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An Analysis of the Factors that Have Reduced Tax Revenue Collectability in Zimbabwe Between 2009 and 2015

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Abstract: Zimbabwe solely depends on revenue targets formulated by the Ministry of Finance and Economic Development for the measurement of performance of the Zimbabwe Revenue Authority. The trend for this development is to rely on estimating the tax gap which is the difference between potential and actual collections. The study employed a quantitative research design and analysis of the major causes of reduction in tax revenue resulting especially from the envisaged high tax rates in Zimbabwe. A sample of 300 was targeted by the researchers from a population of 1700. This was stratified to 220 formally employed and 80 informally employed based on the ratio of 73% of gainfully employed in the formal sector. The findings of the study revel that the Zimbabwe Revenue Authority is not facing as much of a challenge when considering the overall effect of each of the four identified factors, that is, tax avoidance and evasion; corruption by employees of the revenue authority; inefficient and ineffective tax administration, and increased informal employment. However, regression analysis revealed that the most significant factor that weighs down tax revenue collectability is the continuous fall in the formal employment, as more workers lose their jobs and join the informal sector. The factor accounted for 25.7% of the total variance and the effect on revenue collectability was calculated at p-value =.001 which is less than 0.05. While individuals in the informal sector of the economy of Zimbabwe may actually be making more money than those formally employed there might be a lack of a system to allow for collection of taxes in the growing informal sector. The study recommends that the Zimbabwe Revenue Authority increases its efforts towards widening the tax base by designing a tax regime that will help the fiscus to tape into the informal sector`s economic activity in the country. This may be achieved through co-operation with financial sector institutions such as banks as they embark on an effort to deal with the challenge of financial exclusion in the economy. For example, as the banking sector considers offering financing packages to the informal sector, formalisation of the sector should be insisted as a condition for potential funding.

Keywords: Tax Regime, Informal Sector, Tax Revenue Collectability, Zimbabwe Revenue Authority

1. Introduction

At 39.1% the United States of America has the highest Corporate tax rates among the developed world [6]. This should logically translate to higher tax revenues from this tax class. The truth is far from this fact though, as more companies take flight from the USA to safer tax havens like Bermuda, The Netherlands, Cayman Islands, Switzerland, etc. High tax rates are associated with high rates of tax crimes, including tax fraud and tax evasion. Tax avoidance is also high resulting in some USA owned multinationals relocating to some of the tax havens. Within these the

Multinationals are making profits far above the GDPs of the countries they are operating from. All of this is done to avoid paying higher taxes on profits in the USA [6].

Africa as a region has on average a higher tax rate as compared to other regions. The average rate for Africa stood at 53% against an average of 43% for the whole world. One of Africa's leading economies, South Africa has an average tax rate of 30%. Most of Africa's tax problems have been attributed to difficulties in tax collection caused by a lack of an electronic tax system.

Within the Southern Africa region Zambia and Angola have the highest corporate rate at 35% followed by Namibia (34%), Mozambique (32%), Malawi (30%), South Africa

(28%) and finally Zimbabwe (25.75%). Zimbabwe is leading the individual taxation at a maximum of 45% followed by South Africa (40%), Namibia (37%), Zambia (35%), Mozambique (32%), Malawi (30%), and Botswana (25%) and finally Angola (17%) [10].

Zimbabwe introduced the multi-currency regime in 2009 and its major currency became the US Dollar. Revenue collections for 2009, 2010 and 2011 were USD988,478,184.00, USD2,238,240,231.58 and USD2.8 million respectively. This was against expected revenue collections of USD1,051,489,093.00, USD1,919,333,105.00 and USD2.5 million representing variances of -6%, +15% and +11% from expectations. Recently, however, in his 2014 Midterm Fiscal statement, the Minister of Finance decried the problem of missed revenue targets due mostly to what he termed low industrial capacity utilisation. The major contributions to the fiscus are individual and corporate tax heads and Value Added Tax (VAT). No much effort has been made at estimating the tax gap in Zimbabwe [16].

1.1. Statement of the Problem

High fiscal expenditures have characterised most countries, especially those in the developing world. Budget deficits have become the norm for such governments. The cost of financing such deficit and also the requirement by international financial institutions has put pressure on the governments to reduce their debt, especially external debt. This is also in line with the objective of each country to improve on their credit worthiness, an objective that could eventually reduce the average cost of such debt as the country is less of a credit risk. Some countries have used a combination of targeted expenditure reduction and improved tax collection systems while other less developed nations have turned to increasing tax rates in order to try and improve on their tax revenue. The major challenge in trying to achieve high revenue through increasing tax rates are the possibility of tax collectability issues. As tax rates rise there is normally an increased reluctance to remit the taxes and increase in tax evasion, avoidance and general corruption to the disadvantage of the fiscus as tax payers seek to minimise their tax burdens. In Zimbabwe in particular what has been cited mostly is the rapid de-industrialisation of the economy leading to informalisation of the economy and also the general inefficiencies within the Zimbabwe Revenue Authority in addition to the above-mentioned factors of tax avoidance and evasion and corruption. The aim of this study was to analyse these factors that contribute to less than potential tax revenue collection in Zimbabwe in the period between 2009 and 2015.

1.2. Research Questions

1. To what degree did Zimbabwe Revenue Authority fail to reach revenue targets between 2009 and 2015?
2. To what extent is the Zimbabwe Revenue collection system facing challenges in terms of the following?
   - Tax avoidance and evasion

   - Corruption by employees of the Zimbabwe Revenue Authority
   - Inefficient and ineffective tax administration
   - Increased informal employment
3. Is there any significant relationship between the revenue collection challenges of;
   - Tax avoidance and evasion
   - Corruption by employees of Zimbabwe Revenue Authority
   - Inefficient and ineffective tax administration
   - Increased informal employment

and low tax revenue collectability over the period 2009-2015?

1.3. Hypothesis

H_o1: There is no significant relationship between the tax revenue collection challenges of;
- Tax avoidance and evasion
- Corruption by employees of Zimbabwe Revenue Authority
- Inefficient and Ineffective tax administration
- Increased informal employment

and low tax revenue collectability over the period 2009-205

2. Theoretical Issues and Review of Empirical Literature

2.1. Tax Avoidance and Evasion

In simpler terms tax avoidance is a legal way of reducing one's tax burden while tax evasion is an illegal way of reducing one's tax burden or avoiding paying taxes. In theory that is an acceptable definition but some writers have noted a thin line between the two. Azevedo in his study entitled "Tax Avoidance and Tax Evasion: A Comparative Study of the Brazilian and American Legal Systems" noted a tension between an individual's duty to pay taxes and the need to reduce one's tax burden. The limit to which one is at liberty to play around with their tax avoidance schemes is the most unanswered question in trying to distinguish between legal avoidance and illegal evasion. Legally there are many grey areas surrounding this question and as such the line between the two is envisaged to be much thinner, depending especially to the interpretation of the law at any point in time. In his Study he considered the opinion of Brazilian Law Writers, who identified two general groups generally and a third group specially. The first two general groups are for tax avoidance and tax evasion. The third group those who use tax avoidance schemes to the extreme and also abuse the tax law to the extent of illegality in trying to reduce their burdens. He recommends a more economic instead of a legal interpretation for tax laws in order to reduce incidents whereby tax payers twist the legal definitions in order to take advantage of the grey areas and thereby avoid higher tax burdens [3].

The statistics in Africa reveal a bad situation as high tax

avoidance and evasion are high in the upper class while a large number of micro companies operate in the informal sector, of which a large part is beyond the reach of tax collection authorities. In trying to avoid and evade taxes much of wealth gained in Africa has been moved and hidden into offshore tax havens that are out of Africa, a phenomenon referred to as 'capital flight'. For the rich also, there are several exemptions which are not that necessary and have a harmful effect on tax collection levels. In most cases, tax policy had been made to favour large multinational companies while ignoring a large part of the poorer citizenry. In so doing tax revenue collection has declined leaving countries to depend on the costlier options of external debt and foreign aid, which normally come with conditions attached [4].

A study conducted under the European Union Directorate – General for External Policies of the Union was entitled 'Tax Revenue Mobilisation in Developing Countries: Issues and Challenges." The study highlighted the issue of the 'tax gap' which is the difference between what taxes can be collected and what is actually collected. Significant contributors to the tax gap are cited as tax evasion and avoidance, tax exemptions, inequitable rent-sharing in the extractive sector and others. The collection rates for developing economies averaged 10-20% of Gross Domestic Products as compared to 30-40% for Organisation for Economic Co-operation and Development (OECD) countries. This trend has taken a centre stage in policy debates especially concerned with developing countries that are steeped deep in the debt crisis and also heavily depended on foreign aid in order to balance their budgets. For developed countries, growth in tax revenues has been associated with high developmental level in terms of GDP. Beneficial effects of higher tax revenue collections include the improved relationships between the government and its citizens. The government will benefit from high collections while the citizens will benefit from improve service provisions from government [12].

Highlights from the above study included;

- Loss in tax revenue from transfer pricing by Transnational Corporations estimated at USD160 billion per annum.
- Developing world lost estimated USD946.7 billion in illicit outflows in 2011 alone, an increase of 13.7% from 2010 figures.
- Tax incentives, supposedly to attract Direct Foreign Investment, also account for significant increases in the tax gap although not much investment is driven by the incentives themselves.
- In terms of rent-sharing for extractive activities, corruption by top government officials may account for a large loss in tax revenue as most such agreements are not above board.
- Another cited factor is the use of power to make personal gains by applying favouritism to those who will pay a small fee while punitive audits are directed towards the rest.

- Staff shortages for tax authorities force them to hire less qualified employees as the more qualified prefer higher paying jobs offered by Accounting and Consultancy firms.
- The income base is also an issue. With most of the population earning below poverty datum lines, the government is forced to exclude most of them from paying tax therefore reducing the overall tax base [12].

In their 2013 research paper, reference [13] discuss the possible effects of higher tax rates. They mention the reduction of economic activity as lower disposable income result from the government taking more in order mostly to balance budgets. Lower disposable income reduces demand and subsequently prices of products. As prices go down so does supply and effectively employment is reduced. The ripple effect also is felt with reductions in government revenue. The other effect of higher tax rates they mention is the willingness to pay taxes. As soon as taxes get high enough, tax payers seek ways to avoid paying them through legal and illegal means. Most of the avoidance schemes involve false reporting or non-reporting of income and also false claims of tax rebates. The expected gains from higher taxes, they claim, are offset by such avoidance and evasion [7].

Reference [9] and others released a paper entitled "An Investigation on Effective Strategies to Curb Tax Evasion: A Survey of Beitbridge Zimbabwe Revenue Authority Staff and Clients, Zimbabwe in 2012. In their research paper they identified the effect that high taxes have on tax compliance. The key effect is that high taxes encourage resistance from tax payers who then seek ways to avoid paying the high taxes. In addition, Zimbabwe Revenue Authority staff takes advantage of such resistance by offering lower assessments in exchange for bribes. The overall effect is a reduction in tax revenues as the funds are diverted to enrich individual Zimbabwe Revenue Authority officials. Companies are also encouraged to go informal to avoid high tax rates [9].

2.2. Corruption by Tax Authority Employees

In a paper entitled "Approaches to Curbing Corruption in Tax Administration in Africa" Martini recognises the importance of tax administration in a country as tool for creating fiscal space for development projects, poverty alleviation, getting out of debt. Corruption, however, has been recognised as the greatest impediment for improvement in tax administration. This is evidenced by several surveys carried out in Africa about perceptions of a country's citizenry about corruption levels in its governance structure. Further, this was evidenced by the fact that almost all citizens that have dealt directly with a tax official have had to deal with corruption in one form or another. The form that corruption has taken includes bribery, patronage, revolving door and regulatory capture. She noted some methods that could help in fighting corruption that include higher salaries, autonomous tax agencies and improvements in technology so as to reduce interaction between tax officials and tax payers [11].

In his study, Hayford uses the supply and demand models together with what is known as the Cournot Model of bribe

takers. In the study, he uses formulae and graphical presentations to first explain the simple theory of demand and supply (equilibrium levels) together with the theoretical effect of taxes on the equilibrium point. He goes on to explain the preference on bribe payers for a single bribe taker instead of multiple bribe takers. He also explains the risk to the bribe payer, who has to pay a bribe in lieu of a promise to deliver a service which may not materialise [8]. In a research paper done through African Forum and Network for Debt and Development, reference [1] puts emphasis on relying more on taxation for developmental financing rather than foreign aid for development financing. This conclusion was drawn through an analysis carried out on the average tax revenue collections against Gross Domestic Product (GDP). Generally, the rate for developing countries is lower than for developed economies. The analysis reveals the potential that these economies have in terms of tax revenue collection. Reasons cited for lower collections include poor tax policy enforcement and tax evasion and avoidance, and mostly bribery of Zimbabwe Revenue Authority officials in the case of Zimbabwe. The major recommendation involves the reduction of tax rates. The resulting improved tax compliance and lower collection costs will eventually lead to higher tax revenues [1].

2.3. Inefficient and Ineffective Tax Administration

Taxation is most important method that the government gets its revenue. For it to be useful the process of colleting that tax should not be costly to such an extent as to defeat its purpose, that of raising revenue for the different functions of the government. In most countries this function is done through a quasi-government agency specifically incorporated to carry the whole process of tax administration. Tax administration is therefore defined as the "process that uses its four basic functions to ensure compliance with tax laws" These four functions are: -

- Submissions Processing- Involving receiving returns/ withholding of income.
- Examinations- Involves all activities that encompass validation and verification of balance due from tax payer. Activities include data checking, auditing and calculation of balances due.
- Collections- Involves the process of collecting the balance due.
- Other taxpayer Services-Providing assistance to taxpayer with questions on filing, collections, audits, etc.

The efficiency and effectiveness with which an agency carries out these function usually determine the amounts eventually collected and submitted to the government for other functional uses [5].

In his study entitled "Assessing Revenue Authority Performance in Developing Countries: A Synthetic Control Approach", Sarr highlights a point concerned with tax administration and the rate of revenue collection. He first explains the dependence of developing countries on budget support from external sources while ignoring the potential that is available to them in terms of improved tax collection. This potential, the study found out, can be achieved through improvements in tax administration. One of the most visible signs that this improvement could achieve is by giving semi-autonomy to a revenue collection administration in the form of a revenue authority. The reform involves separating the Revenue Agency from the traditional Ministry of Finance and making it semi-autonomous in terms of remuneration and administration to the effect that they attract more professional staff to improve efficiency [14].

In their study they determined the need to measure the "tax gap". A tax gap is "the difference between the tax would have been determined if all taxpayers had reported all of their activities and transactions correctly." The major thrust for improved performance is to narrow this tax gap [5]. Tax Administration exists largely to ensure compliance with the tax laws, and the effectiveness with which tax agencies fulfil their missions has always been a high priority for governments. Although this high prioritisation has been placed on the effectiveness of tax collection agencies, very little has been placed on measuring such effectiveness. There is therefore a need to put in place measurement and analytical tools as sometimes the budgetary costs of tax administration have most times been above 1%. in their words, reference [2] claim that, 'there is little systematic information on how efficient any tax administration may actually be using administrative 'inputs' (e.g., personnel, materials, information, laws, procedures) to generate 'outputs' like tax revenues" [2].

2.4. Increased Informal Employment

In a study commissioned by the Bankers' Association of Zimbabwe (BAZ) through the Zimbabwe Economic Policy Analysis and Research Unit, reference [15] under the topic "Harnessing Resources from the Informal Sector for Economic Development" focused on an increasing level of informal sector activity. One major reason stated was the Zimbabwe Economic Crisis of 2000-2008 which was characterised by high inflation, company closures and higher dependency on imports. The rapid company closures against a rising labour force pushed new school leavers and graduates from colleges and universities into the informal sector in order to just survive. In addition, because of company closures, retrenches were also forced to join the informal sector in large numbers. Due to these increases, the sector turned into the mainstream and attracted the attention of bankers, who were interested in harnessing the potential of this sector by introducing financial specifically intended for this sector. Further to that, agriculture is the main contributor to economic activity and most of it is done through the informal sector. The challenge for the bankers was to find a way of attracting the resources of this sector into the formal financial system. This might also be the challenge that the government, that of bringing the informal sector into the formal tax system and also to make it easier and economic for the tax authority to collect tax revenue from this sector [15].

In the introduction to their article entitled 'Revenue Productivity of Zimbabwe's Tax System reference [13], highlight the issue of the existence of a large informal sector in Zimbabwe and the impact it has on tax revenue collectability. The challenge being the difficulty involved in tracing and capitalising on potential tax revenues from this sector. This is further heightened by inefficiencies in tax administration and also poor enforcement of tax policies. In their recommendations they highlight the need to expand the tax base by including those companies in the informal sector in the drive to improve collections under the Pay as You Earn and Corporate Tax heads. Their research highlighted the fact that some of these informal sector companies might actually be making more revenue than those registered in the formal sector [13].

3. Methodology and Data

3.1. Research Design

The study employed a quantitative research design and analysis of the major causes of reduction in tax revenue resulting especially from the envisaged high tax rates in Zimbabwe. A sample of 300 was targeted by the researchers from a population of 1700. This was stratified to 220 formally employed and 80 informally employed based on the ratio of 73% of gainfully employed in the formal sector. The researchers then identified organisations that could afford to offer varied kinds of taxpayers based on gender, marital status, age, education and employment backgrounds, and the level of income. In the informal sector access to respondents was through flea markets that they trade and operate from, industrial parks with family owned small companies and individual contractors. Sampling in each of these organisation was done randomly. A total of 101 responses were received in the end, with 63 from the formal sector and 38 from the informal sector.

3.2. Pilot Study

The instrument was administered to employees of the South Zimbabwe Conference, West Zimbabwe Conference, the Adventist Book Centre and informal traders from EmaSabatheni Flea market. A total of 19 questionnaires were filled. Reliability of the Instrument was assessed using the Cronbach Alpha Coefficient. The coefficient according to Table 1 below was at 0.992 which means that the instrument was a reliable instrument.

Table 1. Reliability Statistics.

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.992	.993	51

4. Data Presentation and Interpretation

Data analysed is presented and interpreted sequentially according to the research questions and the statement of the problem. The findings of the study that emerged from the data collected and analysed are compared with literature.

Research Question 1:

To what degree did Zimbabwe Revenue Authority fail to reach revenue targets between 2009 and 2015?

Early 2009 the Government of Zimbabwe introduced a multi-currency system after the failure of the local currency due to uncontrollable hyper-inflation and the subsequent need to revalue the currency several times. Collection of taxes by Zimbabwe Revenue Authority was also affected by the introduction of this system. Tax collections started very low in 2009 and have been increasing ever since. Challenges concerning measurement of performance of Zimbabwe Revenue Authority have to be highlighted in that so far measurement has been based on revenue targets which from time to time have been adjusted based on ground issues. The major challenge the researchers faced was that the study is mostly focused on what the tax revenue authority has failed to collect and not what the authority has managed to collect. Estimates or at least an attempt to estimates has not been forthcoming in the case of Zimbabwe Revenue Authority but performance has been constantly measured by revenue targets which may be adjusted from time to time.

Table 2. Revenue Collection Statistics (2009-2015).

	2009	2010	2011	2012	2013	2014	2015
Revenues & Grants (US$ million)	934	2,339	2,921	3,496	3,741	3,770	3, 434
Real GDP (US$ million)	8,157	9,085	10,167	11,241	11,745	12,109	14, 023
Nominal GDP (US$ million)	8,157	9,457	10,956	12,472	13,490	13,756	14, 246
% of Real GDP	11.5%	25.7%	28.7%	31.1%	31.9%	31.1%	31.98%
% of Nominal GDP	11.5%	24.7%	26.7%	28.0%	27.7%	27.4%	28.1%
% increase		150.4%	24.9%	19.7%	7.0%	0.8%	1.2%
Average Inflation Rate	-7.9%	3.1%	3.5%	3.7%	1.6%	-0.2%	-1.6%

Source: Extracted from Treasury Quarterly Bulletin January-March 2015, Ministry of Finance and Economic Development

Table 3. *Revenue Performance against Revenue Targets.*

	2009	2010	2011	2012	2013	2014	2015
Revenue Targets	1,051	1,919	2.500	3.650	3.640	3.820	3.870
Revenues & Grants Net Collections	988	2,238	2.600	3.500	3.430	3.840	3.761
Variance	-63	319	0.100	-0.150	-0.210	0.020	-0.109
Variance %	-6.0%	16.6%	4.0%	-4.1%	-5.8%	0.5%	-2.8%

Source: Revenue Performance Reports 2009-2014, ZIMRA

Tables 2 and 3 depicts the performance statistics of the Zimbabwe Revenues Authority since the introduction of the multi-currency system in early 2009. In 2009 both the target and actual collections were low as this was the initial year under the multi-currency regime and collections covered only a part of the year. The revenue collections reveal a rising trend that might related to the initial teething problems concerned with increased efforts by Zimbabwe Revenue Authority to enforce the tax compliance. Highlighted also on these tables is the problem of meeting set revenue targets. As noted, Zimbabwe Revenue Authority only managed to reach its targets in 2010, 2011 and 2014. For the years 2009, 2012 and 2013 the actual collections were short by 6%, 4.1% and 5.8% of the expected targets respectively. In addition, the 2013 revenue target had to be revised downwards from US$4.1 billion to US$3.64 billion to cater for the economic problem that were affecting collectability during that fiscal year. In 2015 as of end of June, the revenue authority had also been struggling to meet its target as noted in the table above. Reference [4] highlights the issues of tax evasion caused by high tax rates, especially concerned with established companies conducting some of their business in the informal sector [4]. Reference [12] mention the concept of a 'tax gap' which refers to the difference between tax revenue that can be collected and what is actually collected.

Research Question 2

To what extent is the Zimbabwe Revenue collection system facing challenges in terms of the following?
- Tax avoidance and evasion
- Corruption of tax authority employees
- Inefficient and ineffective tax administration
- Increased informal employment

Table 4. *Descriptive statistics.*

	N	Mean	Std. Deviation
Tax avoidance and evasion	99	2.3455	.67827
Corruption of tax authority employees	100	3.1255	.73422
Inefficiency and ineffectiveness of tax administration	100	2.8933	.67889
Increased informal employment	38	2.7785	.75841

From Table 4 above issues of tax avoidance and evasion amongst tax payers were not much of a challenge for the Zimbabwe Revenue Authority. The overall the mean is 2.3455 which means that tax avoidance and evasion as a factor is not as much of a challenge in the efforts by the Zimbabwe Revenue Authority to maximise tax collectability. The overall standard deviation of 0.67827 is homogeneous which means that the Authority may not be dealing with much of a challenge from tax avoidance and evasion activities overall. The overall effect of corruption by Zimbabwe Revenue Authority officials also seems not to be posing much of a challenge on tax collection efforts, with an overall mean of 3.1255 and standard deviation of 0.73422. The standard deviation is homogeneous, meaning most responses were close to the mean. Zimbabwe Revenue Authority is able to deal with corrupt tendencies among its officials. The overall mean of 2.8933 with respect to inefficiency and ineffectiveness of tax administration means the factor may not have much of an effect on the revenue collection efforts by Zimbabwe Revenue Authority. The standard deviation of 0.67889 is also homogeneous, meaning overall the respondents agreed that the factor may not be posing as much of a challenge on tax collections. Finally, the overall mean of 2.7785 with respect to increased informal employment, means that the effect of informalisation of the economy may not pose much of a challenge to tax collection efforts, as the country`s tax collection system is designed and targeted for the formal sector of the economy of Zimbabwe. The overall standard deviation of 0.75841is also homogeneous.

Research Question 3

Is there any significant relationship between the Revenue collection challenges of;
- Tax avoidance and evasion
- Corruption of tax authority employees
- Inefficient and ineffective tax administration
- Increased informal employment

and low Tax Revenue collection?

Table 5. *Model Summary.*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.527a	.278	.257	.63394	.278	13.465	1	35	.001

a. Predictors: (Constant), increased informal employment

Table 5 above shows that 25.7% (0.257) of the variance is accounted for by the increase in informal employment. A positive R coefficient of 0.527 shows that a relationship such an increase in informal employment may lead to a reduction in tax collectability.

Hypothesis

H_o1: There is no significant relationship between the tax

revenue collection challenges of;

- Tax avoidance and evasion
- Corruption by employees of Zimbabwe Revenue Authority
- Inefficient and Ineffective tax administration
- Increased informal employment

and low tax revenue collectability over the period 2009-205

Table 6. ANOVA[a].

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.411	1	5.411	13.465	.001[a]
	Residual	14.066	35	.402		
	Total	19.477	36			

a. Dependent Variable: Reduction in Tax Revenue Collectability
b. Predictors: (Constant), Increased Informalisation of the Economy

The model in Table 6 is significant at F-value 13.465 and significance value 0.001 which is less than 0.05. hence the mode is reliable. The significance of 0.001 being lower than 0.05 means the Null Hypothesis that asserts that 'There is no significant relationship between reduction in tax revenue collectability and the four independent factors' is therefore accepted as far as the independent factor variable "increased informal employment". According to reference [13], there are challenges faced by Zimbabwe Revenue Authority because of the increasing informal sector in Zimbabwe. These challenges are related mainly to the difficulty of tracing and collecting potential tax revenue from the sector, that is, the administration of taxes in the informal sector is a general challenge. This is due mainly to a lack of paper trail relating to transaction carried out in this sector. Coupled with this challenge is the general weakness of tax administration and also poor tax enforcement. The researchers recommended a need to boost revenue in the pay as you earn and corporate tax heads by incorporating those companies in the informal sector, which in some cases, make higher revenues than those registered in the formal sector [13].

5. Discussion of Findings and Summary

Over the seven-year period between 2009 and 2015, the Zimbabwe Revenue Authority failed to meet its revenue targets in three out the six years. There were percentage variations of 6%, 4.1% and 5.8% respectively for the years 2009, 2012 and 2013. The revenue target for 2013 was revised downwards from USD 4.1 billion dollars to USD 3.24 billion dollars. Collections for each year compared to Gross Domestic Product (GDP) ranged from 11.5% to 31.9% which may be comparable to some developed nations which range from 30-40% of GDP on average. The challenge with GDP is that it might be excluding a large portion of informal sector economic activity. The findings of the study revel that the Zimbabwe Revenue Authority is not facing as much of a challenge when considering the overall effect of each of the four factors, that is, tax avoidance and evasion; corruption by employees of the revenue authority; inefficient and ineffective tax administration, and increased informal

employment. However, regression analysis revealed that the most significant factor that weighs down tax revenue collectability is the continuous fall in formal employment. The factor accounted for 25.7% of the total variance and the effect on revenue collectability was calculated at p-value =.001 which is less than 0.05. While individuals in the informal sector of the economy of Zimbabwe may actually be making more money than those formally employed there might be a lack of a system to allow for collection of taxes in the growing informal sector.

There is need for the Zimbabwe Revenue Authority to maximise its tax revenue collection base and efforts. This comes from a background of missed revenue targets experienced by the authority and liquidity problems experienced by the Government of Zimbabwe. In addition, there are efforts being planned to repay the ballooning external debt so as to improve the country's credit rating and also help the country to access the much needed external finance. The four identified factors contribute to a lessor extent to the reduction in the collection efforts but the most significant threat comes from the increasing informalisation of the economy caused by the rapid de-industrialisation prevalent in the country. Collection of tax revenue may prove to be expensive as there are operational challenges concerned with traceability of transactions within the informal sector and also some loopholes that may allow for operators in this sector to hide sources of taxable revenues.

Recommendation

Zimbabwe solely depends on revenue targets formulated by the Ministry of Finance and Economic Development for the measurement of performance of the Zimbabwe Revenue Authority. The trend for most development is to rely on estimating the tax gap which is the difference between potential and actual collections. Based on the research findings, the following measures are recommended by the study. The Zimbabwe Revenue Authority should increase its efforts of widening the tax base by designing a tax regime that will help the fiscus to tape into the informal sector`s economic activity in the country. This may be achieved

through co-operation with financial sector institutions such as banks as they embark on an effort to deal with the challenge of financial exclusion in the economy. For example, as the banks sector considers offering financing packages to the informal sector, formalisation of the sector should be insisted as a condition for potential funding.

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