Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe

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Abstract

An efficient national revenue collection system is the hub of every public administration system and the cornerstone of sound fiscal management. It enables governments to finance budget deficits from domestic sources, thus dissuading recourse to off-shore sourcing. This article reviews national revenue collection in Zimbabwe, particularly interrogating major revenue sources, revenue collection strategies and soft spots for revenue leakage. Research findings indicate that the revenue collection sector has over the decades gone through milestone reforms, notable ones being the establishment of a sole national revenue authority in 2001, the shifting from cumbersome Income Tax Return Forms to Final Deduction Systems, the adoption of VAT in 2004 and Toll Gate systems in 2009. The discovery of diamonds in 2006 (with a potential to generate US$2billion dollars a year and even supply 25% of the world demand) was an added boost which is set to broaden national revenue generation and collection. Notwithstanding these developments, optimal revenue collection is still structurally and operationally compromised by loopholes in income tax frameworks, lack of transparency in revenue collection and remittance processes, and, corruption within institutions designated as Receivers of Revenue. There is need to review the structural and operational frameworks governing the national revenue authority, tighten treasury control over all national revenue sources, strengthen legislative oversight and the public audit functions, plug loose areas in income tax frameworks as well as instituting transparency in national revenue remittance processes.

Key Words: National tax revenue collection systems, Zimbabwe Revenue Authority, revenue sources, revenue remittance gaps, revenue leakage

1.0 Introduction

Public revenue collection is an integral component of fiscal policy and administration. It is the fuel of every government; the main instrument through which government funding is ensured. With growing donor fatigue and dwindling domestic revenue reserves in most developing countries, the need to strengthen national revenue collection systems has become particularly imperative. Yet, devising efficient means of collecting tax revenue remains a daunting challenge, especially in developing countries. Notwithstanding the pressing need to increase revenue inflows, revenue collection should not be at the sacrifice of economic and citizen welfare. Tax revenue collection should comply with best practices of equity, ability to pay, economic efficiency, convenience and certainty (Musgrave and Musgrave, 1984; Bailey, 1995; Visser & Erasmus, 2005). This article examines public revenue collection in Zimbabwe, specifically focusing on measures proposed in national budgets over decades to ensure effective tax collection.

The term 'public revenue' refers to government revenues. It collectively covers income generated from sources such as taxes, fees, duties, tariffs, sale of public goods and services, profits or dividends from public enterprises, interest on loans, among other sources (http://www.ujp.gw.uk; Taylor, 1984, Buchanan, 1960; Pigou, 1982).

In most countries, public revenues are deposited into the Exchequer Account of the Consolidated Revenue Fund which serves as the national purse. In most developing countries, tax revenue from individual and corporate incomes, sales, Value Added Tax (VAT), customs duty, estate and capital gains form the main sources of government revenue-with VAT, customs, and corporate taxes emerging as high performing revenue sources (IMF, 2011; AFRODAD, 2011; Keen & Mansour, 2010).

The public revenue collection challenge should be broadly conceptualised within the tax reform initiatives of the 1990s that were promoted by the IMF and World Bank. These reform measures sought to revamp and strengthen revenue administration, enhance voluntarry compliance, expand the tax base and address corruption-induced revenue leakage. Notable among these were the :

- The creation of Revenue Authorities (RAs) in a bid to protect revenue collection systems from political interference (Fjeldstad &Moore, 2008).
- The adoption of Value Added Tax systems to escape tax evasion-ridden associated with sales taxes
- Shifting from Income Tax Returns to Final Deduction Systems-where PAYE is deducted by the employer in a bid to reduce compliance costs by simplifying taxpayer registration, filing and payment, audit, collection enforcement, and appeals (IMF, 2011).
- Segmentation of the taxpayer population by treating them as distinct revenue possibilities comprising large, medium, small, and micro taxpapyers. The term large taxpayers covers large firms, financial institutions, and telcom operators. This even saw specialist units being establshed in countries such as Ghana and Uganda to deal with high level individual and institutional payers (Ibid).

Underpinning these raft of tax reforms was the need to reduce incidence of tax evasion and avoidance on one hand and enahnce voluntary tax compliance on the other hand. It should be noted that though closely related, tax evasion and tax avoidance should be treated as distinct actvities; the former constituting a crime while the later does not. Tax evasion is deliberate violation of tax law through tax underpayment while tax avoidance is reducing tax liability within the confines of law, for instance, by simply moving from the formal to the informal sector (AFRODAD, 2011). The tragedy is that while tax avoidance is not a crime, it remains a major source of revenue hiermorrage. In Africa and other developing countries, revenue collection is further thwarted by high unemplyment levels, extensive informality, highly skewed income and wealth disparities, poverty, tax regimes littered with tax incentives and tax holidays (IMF, 2011; Dramod, 2004, Fischer, 2002). IMF (p; 30) notes that less than 5% of the population in developing countries are legible for paying Individual Income Tax while 80 % of tax regimes in Sub-Saharan Africa were by 2005 offering generous tax holidays. The source also refers to the “hard-to-tax” sectors, a reference to small businesses, small farmers, professionals and state owned enterprises, who by virtue of either being government departments or are politically connected, igonore paying taxes, rates or fines. The sitution is compounded by the fact that the bulk of micro traders have income bases generally below tax thresholds

In most countries, the responsibility of revenue collection has since the 1990s been hived off to semi-autonomous revenue authorities which exercise direct control over the import, export, manufacture, movement, storage or use of certain goods (Fjeldstad & Moore, 2008,1). In the UK, the HM Revenue and Customs (HMRC) was formed in 2005 following the merger of Inland Revenue and HM Customs and Excise Departments, and is responsible for administering direct and indirect taxes. In the USA, there is the Internal Revenue Service (IRS) created through the Internal Revenue Service Restructuring and Reform Act of 1998 (www.interantionalbudget.org/wp-cont). In SA, the South African Revenue Service (SARS) was established in 2002 under Section 195 of the SA Constitution (www.southafrica.co.za/about-southafrica) while in Malawi, the Malawi Revenue Authority (MRA) was established in 1998 as an agency responsible for the assessment, collection and accounting for tax revenues. Its establishment sought to improve the functions previously carried out by the Department of Customs and Exercise and Income Tax in the Ministry of Finance.

2.0. Tax Revenue Collection and Administration in Zimbabwe

2.1 Governing Frameworks

Revenue collection is governed by a cocktail of constitutional and legislative frameworks. Sections 101 and 102 of the Constitution of Zimbabwe designate the ministry of finance as the responsible authority in the collection of all fees, taxes and other public revenue.

They also oblige that all public revenues be paid into the Consolidated Revenue Fund. The specifics of public revenue are detailed in legislative instruments such as the Incomes Tax Act (Chapter 23: 06), the Capital Gains Tax (Chapter 23: 01), Finance Act (Chapter 23:04), the Value Added Tax Act (Chapter 23: 12), the Estate Duties Act (Chapter 23: 02), the Customs and Excise Act (Chapter 23: 02) and the Mines and Minerals Act (Chapter 21:05**)** and the Revenue Authority Act (Chapter 23:11).

2.2 The Revenue Collection Agency

In Zimbabwe, revenue collection is the responsibility of the Zimbabwe Revenue Authority which was established in 2001 in terms of the Revenue Authority Act (Chapter 23: 11). It is the sole revenue collection agency with specific mandates to assess, collect and enforce the payment of revenue. ZIMRA was established in 2001 as a successor to the then Department of Customs and Excise. Its responsibilities include assessing, levying and collecting revenue from various taxes that include income tax, capital gains, duty tax, resident shareholders tax, Value Added Tax and stamp duty, among others. ZIMRA also issues and controls tax revenue certificates, administers regulations pertaining to import and export control exchange as well as licensing and controlling premises used for the manufacture of goods under rebate. ZIMRA has since decentralized its tax collection points by establishing offices around the country- developments that are poised to increase revenue inflows as offices become more accessible to taxpayers. These developments also place ZIMRA in better steady to effectively monitor tax revenue collection points. This is also in line with the principle of convenience, where tax collection should be to the convenience of both the tax payer and tax authorities. The establishment of ZIMRA should be broadly conceptualized as part of the global tax reforms that were initiated in the 1990s in which governments sought to increase tax revenue collection by hiving off revenue responsibilities to autonomous revenue collection authorities.

Since its establishment in 2001, ZIMRA has established an unbroken record of “surpassing revenue targets” (Government of Zimbabwe Budget Statements, 2010, 2011 and 2012) with Value Added Tax, Customs Duty and Individuals Income Tax among its high performing revenue heads. However, this performance record may not reflect the entirety of the story, especially given that ZIMRA has over the years been dogged with allegations of revenue leakage through smuggling, bribery, under-invoicing, under-declarations at its border posts (Zhou, 2011). AFRODAD, 2011, 24) even argues that the extent of tax evasion in Zimbabwe is yet to be measured, estimating that the revenue authority could be collecting 80 % of the revenue it should be collecting. ZIMRA appears yet to effectively extend its revenue net to all key sectors of the economy, including the diamond mining sub sector. However, the introduction of electronic cargo tracking systems coupled with the adoption of measures and mechanisms aimed at easing congestion and delays at the borders are positive efforts at curbing revenue leakage.

3.0 Major Revenue Sources

3.1 Income Taxes

The term ‘income tax’ collectively covers individual and corporate taxes. It includes income from employment (PAYE) and from trade or investment. Income tax is levied under the Income Tax Act (Chapter 23: 06) in which income is levied on the taxable base. In most African countries, income tax has emerged as the main source of government revenue, accounting for 1-3 percent of GDP in developing countries (Honoham, 2003; IMF 2011; Shaw, 2005).

3.1.1 Pay As You Earn (PAYE)

In Zimbabwe, the term PAYE is used in reference to Individual Income Tax. PAYE is a component of Income Tax that is levied directly on individual income from employment. It is charged on an individual’s net income (the amount after subtracting deductable expenses such as pension contributions, medical aid, rebates per child etc). PAYE is charged at a basic rate and graduated on the basis of the higher the income, the higher the tax rate. Since 1998, Zimbabwe adopted the Final Deductions Systems (FDS)-an employee tax collection system whereby PAYE is deducted by the employer. The Income Tax Return system (which had been in use since independence in 1980) was associated with high tax compliance costs arising from understated tax obligations. Income Tax Returns also scored lowly on taxpayer convenience as filling the Return forms was a complicated and cumbersome process.

In analyzing the performance of the PAYE tax head, it is instructive to note that revenue from PAYE is largely a function of tax structure (http://www.ujp.gw.uk, Musgrave and Musgrave, 1984) Tax structure captures issues of tax rate, tax band and tax free threshold. Tax rates allocate the tax burden within each tax band.

For instance, in the 2009 fiscal year, incomes below US$150 per month incurred 0 % tax rate while 37.5 % tax rate was charged for incomes above 3001. Tax rates reflect a progressive taxation. The 'tax band' (US $150-500 per month) is the tax range or margin sharing the same tax burden. Tax bands are generally described as either wide or narrow, the former leaving the taxpayer with more disposable income while latter leaves taxpayers with less disposable income. The table below illustrates tax rates, tax bands and tax free thresholds:

Figure 2: The 2010 National Budget (US)

Tax band	Tax Rate (%)
Up to 160	0 (Tax free threshold)
161-500	20
501-1000	25
1001-1500	30
1501 and above	35

The 'tax free threshold' is the zero rated tax range. It is the non taxable income. For instance, in the 2010 National Budget (above), earnings below US$160 were non taxable. However, tax free thresholds should be related to the poverty datum line if they are to significantly benefit taxpayers. Since the shift to dollarization in 2009, PAYE tax free thresholds have generally lagged behind the poverty datum level (currently above US500). The challenge for fiscal planners is to ensure that upward reviews of income tax free threshold do not leave the bulk of employees from the tax net. A case in point is the 2004 national Budget where an upward review of tax free threshold from ZW$200 000 to ZW$ 750 000, left 84 % of the civil servants ineligible for PAYE.

Review of the performance of the PAYE revenue head since the 1990s suggests that it was the highest contributor, accounting for 27 % between 1990 and 1995 and 32 % from 1996 to 2000. However, with the introduction of VAT in 2001, PAYE assumed the second ranking. PAYE has a narrow coverage. It is limited to those in formal employment who constitute a tiny fraction of the population. The bulk of the population is either out of employment or in informal employment while those in formal employment, are either lower income earners or in the non-taxable grades. This is consistent with IMF (2011, 31) observations that less than 5 percent of the population in developing countries pay PAYE (compared to nearly 50 percent in developed countries) while only 15 percent of income is reached in developing countries (compared to nearly 57 percent in developed). This is worsened by weak income tax collection systems (arising from low level tax analysis capacities, tax evasion, lack of modern technology and corruption among collectors of revenues). Tax evasion is non compliance with tax laws by failing to pay taxes that are due while tax avoidance is change in behavior to reduce the liabilities by taking advantage of loopholes in the tax code (Hyman, 1990, 369). Either way, the result is a shrink in the tax income base. At the domestic level, this could be through concealing income and exploiting preferential treatments while at the international level it entails failure to declare income from abroad (IMF, 2011, 32). It is also critical to note that income tax is very sensitive to the state of the economy because company closures and retrenchments reduce the economy's income taxable base.

3.1.2 Corporate Tax

Corporate tax is an aspect of income tax and is levied on companies for industrial and commercial activities (Prest, 1962, 29). Below are the corporate tax rate trends over the past three decades:

Fiscal Year	Maximum Tax rate (%)
First Decade (1980-90	
1981/82	45
1982/83	45
1983/4	40
1984/5	40
1987/88	60
1988/89	60
1989/89	60
Second Decade (1990-2000)	
1990/91	60
1991/92	55
1992/93	50
1993/94	45
1995/96	40
1997/98	40
1999	65
Third Decade (2001-2010)	
2001	52
2002	45
2003	45
2009	37.5
2010	35
2011	30
2012	25

Review of the corporate tax rates over the first two decades point to a tax regime that was generally on the high side, those of the first decade accounted by an anti-foreign ownership slant of the new black government-a trend that continued through to the second decade, despite the adoption of ESAP and its emphasis on creating conducive investment climate. The decline that was experienced during the third decade, especially from 2009 onwards reflects effort by government to attract foreign investors following the formation of the inclusive government in 2009. Although mining fees and royalties from the mining sector experienced a sharp increase in January 2012, mining companies still enjoy multiple incentives in the form of rebates, exemptions and allowances on renewal or replacement expenditure on equipment, building and works. Mining sector companies also claim Capital Redemption Allowance in the first year while companies holding special mining rights are taxed at a lower rate of 15 per cent (Government of Zimbabwe Budget Statement, 2012). Additional incentives include zero rating of all exports (except chrome ore), tax concessions in the form of five year tax holidays for companies holding special mining leases in BOOT and BOT arrangements, tourism and industrial park development.

Corporate tax contribution over the decades point to a general decline in revenue from the corporate sector, revenue inflows falling from 16 % between 1990 and 1995 to 13 % in 1996 to 2000 (*Standard Chartered Business Trends, December 2000).* This decline should be understood within the context of Zimbabwe's worsening economic crisis-especially the spectacular crash of the domestic currency by 75 % on 14 November 1997, now popularly known as the 'Black Friday' (*Financial Gazette*, February 1-7, 2001). This crash followed (among other variables), government decision to pay war veterans a lump sum of Z$50 000 each plus a Z$2 000 per month pension. Inflation rate experienced a sharp rise from 55 % in 1997 to 622.8 % by 2005, general erosion of company profits and closure of several companies (*Government of Zimbabwe Budget Statement,* 2005, 8). Following the formation of the inclusive government in 2009, corporate tax performance slightly improved, accounting for 4 percent and 10 percent in 2010 and 2011, respectively. The relative stability in the economy and the subsequent reopening of companies accounted for these performance trends.

A time series analysis has indicated that, corporate tax experiences in Zimbabwe are generally consistent with global and regional trends where revenues from the corporate sector have been declining due to wholesale reductions in corporate tax rates as countries make efforts to improve the investment climate under globalization (IMF, 2011, 33). Within the sub-region, a corporate tax above 30 percent has low investment competitive edge- a realization that must have contributed to the reductions in corporate tax rates plus incentives and tax concessions in the 2010, 2011 and 2012 national budgets. These trends are also consistent with global scenarios. Keen and Mansour (2010) cited in Ibid (p,35) observes that while in 1980, 40 percent of Lower Income Countries in sub-Saharan Africa offered tax holidays, about 80 percent were tax holidays, special tax treatment in free trade zones. With these tax reductions and concessions, are attendant losses in potential state revenue inflows. Interplay of these regional, global, and domestic socioeconomic meltdown in the post 2000 era placed severe strain on the performance of the corporate tax revenue head in Zimbabwe. The period witnessed company closures and a general decline in capacity utilization, figures showing 10 % capacity utilization during the first quarter of 2009 followed by a slight firming to 30 percent in subsequent years (*Government of Zimbabwe Budget Statements* 2010, 2011, 2012).

Critical discourse analysis however revealed that, statements by the minister of finance since the formation of the inclusive government in 2009 suggest deep-seated compliance challenges in the remittance of revenue from the Chiadzwa diamond mining fields in the Marange area of the Manicaland province. These challenges seem to arise from the fact that government is yet to valuate the actual extent of the diamond mineral wealth, up date the number of mining companies that are operating in the country, establish the official price of a carat of diamond, make reliable disclosures of proceeds from diamond sales, among others. In fact, ZIMRA is yet to fully exercise its control over the revenue collection processes in this sub sector. Such scenarios create soft spots for revenue leakage through illicit trade and smuggling.

3.2 Customs Duty

These are taxes levied on imported goods. The tax is assessed on the basis of weight of goods, year of production and engine capacity and nature of goods (basic or luxury goods) (*AFRODAD*, 2011). The tax is levied within the governing framework of the Customs and Excise Act (Chapter 23: 02) which requires that goods be cleared on arrival at a port of entry. Under the Customs and Excise regulations, all agents or individuals are obliged to be licensed in order to transact business with ZIMRA. Taxation of raw materials and capital goods currently attracts a duty of 0-5%. Vehicles with an engine capacity of over 1600cc currently attract a 40% duty, a reduction from the 60% duty that was applicable before the 2011 fiscal year (Government of Zimbabwe, 2012). Duty on computer software was removed with effect from the first of September 2011 in order to complement the gains realized in ICT development. The period also saw the introduction of a rebate of duty on pre-paid meters imported by approved suppliers in order to support the installation of pre-paid metering system to domestic consumers. One light vehicle imported by the physically challenged persons within a period of five years attract zero duty provided they are not more than ten years old from the date of manufacture at the time of importation. There is also 10 % surtax on most imported finished products and imported light passenger motor vehicles of more than five years from date of original manufacture. The argument is that the poor state and condition of some of the used vehicle imports pose additional strain on scarce foreign exchange through importation of spare parts to undertake major repairs. Customs duty on imported agricultural implements is zero rated while duty on raw materials ranges from 0-15 percent. However, such taxes have regressive elements as they generally increase the prices of imported fuel and basic goods which end up being borne by the poor (*UNDP* and *Poverty Reduction Report*, 2003, 34).

Documentary search suggests that customs duty constitutes a major source of government revenue in most developing countries (Mou, 1999; AFRODAD, 2011; Mikesell, 2011). This is consistent with trends in Zimbabwe where customs duty has been among the three major contributors of tax revenue in Zimbabwe. Records since 2009 shows Customs Duty contributing 26 percent (second from the 39 percent contributed by VAT) while records for the 2010 fiscal year show customs duty contributing by 16 percent, though it is a drop by 10 units from its 2010 performance. Overall, reduction in the customs duty on raw materials and capital goods (to assist companies recover and increase production) affected revenue collection under this revenue head (Herald, 06/07/2010). Commonly cited sources of revenue leakage under this tax head include:

- Smuggling of goods through undesignated entry points
- Under-invoicing: importers paying less duty after declaring false invoices.

- Under-declaration of goods: failure to declare all goods brought into the country
- Under-valuation by officers: This usually occur where officers connive with importers
- Under-manning of border posts
- Lack of appropriate technology: for instance, detecting machines.

However, government has introduced a raft of reform measures in an effort to curb the above noted sources of tax revenue leakage. These include:

- The introduction of scanners and post importation audits in the post 2000.
- Amendments to the Customs and Excise Act. This follows observations that the Customs and Excise Act was not explicit with regards to duty payment on smuggled goods. This amendment empowered ZIMRA to collect duty regardless of acquittal in a Court of Law.
- Amendments made on the licensing of clearing agents. Customs and Excise regulations were amended to ensure that all agents or individuals dealing with ZIMRA on commercial customs clearing are licensed. Prior this, the Act only obliged clearing agents to be licensed in order to transact business with ZIMRA.
- Changes made to formalize pre-clearance of goods before arrival at a port of entry. This followed observations that while legislation required that goods be cleared on arrival at a port of entry, in most cases goods were pre-cleared before arrival at a port of entry to facilitate release of consignments as they arrive.
- Duty free importation of capital equipment which was introduced in 2009 to support the expansion and modernization of hotels and restaurants that was suspended following abuse of the rebate by some operators who imported vehicles for purposes other than tourism. When it was re-introduced in 2011, it was only restricted to those operators registered with the Zimbabwe Tourism Authority and the Safari Operators Association of Zimbabwe.
- Re-introduction of duty on imported farm implements in 2011 following observed influx of imported agricultural equipment-posing a serious threat to the local industry. The re-introduction was therefore meant to encourage local production of agricultural implements.

3.3 Value Added Tax

Zimbabwe adopted Value Added Tax in 2004, a development that was consistent with regional and global trends in the post 1990s which witnessed a shift from Sales Tax to VAT systems in both advanced and developing economies (IMF, 2011, 23). While in the 1980 there were slightly above 20 countries using VAT systems, by 2009 almost 140 countries across the globe had embraced VAT models (Ibid, 24). Value Added Tax is an indirect tax on the supply of taxable goods and services by registered operators. It is charged each time a transaction or supply or import occurs (Musgrave, 1980, 211). It is thus not a charge on the basis of the profitability of the transaction. VAT rates generally range from zero, 15 per cent to 17.5 per cent-though single rates with 'exemptions' and 'zero-rating' are much more common in developing countries (IMF, 2011). The 15 % maximum VAT rate charged in Zimbabwe is generally consistent with regional trends of 12 percent in Botswana, 14 percent in South Africa and 16 percent in Zambia. It is also consistent with the average global VAT rates of 16% in Low-Income countries, 15% in Upper Middle Income countries and 20 % in High-Income countries (Ibid, 25). Literature generally attributes the shift to VAT models to:

- their simplicity to administer and comply with,
- tax burdens that are more evenly distributed as more goods and services are taxed,
- broad revenue base,
- minimum double taxation effects as VAT paid by a registered operator is reclaimed as an input,
- space for exemptions based on political and distributional sensitivities,
- clear audit trails which enhance compliance by reducing tax evasion (Fjeldstad &Moore, 2008; IMF, 2011; AFRODAD, 2011; Youngman, 2001).

As with other taxes, the enforcement of VAT is the sole responsibility of ZIMRA. The tax is levied under VAT Act which outlines the goods chargeable as well as operational frameworks. At the time of adoption in 2004, three were three VAT rates applicable: a standard rate of 15% , a high rate of 25 % on luxury goods such as clothing, office furniture, jewelry, cars, firearms, etc) and a zero rate on exports, basic foodstuffs and drugs on prescription and basic farming inputs.

However since 2009, the standard rate for VAT on goods and services has been 15 percent. As gleaned from www.zimra.co.zw, only registered operators are obliged to charge VAT. Input Tax is charged where a registered operator is supplied with goods by another registered operator. VAT levied by the supplier of the goods is called Input Tax and when the registered operator in turn supplies goods to another trader, Out Put Tax is included in the price charged for the goods. The difference between Output Tax and Input Tax is the amount payable to revenue authorities.

Since the shift to VAT tax in 2004, it has emerged as the highest source of tax revenue, although the net impact of its contribution to development was thwarted by the socioeconomic meltdown between 2004 and 2008. The 2010 Mid Term Fiscal Policy Review Statement notes that VAT accounted for 37.6% of total revenue (p: 61). In the 2011 National Budget, VAT accounted for 39 % of the total revenue (p: 87). This improved performance was attributed to increases in capacity utilization in the manufacturing sector. Experiences with VAT models suggest that countries with VAT systems generally raise more revenue than those without and that they account for around ¼ of all tax revenue (Lockwood, 2000 cited in IMF, p: 25). Notwithstanding this, VAT systems have their own trade offs. They demand highly trained staff, have high administrative costs as registered operators have to keep detailed records of all tax invoices, and, also incur revenue losses through zero ratings, among others.

3.4 Toll Gate Fees

In 2009, Zimbabwe introduced a tolling system which saw 22 toll gates (collection points) being established in all highways across the country. Toll gates were placed in all the major highways of major cities and towns, tolls ranging from one dollar for small vehicle to five dollars for heavy vehicles. Media reports have indicated that since the year 2009 up to February 2012, a total of US$54 274 043, 55 million has been collected (www.sundaymail.co.zw). However it is anticipated that with a tighter tolling system and adequate checks and balances more revenue can actually be raised through the toll gate system. A new electronic ticketing system is therefore proposed to be introduced in order to plug possible revenue losses. There are also moves to privatize toll gates by placing them under the Zimbabwe National Road Administration (ZINARA). Currently toll gate fees are collected by the Zimbabwe Revenue Authority (ZIMRA).

4.0 Three Decade Review of Tax Revenue Collection

4.1 The First Decade

The structure and performance of national tax revenue collection systems in Zimbabwe during the first decade (1980-90) should be appreciated within the context of a new government that was yet to familiarize itself with inherited tax collection systems, a corporate sector that was adept at exploiting extant loopholes in the national income tax framework and an expansion in public employment which broadened the tax revenue base. Corporate taxes were revised upwards from 35% to 60% by the close of the decade- an increase that should be understood within the context of a government that was running an economy that was foreign-dominated. Corporate tax was used by the new government as a means of ensuring foreign capital contribution to socioeconomic development. On the whole, tax revenue structures reflected a dominance of the individual income and profit taxes in total tax revenue. Revenue collection increased from 21 % in 1980/81 to 35.1% in 1983/84 and 36.4 percent in the late 1990s (Muzorewa, 2003, 24). Contributions from sales tax and customs duties were also very noticeable, with the latter increasing by 177 % from 1989/90. Notwithstanding this, national revenue collection capacities remained stressed due to lack of skilled manpower, weak institutional tax collection capacity (Department of the Department of Customs and Excise), a cumbersome Tax Return framework, a sales tax system that was highly prone to tax evasion, among others.

4.2 The Second Decade (1990-2000)

Revenue collection generally declined against public expenditure, mainly due to deteriorating economic performance. Government decision in 1994 to reduce the rates of corporate and individual tax, weak tax administration systems, and, limited tax revenue base also played a hand. Revenue performance during this decade should also be understood within the context of the austerity fiscal measures adopted under the Economic Structural Adjustment Programme (ESAP) which among other factors led to widespread company closures and retrenchments in both the public and private sectors. These developments invariably reduced the tax revenue base and revenue inflows from individual and profit taxes. Notwithstanding this, revenue from custom duty increased due to increase in imports following import liberalization.

4.3 The Third Decade (2000-2010)

The period witnessed visible deterioration in the socioeconomic environment. There was a sustained high inflationary environment which contributed to an accentuated contraction of real output. According to the *African Development Bank* (2010), inflation and economic decline were fuelled by years of money creation to finance public expenditures and quasi-fiscal spending by the Reserve Bank of Zimbabwe. This resulted in an upsurge of production costs and several industries were forced to close as business was no longer viable and the few that remained operated far below capacity. At least 500 firms closed during 2000 and 2001 with over 25 000 jobs being lost, (*African Economic Outlook*, 2003). This resulted in a sharp contraction of government revenue as indicated by a steep decline from 2005 to 2008 on the bar graph below.

As inflation continued to gallop, the government turned to interventionist polices within the economy so as to take control of all economic activities. According to the African Development Bank (2010, 5), 'rather than further opening the economy, government reversed some of its steps towards liberalization by introducing exchange rate controls and reintroducing import controls". Thus at the end of 2001 the country continued to confront isolationist policies, poor export performance, foreign exchange shortages, and real exchange rate appreciation. As a result, the treasury continued to experience crippling revenue inflows. As also gleaned from the *Global Financial Integrity* (2007), Zimbabwe lost more than a third of its revenue (US$225.11 million) through tax evasion from the corporate sector. The global financial crisis which started in 2007, triggered by a liquidity crisis in the United States banking system also contributed to observed scenarios in Zimbabwe. It choked its fiscal space in general and revenue inflows in particular. This accentuated shortages of foreign currency which was already critical in the economy as the country was depending on importation of raw materials for its industries. The government could not afford procuring state of the art technology to replace the few ageing equipment and curb the growing tax evasion from the corporate sector. This also resulted in closure of several industries as business was no longer viable. As a result, the government experienced continued decline in revenue inflows. Below is a synoptic review of revenue challenges experienced in each fiscal year and measures that were adopted to enhance revenue inflows.

4.3.1 Revenue Collection in the 2008 Fiscal Year

The year 2008 is a year that will not be quickly forgotten by Zimbabweans and the world at large because of the hyper-inflationary environment that existed. The country experienced drastic shortages of foreign currency. International credit rating was reduced as the country was perceived as too risky to conduct business with (*The Financial Gazette*, October 8, 2009). In 2008, Zimbabwe sustained the highest and broad-based decline in economic activities. According to a report obtained from http://ww3.weforum.org, decline in economic activities led to a cumulative decline of nearly 50% in real GDP growth. Consequently, revenue collection declined sharply choking the government's fiscal space. The crisis can be attributed largely to an array of factors among them, economic mismanagement, the concomitant loss of support from the international community, capital flight, evaporation of direct foreign investment, years of excessive money supply creation to finance public expenditures and quasi-fiscal spending by the Reserve Bank of Zimbabwe. Sustained high inflation also contributed to contraction of real output while widespread controls of producer and retail prices accentuated shortages of most consumer items. Expropriation of farm land and resettlement in communal lands to commercial agriculture also exacerbated the decline in food output. By the end of 2008, the Zimbabwean dollar had become valueless, scenarios that further crippled revenue collection as it had to be paid in valueless Zimbabwean dollars.

4.3.2 Revenue Collection in the 2009 Fiscal Year

The year 2009 saw the formation of the Inclusive Government between ZANU PF and the two MDC formations and the adoption of a multi-currency regime. This, coupled with the economic liberalization, contributed to an improved performance of the economy (*FAO*, August 9, 2010). Consequently, real GDP grew by an estimated 5.7% in 2009 to 8% in 2010. Revenue collection increased from less than 4 percent of GDP during hyper-inflation in 2009 to US$973.0 million (about 19 percent of GDP) in 2009, but it fell short of the budgeted amount of US$1.9 billion (http://ww3.weforum.org). Value added tax (VAT) was the main source of revenue, contributing 39 percent of total collections in 2009. The improved revenue collection was boosted by the stabilization of prices and strong tax policy and administration. Year-on year inflation fell to -7.7 percent in December 2009. As a result, the consumer purchasing power was stabilized which had consequent positive effects in raising VAT as the main revenue head.

The manufacturing sector grew by 10% in 2009 after capacity utilization rose from less than 10% in 2008 to levels in the range of 30-50%. Manufacturing activity benefited from the removal of price controls on basic commodities, the ability to earn revenue streams in foreign currency and the possibility of using foreign currency for the purchase of inputs on liberalized markets. However, the manufacturing sector's recovery momentum has relatively remained suppressed due to competitive constraints, competition from imports, high costs of borrowing and infrastructure bottlenecks (in particular erratic power and water supplies). This negatively affected maximum capacity utilization depriving the government optimum revenue collection from all operational industries.

4.3.4 Revenue Collection in the 2010 Fiscal Year

While total revenue receipts for the year were above target (amounting to US$1.79 billion), official inflows during the same period performed poorly with only US$360 million received, compared with US$810 million that was budgeted for in the 2010 National Budget (http://ww3.weforum.org). The total debt (domestic and foreign) stood at US$5.84 billion. Of this total debt, US$5.3 million was external while US$513 million represented domestic debt (*Government of Zimbabwe Budget Statement*, 2010). The unsustainable debt situation continued to undermine the country's credit rating and capacity to source offshore finance for developmental projects and programmes. Failure by the Treasury to allocate adequate funds to critical sectors such as the energy sector further prejudiced the government maximum revenue collection. Electricity is a fundamental input within the line of production and determines the levels of capacity utilization. The level of capacity utilization remained far below maximum capacity such that the fiscus could not fully depend on taxes as the main source of revenue for its operations. Persistent blackouts within the country reduced production levels for the few operating industries.

4.3.5 Revenue Collections Measures in the 2011 Fiscal Year

Fiscal space remained restricted throughout 2011. Fiscal space refers to room in the government's budget that allows it to provide resources for a desired purpose without risking the sustainable financial position of the economy (*Government of Zimbabwe Budget Statement*, 2011). The fiscus could not fully rely on taxes only as their major sources of revenue but also on credit lines. The wage bill consumed 60 % of total revenue collected, thus crowding out social services such as health and education and other developmental expenditures. The under-performance of the Vote of Credit (due to strained relations with bilateral and multilateral institutions) resulted in lowering of the GDP projecting from 7 % to 5.4% as there was no provision for surplus funds. Low capacity utilization also resulted in the sluggish gains in the manufacturing sector.

Notwithstanding these challenges, the 2011 National budget point to significant strides towards adopting revenue-enhancement measures which included introducing membership contribution to civil service medical scheme, enhancing electronic filing of returns and also increasing import duties on spirits and cigarettes. Contribution of 20 % by government employees to their cost of membership to their medical aid scheme enabled the government to retain some funds which were precipitously outgoing from the national purse. Mineral taxes and royalties were also increased as a major drive towards boosting government revenue from the mining sector which since the discovery of diamonds in the Chiadzwa fields of Marange area in Manicaland, has become a major backbone of the economy in terms of revenue generation. The review of the tax free threshold from US $175 to US$225 released a few dollars into taxpayers' pockets, however without much effect on individual disposable income. Local authorities were also authorized to collect presumptive tax from businesses such as commuter omnibuses, hair salons, small-scale miners and cottage industries, among others-retaining 10% of collected revenue. Local authorities were expected to check compliance by businesses whenever they renew operating licenses. These measures extended tax revenue collection to the informal sectors. Other tax measures included the introduction of a petroleum importers levy of US$0.04 per liter of fuel transported from Beira to Msasa and Beitbridge to Bulawayo, a special unit tax under the Rural District Councils Act extended to all farmers other than just A1 and A2 farmers. The adoption of fiscalised recording of taxable transactions through the use of Fiscalised Electronic Registers and Memory Devices also served to curb potential revenue prejudice by registered operators and costs of collecting the taxes.

Further revenue enhancing measures were also announced in the 2011 Mid-Term Fiscal Policy Review where the minister called for the automation of tax administration to enhance efficiency of policy and administration of taxes. As argued by the minister of finance "Automation minimizes face to face interaction between tax officials and taxpayers which in turn reduces rent-seeking opportunities or unethical conduct" (p: 7).

To this end, the government set aside US$32 million for the automation of ZIMRA to reduce smuggling of goods and ensure privacy in the handling of businesses and personal information. There was also reintroduction of customs duty on agricultural implements, maize meal and cooking oil so as to encourage local production and improve value chain from the farm to the industry. This was also in accordance with on-going technological upgrading by ZIMRA of the AYSCUDA++ to AYSCUDA World, a more interactive and integrated customs software which was expected to effectively close loopholes through tracking and managing delinquent cases (*The Herald*, 19 October 2009). Major contributors of state revenue remained VAT, PAYE, Customs and Excise Duty accounting for 30%, 20%), 12%) and 10%, respectively.

6.0 Conclusion and Recommendations

As is generally the case in most developing countries, the bulk of public revenue in Zimbabwe is from tax revenue. All public revenues are deposited into the Exchequer Account of the Consolidated Revenue Fund (Central Account) which serves as the national purse. The three decades experienced extensive reforms in revenue collection and administration. The establishment of the Zimbabwe Revenue Authority in 2002 and the adoption of VAT systems were milestone developments in tax revenue collection and administration in Zimbabwe. These reforms part of the post 1990 IMF-initiated global tax reforms in which the collection of tax revenue was hived off from the ministries of Finance to autonomous revenue authorities. Since its formation, ZIMRA has maintained a track record of surpassing set revenue targets. The creation of ZIMRA has also unified tax revenue collection.

Revamping of tax revenue collection and administration system also entailed shifting from Income Tax Returns to Final Deduction Systems in which PAYE was directly deducted from the employer and remitted to ZIMRA. This went a long way in reducing tax evasion, simplifying taxpayer registration and collection enforcement. The adoption of VAT broadened the tax revenue base. VAT model ha since its adoption emerged as the highest source of tax revenue. The Customs Duty and Individual Tax revenue heads have been major sources of revenue.

Notwithstanding these developments, the tax revenue base remained limited and stressed. The tax revenue net is yet to extend to what IMF (2011) refers to as that "hard-to-tax "areas such as small businesses, small scale farmers and state owned enterprises. Revenue collection and administration also suffer from governance problems relating to transparency in the remittance of tax revenue in some sectors of the economy. While the discovery of diamonds in the Chiadzwa area of Marange of Manicaland province was expected to be the national cash cow, revenue remittance processes remained shrouded in secrecy.

Despite sustained efforts at strengthening revenue collection and administration through the establishment of ZIMRA, revenue leakage arising from smuggling, under-invoicing and under-declarations at Zimbabwe's main boarder posts such as Beitbridge, Chirundu and Plumtree has remained a major problem.

Recommendations

Although ZIMRA is the sole government agent for collecting tax revenue, there is need to accord the autonomy that goes with its mandate. Central government controls are still direct and extensive. It is essentially running like a government department- thus making a mockery of its autonomy status. ZIMRA is under the direct financial control of central government. It has no separate budget of its own. Appointments of the chair of the board and management are directly supervised by the executive. It is highly susceptible to political direction. Its operational framework needs reconfiguration. ZIMRA is also top heavy and a therefore drain on treasury revenue. It needs to be restructured into a lean executive structure. Robust anti-corruption measures should also be enforced to prevent incidents of bribery within its functional structures. The introduction of highway patrols in an effort to prevent transit fraud through electronic cargo tracking systems is a welcome development. Approval of the Zimbabwe Border Post Authority Bill aimed at instituting mechanisms to ease congestion and delays at the borders will also go a long way in preventing revenue loss.

The income tax Act needs to be reconstituted to bring it in line with global trends and best practices. It was enacted 50 years ago and has several loose areas that provide soft spots for tax evasion and avoidance. It provides for multiple tax rebates, concessions and exemptions which leave most major mining companies on tax holidays and in this way exempting them from paying duty as they can technically declare losses and carry over until they close. The treasury is losing revenue from tax evasion by companies involved in the mining of strategic minerals such as platinum, gold and diamond.

While the mining sector is estimated to be contributing around 23% of the country's GDP, tax evasion and mineral smuggling are estimated to cost the country at least US$1.2 billion per annum in potential revenues. A Diamond Act should be enacted to ensure that government collects adequate revenue from Marange that would help finance its expenditures and boost economic growth.

In general revenue collection should be sensitive to universally acknowledged principles of equity, ability to pay, convenience, economic efficiency and certainty. Striking this equilibrium has been a major challenge in Zimbabwe given its limited fiscal space and liquidity crunch. While the 2010 National Budget had hoped to raise US$810 million from co-operating partners, by the end of the financial year, only close to US$3 million had been received, thereby compromising most planned capital development projects.

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