’s seriousness in combating corruption in general. The overall result has been the weakening of voluntary tax compliance. A case in point was the controversial case of the importation of Isuzu vehicles worth more than US\$8 million by the ruling party.

Lack of effective tax enforcement mechanisms. Tax enforcement typically refers to an act of ensuring that taxpayers comply with tax laws or rules, ranging from ensuring strict adherence to timely filing, accurate filing, to payment of tax liability as and when due. Some respondents believed that even when officials are arrested, the lack of stiffer penalties as laid out in Zimbabwe's anti-corruption laws makes taxpayers prone to exploitation.

Low wages of tax administrators/ officials. Low wages was also cited as one of the drivers of corruption in tax administration. Employees are forced to engage in corrupt activities such as bribes and extortion to supplement their wages and salaries.

High taxes and complex tax procedures. Small business operators and those within the informal economy bemoaned high tax levels as one of the push factors driving them to offer bribes for their goods to pass through the official system through tax evasion.

Information asymmetry. Citizens’ lack of knowledge on the roles, functions, duties of public officials, including anticorruption strategies by responsible tax administration institutions, has resulted in increase in corrupt behaviour of tax officials. For example, only a few respondents had knowledge of ZIMRA's on the zero-tolerance policy.

Addressing corruption in tax administration in Zimbabwe

Enhancing tax morale

It has been shown that the structure of tax policy in a country affects tax morale. Tax morale is the intrinsic motivation to pay taxes which arises from the moral obligation to pay taxes as a contribution to society. Understanding tax morale and developing policies and strategies that increase tax collection are key ways to responding curbing corruption and creating opportunities for improving domestic resource mobilisation. Some of the ways to boost tax morale include: implementing progressive taxes, ensuring fairness in the tax system, enhancing social service delivery from tax revenue, providing tangible support schemes to informal economy players who contribute significantly to tax payments customs duties informal traders tax) as a benefit to paying taxes, enhancing accountability and transparency on how the tax revenue is utilised (the tangible benefit of tax compliance).

Automation of tax payment systems

Technology is changing how taxes are administered given the fourth industrial revolution. According to the World Bank 2020 Doing business report, an increasing number of companies are using tax software, and more tax authorities are creating easier-to-use online portals to simplify tax compliance. Electronic systems for filing and paying taxes benefit taxpayers by reducing preparation time and errors by enabling automated verification of transactions. Additionally, a system for auditing computerised systems should be implemented to detect fraudulent changes to programs or files. Such systems also benefit tax authorities by making the tax systems more robust and reduces operational costs such as those associated with processing and handling paper tax returns, thus allowing human and financial resources to be reallocated to efforts that improve services to taxpayers. The efficiency with which tax revenue is converted into public goods and services has an impact on the tax morale of businesses and individuals.

Provide a decent living wage for tax officials

The low-income levels induce corruption by depraving the work ethics of individuals or organisations. Hence, there is need to address issues of decent living wages for workers.

Further simplification of the tax system

A simplified tax system is one that has clear tax rules, which are easy to comprehend and tax procedures and processes that are easier to follow. The tax system must also be compatible and sensitive to the capacity of the informal economy to pay taxes. The informal economy is heterogeneous in nature and requires special attention in the pegging of tax levels that stimulate the informal economy workers and SMEs to pay taxes through formal systems.

Wider public education on tax systems and anti-corruption interventions

Tax authorities such as the Zimbabwe Revenue Authority (ZIMRA) and the Zimbabwe National Roads Administration (ZINARA) should widely disseminate information on their anti-corruption interventions. This will reduce the extent to which taxpayers are prone to exploitation by public officials. When citizens are aware of the roles, functions, and duties of public officials, it can result in lesser corrupt activities.

Enhanced cooperation by Zimbabwe's political leadership and ethical leadership in prosecuting tax offenders or tax-corrupt officials

The political commitment of the country's highest authorities to tackle corruption without fear or favour will go a long way in moving the zero tolerance to corruption mantra from rhetoric to action. Zimbabwe's drive to fighting corruption must be more visible and authentic to the public.

Whistleblowing legislation

There is need to speed up the adoption of a whistleblowing legislation to protect those who blow the whistle on corruption in tax administration. At the moment citizens, workers and business players are at risk of victimisation if they expose corrupt practices in their enterprises or elsewhere.

Application of stiffer penalties on corruption in tax administration

According to experiences from Korea, anti-bribery laws must apply both to those who pay and those who receive the bribe. To be effective, the penalties for the convicted public officials should equal to a multiple of bribes received and penalties for convicted bribers should be tied to their gains (e.g. excess profits), not to the amount paid. This is contrary to the situation where law enforcement and administrative penalties focus on locating corruption after it has occurred. The rate of corruption in tax administration can be reduced if the anti-corruption system creates the perception that corruption carries high risks.

Conclusion

The impact of corruption on tax administration yields three considerations. Firstly, corruption potentially reduces public tax revenue. That is, the amount of anticipated revenue by the government is reduced owing to poor collection and administration systems. This reduces the ability of the government to invest in social amenities. Countries with poor tax administration systems usually grapple with high levels of poverty. Secondly, high levels of corruption significantly affects the morale of potential taxpayers. The gaps in tax administration act as a deterrent factor for humans to find alternative means of not paying tax. Human beings are naturally maximisers; therefore, they will calculate the likely costs and benefits of any action before deciding what to do. Lastly, corruption distorts the country's tax structure. Poor administration affects the economic growth of the country owing to poor systems. Therefore, there is need to address corruption in tax administration.



Resist, Reject and Report Corruption!