Name: Mandinyenya, Juliet

Student ID: 201526020

Thesis Title: Tax Compliance in Zimbabwe: An Analysis of Taxation Issues of Small to Medium Enterprises

Abstract:

Tax revenue collection has paramount importance in the fiscal system of Zimbabwe, as tax revenue is a major source of finance for government expenditure and the provision of social services. Tax revenue contributes about 90 percent of total government revenue making it key to government functioning. However, as the reliance of the government on tax revenue increases, the Zimbabwean economy experienced a structural break which saw multinationals and large companies relocating away from Zimbabwe and leaving the economy in sustained crisis. Small to Medium Enterprises (SMEs) are increasingly playing an important role in the Zimbabwean economy and by 2012, they had a share of about seventy percent of the economic activities in the country and employ fifty percent of the Zimbabwean working population. However, their tax contribution has remained very low contributing only about three percent of total government revenue, with an estimated one billion United States Dollars (USD) owing in tax debt by year end 2016. This is largely attributable to tax non-compliance.

The Zimbabwe Revenue Authority (ZIMRA), from its launch in 2001, attempted to make use of various approaches to enforce tax compliance and ensure the equitable sharing of the tax obligation by all sectors of the economy hence they engaged SMEs through approaches such as the presumptive tax head and automation. The main objective of this research is to analyse the effectiveness of approaches that were used to improve tax compliance of SMEs in Zimbabwe and enforce the applicable tax laws when tax compliance is low. The research was of a qualitative research design and made use of secondary data that was gathered mainly from ZIMRA official reports as well as reports from other stakeholders, academic literature. This research explores the characteristics and features of the approaches that were implemented by ZIMRA.

Through an in-depth analysis, this research argues that approaches to enforce both voluntary and enforced tax compliance had limited effectiveness amongst SMEs in Zimbabwe. This is attributable to various factors amongst which, corruption which weakened the power of authorities, lack of public involvement, low trust levels, political interference, high compliance cost as well as SME vulnerability which makes them more inclined towards exploiting non-compliance opportunities coupled with the innovative nature of entrepreneurship. To achieve maximum compliance amongst SMEs, this research recommends focus on taxpayer motivation and tailor making of approaches avoiding repressive measures on SME taxpayers and public involvement which creates a moral environment in which tax compliance is an expected and ethical obligation for SMEs.