AN ASSESSMENT OF THE ADMINISTRATIVE CAPACITY OF THE ZIMBABWE REVENUE AUTHORITY TO DELIVER THE ENVISAGED BENEFITS OF THE NEW INCOME TAX BILL

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A dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration.

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Declaration

I, .............................................., do hereby declare that this dissertation is
the result of my own investigation and research, except to the extent indicated in
the Acknowledgements, References and by comments included in the body of
the report, and that it has not been submitted in part or in full for any other
degree to any other university.

Student signature _______ Date: __________

Supervisor’s Signature _______ Date: __________
Dedication

This research project is a special dedication to my wife, Esnath, and my children; namely Chiedza Evelyn, Chipo Mercy, Tinotenda Malvern, Kuzivakwashe Michael and Nokutenda Tirivakundi.

Above all, this work is dedicated to the Almighty to whom I am grateful for the guidance He provided over me. His grace is sufficient for me.
Acknowledgement

A number of people provided their unwavering support and assistance for this project to be a success. These should be and must be acknowledged. Without them this project could not have been a success.

I am much indebted to Mr A. M. Chidakwa, my supervisor, who accepted to take time off his busy schedule to meticulously go through the dissertation and to guide me through it all. My gratitude also goes to my friends and the people in the business world, who provided me with the much-needed data for this project. Special mention goes to Mr M. Tapera and Mr D Chimsitu.

To my family, thank you for your support and sincere love that helped me through all the trying times during my studies.

I also wish to thank everyone else I have not mentioned by name who assisted in this research.

Thank you all and be blessed.
Abstract

The New Income Tax Bill (NITB) proposes to move from the Source-based tax system to a Residence-based tax system. Under the current tax system, income is taxed only if it is from within Zimbabwe (except for a few special cases where income from outside Zimbabwe is deemed to be from a Zimbabwean source). The proposed tax system levies tax to Zimbabwean residents on all income regardless of where it has been generated. The residence tax system is expected to broaden the tax base and hence government revenue generation. However, these tax reforms have been met with mixed feelings as it is not clear whether the envisaged benefits of the reforms will be realised, considering that, in the past decade, Zimbabwe’s tax reforms had minimal impact on improving government revenue. This study investigated the administrative capacity of the Zimbabwe Revenue Authority (ZIMRA) to effectively implement the new tax reforms and possible challenges associated with the implementation of the new tax system.

The study adopted a mainly quantitative approach research design. Primary data were collected using a questionnaire and informal interviews. Purposive sampling was used to select thirty six tax professionals. A response rate of 78% was achieved. Data were analysed using the Statistical Package for Social Scientists (SPSS) software (V17.0) and interview responses through summative content analysis.

The study established that many benefits are expected to accrue from the proposed tax reforms. Not only does the NITB increase the tax base by bringing into the tax net the worldwide income of residents, it also simplifies the current complicated tax legislation by bringing up tax laws to international best practices and aligning them to Generally Accepted Accounting Practices (GAAP). It also removes some exemptions and preferential treatments to certain taxpayers.

However, the study noted ZIMRA’s administrative shortcomings to deliver the envisaged benefits of the tax reforms. The reasons for this include the inadequacy of ZIMRA’s information technology infrastructure to support the new tax system, lack of funding of
the changeover, the lack of clarity in certain provisions of the NITB and the limited number of tax treaties that Zimbabwe has with bilateral trading partners. Tax treaties are critical under a residence basis of taxation, as there is need for the exchange of economic information on Zimbabwean residents abroad, between Zimbabwe and the host nation.

The study therefore, concluded that the proposed bill will not have significant impact on government’s revenue generation capacity. The research also concluded that ZIMRA is not yet ready to roll out the NITB. It does not have the financial resources, nor the requisite information technology infrastructure. The NITB lacks the necessary legal support in the form of tax treaties as Zimbabwe only has 14 tax treaties. This hampers the implementation of the residence basis of taxation, as only countries under a double taxation agreement are bound to exchange information on tax matters of foreigners living in their jurisdictions.

The research recommends the postponement of the implementation date of the new tax law to address issues of clarity of the law, capacity of ZIMRA to implement and enforce the new law, awareness among the populace and negotiation/review of tax treaties with Zimbabwe’s main trading partners.
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<td>NITB</td>
<td>New Income Tax Bill</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>ZIMRA</td>
<td>Zimbabwe Revenue Authority</td>
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<tr>
<td>DTA</td>
<td>Double Taxation Agreement</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Practices (principles)</td>
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<td>PEs</td>
<td>Permanent Establishments</td>
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<td>MNCs</td>
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<td>CGT Act</td>
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<td>PPR</td>
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CHAPTER ONE

INTRODUCTION

1.1 Introduction
A government finances its operations through a tax system. The Zimbabwean government introduced a number of reforms to enhance the revenue generating capacity of the tax system (Chidakwa, 1998). Currently there are proposals to overhaul the taxation system with effect from 1 January 2014. The proposal involves changing the taxation system to Residence basis from the Source basis. However, the administrative capacity of authorities to effectively implement the reforms and generate sustainable benefits remains questionable. It is, therefore, the purpose of this study to investigate the extent to which the Zimbabwe Revenue Authority (ZIMRA) is prepared to roll out the new tax system.

This chapter gives a background to the research problem, the research objectives and research questions to be answered by the research as well as the justification for the research. It covers the theoretical constructs of tax bases and the arguments for and against each, the current tax base in use in Zimbabwe and the factors pushing for tax reforms, including the proposed change in the tax base. The chapter also gives the scope of the study as well as the structure of the dissertation. A detailed discussion of the bases of taxation is presented next.

1.2 Bases of Taxation
There are two bases of taxation, namely source and residence exist. The proposed migration from the source to residence basis forms the crux of this study and hence the need to unpack these concepts.

The source taxation system is premised on the place of activity, for example the country in which services are rendered or where business operations take place. The residence status of the recipient of income is irrelevant. Under the source basis of taxation, income from foreign sources is exempt from tax. The justification of the source basis is that a country is entitled to a share of wealth from its natural resources or from the
activities of its inhabitants (Tapera, 2012). The source based tax system is associated with the problem of profit shifting (Hyman, 2009). Related companies move profits to jurisdictions in which tax rates are lower through transfer pricing. This system is also negatively affected by deferral of income through non-declaration of dividends by associated companies.

Hore and Mangoro (2006) define source as “where the originating cause of the income being received as income” is carried out. It is the place where the work to earn the income is performed. Where business operations span over two or more countries, there have been debate on the actual source of such income. In general, the source of active income is “the place of taxpayer’s activity”, while the source of passive income is “the place of activity of the payer of income” (Tapera, 2012).

In contrast, the residence basis of taxation is premised on the residence status of a “person”. A resident, as defined in the NITB, is taxed on his worldwide income. A person’s income from all sources in the world is aggregated and Zimbabwe’s tax rates are applied. The rationale for the Residence basis of taxation is that a person’s country of residence offers the individual or corporate entity certain privileges which include protection (Mangoro, 2012). The nation, therefore, ought to benefit from income derived by its subjects. Under the NITB, Zimbabwean companies will no longer avoid tax by having their foreign subsidiaries, branches or ventures not declaring dividends. A resident company will be subject to tax on its profit from any source in the world (Zimbabwe Government Bill, 2012).

1.3 Background

Zimbabwe’s current Income Tax Act was first introduced in 1918 and revised in 1967 (Tagara, 2008). The country has a burdensome tax system because of the complicated legislation, and high and diverse tax rates. The structure of the Act is difficult to follow. It contains, on the one hand, 99 sections and 34 schedules on the other hand. For one to appreciate the full provisions of the law, one would have to read a particular section, together with some other schedule. For instance, capital allowances are provided for in Section 14 and the 4th Schedule (Mangoro, 2012). Among other recommendations, the
Commission of Enquiry into Zimbabwean taxation” (1986), recommends the redrafting of the tax legislation, with a view of simplifying it.

Zimbabwe’s economic problems of the yesteryear saw the number of taxpayers falling due to company closures and underutilisation of installed capacity. Consequently, formal employment dropped sharply, forcing many Zimbabweans to migrate to the rest of the world. Since Zimbabwe’s current tax system is “source based”, those in the Diaspora are excluded from the current tax law. Income is taxable in Zimbabwe only if it is from within Zimbabwe or in a few instances, deemed to be from within Zimbabwe (Income Tax Act).

Zimbabwe’s economy is now highly informal and the challenge is that players in the informal sector mostly do not pay income tax. Various options have been undertaken in the past decade to expand the tax base, including the following source:

a) The introduction of presumptive taxes on the operations of omnibuses and taxicabs, goods vehicles, hairdressing saloons, market stall holders, driving schools, bottle stores and restaurants.

b) The introduction of advance payments of tax by corporates. Companies are required to pay provisional taxes during the year under the Quarterly Provisional Dates, (QPDs).

c) A change from income tax returns to the Final Deduction System (FDS) in order to reduce the administration costs. Under the FDS, taxpayers do not deal directly with ZIMRA for purposes of registering as taxpayers, filing tax returns and making tax payments. These responsibilities were delegated to the employer by ZIMRA on 1 January 2007.

d) The replacement of Sales Tax with Value Added Tax in January 2004, so as to minimise tax evasion associated with sales tax.

e) The establishment of “large taxpayers” offices to improve the levels of compliance. These are the large corporate, financial institutions and other institutional taxpayers from whom most of ZIMRA’s tax revenue emanate from.

f) The introduction, in 2009, of toll gate fees on 22 collection points on Zimbabwe’s main roads.
However, the overall inflow to the fiscus has not improved that much. In view of the discussion above, the government has proposed to change the taxation basis. The Income Tax Act (Chapter 23:06) is set to be replaced by a new Income Tax Act (Chapter 23:13) with effect from 1 January 2014. In this regard, Income Tax Bill, 2012 (NITB) was gazetted on 30 November 2012. The need to understand the provisions of the new Tax Act cannot be overemphasised and the study investigates ZIMRA’s capacity to deliver the benefits envisaged under the proposed tax law.

1.4 The research problem
Zimbabwe has had many tax reforms with a view to enhance the revenue generating capacity, administrative simplicity, fairness (equity) and neutrality of the tax system, among other benefits. The recent reform which involves replacing the current “source’ basis with the “residence” basis, to take effect from 1 January 2014, has been received with mixed feelings among taxpayers. It is not clear how the new system will impact on government’s tax revenue. It is therefore, the purpose of this study to close this gap by exploring ZIMRA’s capacity to deliver the envisaged benefits.

1.5 Objectives of the study.
The objectives of this study are to:

a) Articulate the objectives of tax reforms, in general.

b) Articulate the changes brought in by the residence basis of taxation.

c) Assess the benefits to government of adopting a residence-based taxation system.

d) Determine ZIMRA’s preparedness and capacity to implement the new basis of taxation.

e) Draw some policy conclusions.

1.6 The research question
What are the perceptions of Zimbabwean tax professionals on ZIMRA’s capacity to deliver the envisaged benefits of the new tax system?
The research sub-questions are:

a) What are the objectives of a tax reform?
b) What are the changes brought by the new tax system?
c) Do the proposed changes in the NITB deliver the expected benefits to the government?
d) Is ZIMRA ready for the implementation of the new basis of taxation?
e) What are the policy conclusions that can be drawn from the study?

1.7 Statement of Proposition

The study proposes that:

1. The proposed bill will not have significant impact on revenue generation.

2. ZIMRA does not have the capacity to roll out the new tax bill.

1.8 Significance of the study

Understanding the objectives of the new tax reforms and the challenges associated with their implementation is critical to policy makers for purposes of fine tuning the law and mitigating the risks of implementing and managing the changeover. The study is significant in that it provides government with vital information drawn from Zimbabwean tax professionals on the capacity of ZIMRA to implement the new tax system and ability to enforce compliance with the provisions of the proposed law. This will assist policy makers in formulating effective decisions on the implementation of the proposed new tax law. Any challenges noted in the study will also be pre-empted so that the benefits sought of the tax reform are achieved.

The research provides literature for review in future by interested students and staff members of the University of Zimbabwe who may wish to undertake a research on this or related topic. The study improves the researcher’s knowledge on tax systems and what has happened in other jurisdictions where the proposed tax system has been implemented before.
1.9 Scope of the Study
The field work was conducted in Harare and focussed on tax professionals (as opposed to an ordinary tax payer). The questionnaire and interviews were used to collect data from tax professionals in accounting firms, tax consultancy firms, finance managers in industry and commerce and ZIMRA assessors and trainers. The respondents were selected because of their working knowledge of the tax system, particularly the proposed NITB.

1.10 Dissertation Structure
The research in made up of 5 chapters. This chapter gives a background to the research problem, the research objectives and research questions to be answered by the research as well as the justification for the research. Chapter 2 looks at the Literature available on the study subject and reviews the secondary data available to aid the study. The third chapter is on Research Methodology and concerns itself with the methods employed by the researcher in coming up with the data for this study. In chapter 4, data obtained from both the field surveys and from secondary sources of data is presented, analysed and the findings recorded. Finally, in Chapter 5, conclusions on the findings are reached and recommendations are made on the study subject.

1.11 Summary
This chapter has highlighted the background to the study, the problem statement which drove the researcher to this research which explores taxpayers’ perceptions on ZIMRA’s capacity to deliver the benefits envisaged of the new tax system. It was noted that among the push factors for a tax reform in Zimbabwe, are that the current Income Tax Act is a complicated piece of legislation, there is need to increase the tax revenue to the government and to align the tax laws to international best practice. The research aims at obtaining taxpayers’ perception on ZIMRA’s capacity to manage the entire changeover in the tax system so as to inform government on the need to address taxpayers’ concerns’ as they implement the new tax law. The next chapter presents the Literature Review.
CHAPTER 2
LITERATURE REVIEW

2.1 Introduction
This chapter covers the theoretical and empirical literature on the objectives (benefits) of tax reforms with an emphasis on the administrative changes that accompanied tax reforms in other jurisdictions. This informs Zimbabwe of the required administrative capacity of ZIMRA to effectively implement the proposed tax legislation. It also considers the main changes that the NITB proposes in the changeover from the Source based taxation system to the Residence basis of taxation.

The research explores the changes that are coming up in the (NITB) including the definition of a resident, the new definition of taxable income, the five new categories of income as well as the new determination of the allowable deductions under the NITB. The chapter will also highlight the experiences of other African countries that have migrated from source basis to residence basis of taxation. These include Ghana, Tanzania, Uganda, Mozambique, Zambia, and South Africa. One finds that Zimbabwe’s NITB is largely based on the Income Tax Act of Sierra Leone. However, in situations where the proposed NITB is not clear, regard will be given to how the South African and British courts have interpreted such tax law clauses. This is due to the historical ties among the three countries (Makumbe, 2011).

2.2 Benefits (Objectives) of Tax Reforms
Tax reforms are expected to achieve a number of objectives. These include increased revenue to government, fairness (equity), economic neutrality and administrative simplicity/efficiency. These objectives are discussed in detail below:

2.2.1 Increase Government Revenue
The main objective of most tax reforms undertaken by any country is to increase government revenue to fund public expenditure. Tanzi (2008) argues that the revenue productivity is a function of the tax rate or the income level (the tax base). The tax base is the item or economic activity on which the tax is levied. It is the set of economic
activities and assets that are taxed. The most commonly used bases are income, consumption or wealth. A person’s income is the sum of the value of his annual consumption of goods and services and the annual savings. Income is regarded as a good index of the ability to pay tax (Hyman, 2009).

To increase revenue collected from its citizens, a government would have to raise either the tax rate(s), or the tax base or both. Zimbabwe’s new income tax bill clearly seeks to influence the tax base by increasing the number of tax payers to include Zimbabwean residents abroad as well as the subsidiary companies of all companies incorporated or registered in Zimbabwean. In addition, under the NITB, the income of temporary residents from within Zimbabwe will continue to be taxed in Zimbabwe.

2.2.2 Equity

Tax reforms seek to maintain equity among a country’s taxpayers. The observation of the equity principle of tax requires that taxpayers with equal substantive taxable capacity should be taxed equally. This means that the measure of income should be as comprehensive as possible, capturing all economic income (Hyman, 2009). It implies that the tax base should include all sources of income. It also implies that the rate of tax should change with different levels of income, but not with a change in income sources. The principle requires that all non-monetised incomes be recognised as taxable income and brought under the tax net. The NITB repeals the Capital Gains Tax Act (CGT) under which capital gains on the disposal of specified assets were taxed at lower rates. Capital gains will now be incorporated under the NITB and be taxed at the same rate as any other income (Government tax bill, 2012).

2.2.3 Economic Neutrality

Tax should not unnecessarily distort economic decisions by tax payers. To achieve this, taxable income should be measured in the same way for all businesses whatever their legal form. For example, if taxable income is to be aligned with accounting income, this should be done for all forms of business otherwise this may lead to business being conducted through one particular form purely because of tax considerations.
2.2.4 Administrative Efficiency/Simplicity

Hyman (2009) states that a government’s tax system must be relatively easy to administer, in a consistent manner and without excessive costs to collect, enforce and comply with the tax laws. In practice, however, there is need to strike a balance among the competing tax principles. Equitable taxes might be costly to implement and efficient taxes are likely to be considered inequitable. If the taxes are too high they can affect the willingness of taxpayers to produce and invest.

A tax should, therefore, be easy and cheap to collect. Therefore, in tax policy design, costs associated with the administrative options for both the taxpayer and authorities may have a significant bearing on what is included or excluded from the legislation. It follows therefore that the measure of income must be objective, reliable, certain and understandable (Hyman, 2009).

Clarity of the tax law is a critical aspect for the understandability and certainty principles. A vague clause in a law leaves the interpretation of the tax law entirely at the discretion of the ZIMRA officials. When a tax law is easy to understand, taxpayers will voluntarily pay their taxes, fewer would try and evade their tax obligations (Tapera, 2012). Tax systems need to be reviewed from time to time to accommodate developments in the operating environment (Hyman, 2009).

2.3 Tax reforms in the NITB and their objectives

The NITB seeks to increase government’s revenue productivity and improve fairness, administrative simplicity and neutrality of Zimbabwe’s tax system. A detailed discussion of the changes proposed in the NITB, to achieve these objectives follow below:

2.3.1 Increasing the tax base

By bringing taxpayers that are currently outside the tax net, the NITB increases the tax base. Such taxpayers include both a Zimbabwean resident living abroad (individual) and a foreign subsidiary of a resident company. In addition, the NITB bring into tax, certain income lines that were outside the scope of the income tax. These income lines are discussed next:
2.3.1.1 Capital receipts

The NITB redefines taxable income to include receipts of a capital nature, which are currently specifically excluded from the definition of Gross Income (amount taxable) in terms of section 8 of the current Income Tax Act. It also repeals the Capital Gains Tax (CGT) Act, and incorporates all capital gains into taxable income. At the moment, tax on capital gains is restricted to those arising on the disposal of specified assets, that is, immovable assets and marketable securities under the CGT Act. However, gains (and losses) on the disposal of moveable assets such as motor vehicles, furniture, computers and machinery are now brought into the tax net. So are gains and losses on Intangible assets such as goodwill and patents (Government Tax Bill, 2012).

Gains and losses on the disposal of investment property have also been brought into taxable income. It is important to appreciate that a tax burden can arise from a mere change of residence status, without necessarily having sold a property, under the deemed disposals section. The change in use of property also triggers a “deemed disposal” of the property, hence income tax. The rollover relief on a Principal Private Residence (PPR) is not available when one disposes his PPR to a non-resident spouse.

The change to account for capital gains as business income could lead to a tax rate of 25.75% on the capital gains instead of the current lower rate of 20% on the capital gains. However, an advantage will arise from the use of a capital loss benefit under the NITB. Under the current Income Tax Act, a capital loss is not offset against income tax liabilities. There is also the removal of some deductions against capital gains that were allowable under the current CGT Act, for example inflation allowance.

The above reforms are expected to increase tax revenue to the government. Empirical evidence from Uganda and Tanzania show the achievement of increased tax revenue is dependent on the administrative efficiency of the tax authority of the country in implementing the tax reform, among other factors. In Uganda, it was found out that a culture of corruption among tax authority officials hindered the achievement of increased tax revenue (von Soest, 2008). Besides empirical evidence from Mauritius shows that the cost of administering the capital gains tax was barely covered by the tax revenue thereof, so Mauritius scrapped the capital gains tax (AFRODAD, 2011).
2.3.1.2 Restrictions of Allowable Business Deductions

The high priority areas of any tax reform include scrapping any special treatments to any economic area. The NITB only allows “expenditure and losses incurred in the production of income during the year, and which is promotive of public policy objective” (Government Tax Bill, 2012). This means some expenditure that is allowable under the current tax law will be disqualified under the new law, thus increasing tax inflows to government.

No definition is given in the NITB for “expenditure in the production of income”. South Africa is the other country that has the same clause for their business deductions. In the South African case law, “Port Elizabeth Electric Tramway Co Ltd v CIR 1936”, a widow claimed compensation on the death of her husband who had died in an accident at work. The question was whether compensation for the husband’s death was an expense “in the production of income”. The court ruled that the term “expenditure in the production of income” encompasses administrative expenses. The court defined the phrase as “expenditure which is directly linked to the earning of income”. In the cited case, the court further defined the same phrase as “expenditure incurred to achieve more efficient performance’.

2.3.2 Reducing the tax rate

Although the NITB does not indicate new tax rates, experiences in Mauritius indicate that reducing the tax rate has the effect of increasing tax compliance among tax payers. Empirical evidence from Mauritius show that while the country’s tax reforms were accompanied by the introduction of a low and flat rate of 15%, revenue flows to the government actually increased (AFRODAD, 2011). Botswana also introduced a low tax regime with its tax reforms and this has also benefited the fiscus. Appendix iv shows that the NITB may actually result in increased tax rates if the new Finance Act remains silent on tax rates.

2.3.3 Simplicity and Clarity

In doing away with the 34 schedules, that explained certain sections of the current income tax, the NITB brings related tax provisions under the same sections. This should
make it easier to follow the tax law, especially that additional definitions have been included and among them is the determination of who a resident is:

2.3.3.1 Determination of the residence status of an Individual

An individual qualifies for residency if he satisfies any one of the following 3 criteria:

a) Fixed Abode and Physical Presence

In addition to the individual having a “home” in Zimbabwe, he must have been physically present in Zimbabwe during the tax year, for at least a day. The NITB does not define the term “a place of abode”. Under South African residence tax law, a place of abode is not limited to the individual owning a house. It also includes a rented property or even a hotel room where an individual would normally use a hotel when in Zimbabwe. In the case precedent, a South African was considered a British resident, even though he always stayed in a hotel room when he was in Britain (Tapera, 2012).

b) Physical Presence of at least 183 days

With regards to short-term visitors from another country (for example expatriates), they are taxed in Zimbabwe if their physical presence in Zimbabwe, in any 12 month period ending in the current tax year, aggregate up to at least 183 days. In that case, they are defined as temporary residents. It follows therefore that if one is visiting Zimbabwe for less than 183 days in a tax year, he is excluded from the definition of a resident. A citizen of Zimbabwe cannot claim temporary residence status.

With regard to long term visitors, they are regarded as residents from the day they enter the country, provided the intention is for them to remain in Zimbabwe for at least four years. It is important to note that residence cannot be apportioned. Once one qualifies for residence in a tax year, his worldwide income for that year becomes taxable in Zimbabwe.

It is critical to distinguish between residence and nationality/citizenship. Residence for tax purposes has got nothing with Citizenship. The former is defined in the NIT Band the later in the Constitution of Zimbabwe. A Zimbabwean national living abroad...
does not qualify to be a resident if he does not visit Zimbabwe for at least a day in a tax year. In other words where one is absent from Zimbabwe for at least one whole tax year, he is disqualified from being a resident. So are full-time students, foreign patients and diplomats (and their families).

The 183 days are determined with reference to any 12 month period terminating in the current tax year. In the year one becomes a resident, the person is taxed starting from the first day he was present in Zimbabwe in the current tax year in which he became a resident. Effectively this means that taxability cannot be extended to a prior tax year. The residence status ends on the last day one was present in Zimbabwe but where this overlaps into another tax year, the 31\(^{st}\) of December of the previous tax year. The day of arrival in Zimbabwe is excluded from the 183 days. Government Employees are always residents, no matter the time frame they are working outside Zimbabwe.

2.3.3.2 Determination of the residence status of a Company

A company is a resident of Zimbabwe for tax purposes if it meets any one of the following 3 criteria:

a) **Registered in Zimbabwe**

A company incorporated in Zimbabwe under the Companies Act is always a resident of Zimbabwe, even if it were to operate in many other countries. This brings into the tax net all subsidiaries and branches of Zimbabwean companies, even if these subsidiaries are managed offshore. It is quite clear, however, that there are very few Zimbabwean companies operating abroad, for example Econet Wireless Limited.

b) **Place of Effective Management and Control**

Although the NITB does not define this concept, the Organisation for Economic Cooperation and Development (OECD) defines the term as “where key management and commercial decisions that are necessary for the conducting of the entity’s business are, in substance, made. In South Africa, they use the “place of day to day management”, that is, the Head office of the company.
In Zimbabwe, focus will most likely be on the residence of the board of directors, that is, the country the board members reside in as well as where the mind of the business is, that is, where the board holds its meetings.

The question of “control” may also result in focus on the shareholders. The concept of control refers to a shareholding of “more than 50%” of the voting rights of an entity. The majority shareholder has power to appoint or remove directors thus have ability to influence decisions of directors. This criterion will bring into the tax net the Permanent Establishments (PEs) of foreign Multinational Corporations (MNCs) which include local subsidiaries and branches that are managed from Zimbabwe. A Permanent Establishment is when a foreign entity establishes some presence in Zimbabwe. It can be a fixed place of business, a branch office, a factory, building site, a construction project or a dependent agent of a foreign organisation.

c) Majority Operations in Zimbabwe

This criterion ropes into the tax net companies that undertake the majority of their operations in Zimbabwe. However the NITB, again, does not define the term “majority”. The questions that arise are, “What is the measure of “majority operations”?”. Is it turnover, asset base, staff numbers or profit?

This concept aims to bring into the tax net foreign registered companies that carry out the majority of their operations in Zimbabwe.

2.3.3.3 Determination of the residence status of a Trust

A trust is a resident if it satisfies any one of the following 3 criteria:

a) It was established in Zimbabwe.
b) One of the trustees was a resident, at any time in a year of assessment.
c) The effective management and control was exercised in Zimbabwe at any time during the tax year.

Since a trustee is an individual, the same criterion used to determine the residence of an individual is used to determine the residence of the trustee.
2.3.3.4 Determination of the residence status of a Partnership

Since a partnership is not a “person” in terms of Company law and Tax legislation, the law levies tax on the partners of a partnership. Therefore, to determine the residence status of a partnership, the same criteria used to determine the residence of an individual is used. A partnership is considered a resident if at least one partner is a resident. A resident partner is taxed on his share of the worldwide income of the partnership. A non-resident partner, in a resident partnership, is liable to tax in Zimbabwe only on the income sourced from within Zimbabwe.

2.3.3.5 Summary of Classes of Residents

a) Ordinary Resident
b) Temporary Resident- This is an individual visiting Zimbabwe for at least 183 days in 12 month period. The period of visit should not exceed 4 years.
c) Non Resident-This is an individual visiting Zimbabwe for less than 183 days in a tax year.

2.3.4 New Classification of Taxable Income and negotiation of tax treaties

The adoption of the five income classes, used in the negotiation of international tax treaties between nations, by the NITB makes the negotiations of the DTAs easier. The introduction of the classification of income also helps in clarifying the deductibility of expenditure. There is now ring-fencing of expenditure to an income class. Expenditure can now only be allowed against the class of income the expenditure was incurred to produce.

The NITB classifies income into five classes; namely:

a) Employment Income
b) Business Income (including business property gains)
c) Property Income
d) Capital Gains
e) Other Income or Gain
2.3.4.1 Employment Income- Scope increased

There are now fewer loopholes in the NITB. Among the notable changes is the inclusion in taxable income of receipts in restraint of trade, which is currently excluded from Gross income, as being of a capital nature (Tapera, 2012). In addition school fees assistance and waiver of school fees for children of staff at schools and colleges is now specifically included in taxable income. The general valuation of fringe benefits has been changed from “cost to employer” to “the greater of market value or cost to employer”, with a few exceptions.

2.3.4.2 Business Income- Scope increased

Capital profits which are gains and losses on sale of business property, both immovable and movable, are now part of taxable business income; over and above the revenue profits. The definition of business property includes furniture, motor vehicles, computers, industrial buildings, commercial buildings and intangible assets. It, however, excludes investment property and trading stock. Unlike the current tax law, the NITB levies tax to the recipient of any donation.

A business includes an isolated transaction of a business character or an adventure, thus profits on an isolated transaction or an adventure are taxed under business income, in the NITB. The taxable base of business entities, in the new tax law, is the worldwide profit (income) as shown in the consolidated or group company’s Financial Statements.

2.3.4.3 Property Income (Non-business property)

The income from the use of a property that is not defined as a business property or trading stock in the new tax law will be taxed as property income. This includes Voluntary lease improvements which are deemed to be “gifts in connection with the use of the property”. It also includes passive investment income such as rent, dividends and interest.
2.3.4.4 Capital gains

The profit (or loss) on the disposal of the capital item (noncurrent asset) itself is taxed under this class of income. This category specifically includes capital gains on the disposal of investment property, which, by definition (in the NITB) is excluded from the definition of business property.

2.3.4.5 Other Gains/Income

Under this class are fortuitous income, income from unlawful activities, awards, prizes and Diaspora remittances. It is quite clear that in the new tax regime, practically any receipt of income is always taxable whether it is revenue or capital, legal or otherwise and planned or received by chance.

2.3.5 Tax Computation for business made simpler

Financial Accounting principles have an influence on Tax Accounting, thus play a role in the design of the tax system. Generally Accepted Accounting Practices (GAAP) is to govern the calculation of taxable income, under the NITB. Taxable business income is to be determined on the accrual basis. In other words, the matching concept on expenses and revenue is now acceptable to ZIMRA. There are thus much fewer adjustments to the accounting profit to arrive at the taxable income. For example, there will no longer be any temporary differences relating to deferred income and prepayments. No adjustments are required on prepaid expenses and on income received in advance. However provisions are still not deductible.

Effectively, it means ZIMRA will not receive tax relating to advance receipts of taxpayers as the later will defer the tax payment to the period the advance receipts relate. Similarly, the advantages to the Taxpayer of deducting prepaid expenses before they have been incurred have been scrapped and this is an advantage to ZIMRA. In addition, the NITB is adopting IAS 11 when accounting for long term contracts and adopting the “Stage of completion” method for tax purposes.
2.4 Lessons on tax reforms in other African countries

Hardler (2000) estimated that better administration of existing tax laws (without any tax reforms) may increase tax revenue by about 30% in many sub-Saharan Africa. Below is a summary of the tax administration reform efforts in this region and the insight they bring to tax reform:

2.4.1 Ghana

A new Income Revenue Act was promulgated in 2001 and this reduced the highest tax bracket to 35% (initially) and later to 25%, the same level as the corporate tax. Since 2003, Ghana has been hailed as a model for multi donor budget support programmes (MDBS) project. Ten countries were involved in the project but the main donors were the World Bank (45%) and British Department for International Development (25%). In 2004, Ghana received USD309 million from the donor partners. Donor support was instrumental in data collection, with the UNDP introducing the Automated System for Customs Data (ASYCUDA) for the automation of the country’s customs clearing procedures (Von Soest, 2008).

A large taxpayers’ unit was introduced as advocated for by the International Monetary Fund (IMF) and this housed Ghana’s 350 largest taxpayers, who accounted for 70% of the country’s tax revenue. A special tax police to check on taxpayers’ compliance was introduced. A team performance bonus of up to 15 of basic salaries was initiated, after the laying off of nonperformers. Table 2.1 shows revenue performance in Ghana, after the introduction of tax reforms:
Table 2.1: Ghana’s revenue performance after tax reforms

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue as a percentage of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>15.1%</td>
</tr>
<tr>
<td>1997</td>
<td>14.7%</td>
</tr>
<tr>
<td>1998</td>
<td>15.8%</td>
</tr>
<tr>
<td>1999</td>
<td>14.8%</td>
</tr>
<tr>
<td>2000</td>
<td>16.3%</td>
</tr>
<tr>
<td>2001</td>
<td>17.2%</td>
</tr>
<tr>
<td>2002</td>
<td>17.3%</td>
</tr>
<tr>
<td>2003</td>
<td>20.2%</td>
</tr>
<tr>
<td>2004</td>
<td>21.7%</td>
</tr>
<tr>
<td>2005</td>
<td>20.7%</td>
</tr>
<tr>
<td>2006</td>
<td>21.4%</td>
</tr>
</tbody>
</table>

The tax reform resulted in increased tax revenue from 5.6% of Gross Domestic Product (GDP) in 1983 to 15.1% in 1996, after which it levelled off. With the increased collection efforts implemented in 2003, the revenue increased significantly to more than 20% on average.

2.4.2 Tanzania

The major objectives of the tax reforms in Tanzania initially in the 1990s and later in the 2000s were to increase tax revenue, equity and protection of local industries. To achieve increased revenue, authorities raised the tax rates. For attainment of equity, use of progressive taxation was maintained and high import duties were introduced to protect the country’s industries.

The Tanzania Revenue Authority (TRA) was established in 1996 with strong donor support. All staff members were asked to reapply and only two thirds on the initial work force were rehired. New managers from outside the former tax departments were recruited to turn around the TRA and these were paid directly by the donors. Due to the rampant understatement of corporate profits and falsified tax deductions that were
prevailant in the country, the TRA strengthened the auditing function of tax administration (Fjeldsrød, 2003). A tax investigation department was also launched. In 2001, a large taxpayers’ department was established and it managed Tanzania’s 100 largest taxpayers who accounted for the majority of the country’s tax revenue. The donor community pledged USD73 million for the tax reform project, the main donor being the World Bank. In 2004, a NITB was approved and this introduced self-assessment and most exemptions were repealed but incentives to foreign investors were maintained in mining and tourism sectors. Tanzania’s revenue performance, after the tax reforms is shown in Table 2.2:

**Table 2.2: Tanzania’s revenue performance after tax reforms**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue as a percentage of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>11.4%</td>
</tr>
<tr>
<td>1998</td>
<td>12.1%</td>
</tr>
<tr>
<td>1999</td>
<td>10.9%</td>
</tr>
<tr>
<td>2000</td>
<td>10.1%</td>
</tr>
<tr>
<td>2001</td>
<td>10.0%</td>
</tr>
<tr>
<td>2002</td>
<td>10.9%</td>
</tr>
<tr>
<td>2003</td>
<td>11.0%</td>
</tr>
<tr>
<td>2004</td>
<td>11.7%</td>
</tr>
<tr>
<td>2005</td>
<td>12.4%</td>
</tr>
<tr>
<td>2006</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

Overall, tax reforms managed to widen the tax base minimally mainly because:

a) The TRA was unable to bust the corruption networks, especially between revenue officers and former tax officers (who were now operating as tax experts in the private sector).

b) High tax rates which encouraged tax evasion and the development of the informal economy. 70% of Tanzania’s economy is not registered (Fjeldsrød, 2003).
c) The plethora of information systems introduced by different donor projects. There were 14 software systems which could hardly communicate with each other. For instance, there were at least three sets of taxpayer databases and it was therefore difficult to audit the different databases of taxpayers.

d) Some of the preferences in the tax system were not removed, including discretionary exemptions. There was no political will to reduce exemptions.

2.4.3 Uganda

When Uganda’s tax reforms were implemented, there was a huge injection of funds to capacitate the country’s revenue authority. The Uganda Revenue Authority (URA) was established in 1991 as a central body for the assessment and collection of specified tax revenue, to administer and enforce the laws relating to such revenue and to account for all the revenue to which those laws apply. In 2006, the URA developed a Modernisation Plan (2006-2009) to improve revenue collections by the URA to enable the government of Uganda to achieve and sustain the targets set out in its Poverty Action Eradication Plan. The purpose of this Modernisation Plan was to adopt modern, efficient and effective processes and systems to collect tax and customs revenues and achieve a high level of voluntary compliance from taxpayers. The modernisation Plan was supported by the Netherlands, the UK, Belgium and Denmark under an integrated technical co-operation and basket funding framework for an amount of USD 12.24 million, to allow URA to better focus management effort and resources on targeted priorities, implementation of reforms and results achieved. The proposed arrangements, which were in line with the Paris Declaration on Aid Effectiveness (2005) also, aimed at supporting the government of Uganda in progressing towards budget support, which was its preferred development assistance modality. (Government of Uganda, Modernisation Project, 2006). Uganda’s revenue performance, after the tax reforms is shown in Table 2.3:
Table 2.3: Uganda’s revenue performance after tax reforms

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue as a percentage of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>12.2%</td>
</tr>
<tr>
<td>1998</td>
<td>11.8%</td>
</tr>
<tr>
<td>1999</td>
<td>13.0%</td>
</tr>
<tr>
<td>2000</td>
<td>11.2%</td>
</tr>
<tr>
<td>2001</td>
<td>11.1%</td>
</tr>
<tr>
<td>2002</td>
<td>12.2%</td>
</tr>
<tr>
<td>2003</td>
<td>11.3%</td>
</tr>
<tr>
<td>2004</td>
<td>11.7%</td>
</tr>
<tr>
<td>2005</td>
<td>11.9%</td>
</tr>
<tr>
<td>2006</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

After a first phase of increase, tax revenue stagnated between 11% and 12% of GDP, which is rather low, even by regional standards (IMF, 2005). This was as a result of (Fjeldstand, 2003):

- Low buoyancy in the tax system
- Exhaustion of easy sources of revenue
- A heavy dependence on agriculture
- The continued application of the tax exemptions
- Corruption in the revenue service

2.4.4 Mozambique

Mozambique started its tax reforms in 1998 and the performance of its tax reform is regarded as world class (Schickinger; Germany development bank; 2009). The country came up with a new tax law which clarified the tax collection rules, taxpayers’ rights and removed tax preferences for large projects. Furthermore, the new tax law outlawed negotiations for special arrangements in the mining and petroleum sectors. The success
of the tax reforms is credited mainly to the political commitment of the country’s government to the reform. The objectives of the tax reforms included, among others:

a) Broadening the tax base at a gradual rate of 0.5% per annum.
b) Simplification of the tax system.
c) Modernisation of tax administration to achieve an efficient tax collection system.
d) To curb fraud and tax evasion.
e) To improve the tax law and therefore transparency and the relationship between the state and the taxed.

As a result of the tax reforms, Mozambique was able to:

a) Steadily increase its tax revenues from 10.8% of Gross Domestic Product (GDP) in 1999 to 16.4% in 2008.
b) Establish the Mozambique Revenue Authority (MRA) in 2006 to strengthen the fiscal management.
c) MRA more than doubled the number of registered taxpayers (individuals and businesses) within two years.
d) New programs for free public education of taxpayers was introduced.
e) 14 new tax collection offices were opened.
f) A new training centre for revenue officers was started and training in customer service was introduced.
g) Institute a highly equitable tax system with a high tax-free threshold and a low tax rate for the small and medium enterprises (SMEs).

2.4.4.1 Modernisation of the tax administration

Among the lessons other countries can learn from Mozambique is that besides increasing the revenue base through tax policy, much potential for developing countries lie in broadening the effective tax base (the unbanked informal sector), increasing the efficiency of tax administration and facilitating tax compliance through further measures of modernising the tax administration.
2.4.4.2 Budget Support from Development Partners

The broad reform agenda in Mozambique was bankrolled by multiple development partners including the International Monetary Fund (IMF) and the G19 and the country received annual support which amounted to USD459 million in 2009 (Schickiner; 2009). Further support targeted at tax reform was availed by a group of 4 development partners namely German, Britain, Belgium and Switzerland.

2.4.5 Zambia

Zambia’s tax reforms have been comparatively successful mainly because:

a) Technical support was focussed because it was offered by one bilateral donor, DFID.

b) Technical support was over a long term, over eleven years to 2001 and was comprehensive.

Expatriate management team was accepted by the Zambia Revenue Authority (ZRA).

Zambia’s revenue performance, after the tax reforms is shown in Table 2.4:

Table 2.4: Zambia’s revenue performance after tax reforms

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue as a percentage of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>19.0%</td>
</tr>
<tr>
<td>1997</td>
<td>18.8%</td>
</tr>
<tr>
<td>1998</td>
<td>18.1%</td>
</tr>
<tr>
<td>1999</td>
<td>17.2%</td>
</tr>
<tr>
<td>2000</td>
<td>19.2%</td>
</tr>
<tr>
<td>2001</td>
<td>18.6%</td>
</tr>
<tr>
<td>2002</td>
<td>17.5%</td>
</tr>
<tr>
<td>2003</td>
<td>17.3%</td>
</tr>
<tr>
<td>2004</td>
<td>17.5%</td>
</tr>
<tr>
<td>2005</td>
<td>17.0%</td>
</tr>
<tr>
<td>2006</td>
<td>16.2%</td>
</tr>
</tbody>
</table>
Zambia’s revenue performance, after tax reforms, has been similar to other African countries. There was an initial phase of increased revenue followed by stagnation at around 17% of GDP. This is mainly because tax reforms in Africa come at a very high collection cost around 3% of GDP.

2.4.6 South Africa
South Africa was one of the first African countries to changeover from the source basis of taxation to the residence system in 2001.

2.4.6.1 Tax reforms
The tax policy reforms included (Manuel, 2002):

a) Introduction of capital gains tax in 2001 to widen the tax base. The argument was that capital gains on investment assets are economic profits, just like ordinary operating profit. Both represent an increase in net wealth. In terms of the equity principle, therefore, taxpayers should bear similar tax burdens regardless of the form of wealth creation. The NITB borrows from the South African reforms as it also merges capital gains tax with income tax.

b) The reduction of the number of personal tax brackets from 10 to 6 and the taxation of all fringe benefits in full, both as a means of simplifying the tax system.

c) The reduction of the corporate tax from an effective rate of 48% to 38.7%. This was aimed at encouraging compliance.

d) Removal of tax incentives for foreign direct investment. Instead, the new tax policy encouraged investment (whether foreign or local) in manufacturing industries and these were given special initial allowances on plant and machinery over 4 years of 40% in the first year and 20% in each of the other 3 years.

2.4.6.2 Tax administration reforms
Together with the tax policy reforms, South Africa introduced wide-ranging institutional changes to improve the administrative capacity of the South African Revenue Service (SARS) to ensure the new tax laws were administered
effectively. In addition SARS increased its capacity to audit, investigate and prosecute suspected tax offenders (Manuel, 2002).

2.5 International Tax Issues

Under a residence based tax system, tax treaties between bilateral countries, are critical for the prevention of double taxation and the adoption of “tie break” rules to determine the residence status of a taxpayer between the counterparty countries. This section discusses tax treaties and the “tie break” rules in detail:

2.5.1 Tax Treaties

Double tax agreements (DTAs), also known as tax treaties are agreements between two countries seeking to avoid the taxation of the same income in the two countries. The tax treaties define the taxing rights of each country with respect to income or capital earned by residents of the two contracting countries involved (Tapera, 2012). Currently Zimbabwe has tax treaties with 14 countries, including the tax treaty with the Democratic Republic of Congo which is still to be ratified.

Table 2.5: Zimbabwe’s tax treaty counterparties:

Table 2.5 below lists the 14 counterparty countries to Zimbabwe’s tax treaties:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Botswana</td>
</tr>
<tr>
<td>2.</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>3.</td>
<td>Canada</td>
</tr>
<tr>
<td>4.</td>
<td>France</td>
</tr>
<tr>
<td>5.</td>
<td>Germany</td>
</tr>
<tr>
<td>6.</td>
<td>Malaysia</td>
</tr>
<tr>
<td>7.</td>
<td>Mauritius</td>
</tr>
<tr>
<td>8.</td>
<td>Netherlands</td>
</tr>
<tr>
<td>9.</td>
<td>Norway</td>
</tr>
<tr>
<td>10.</td>
<td>Poland</td>
</tr>
<tr>
<td>11.</td>
<td>South Africa</td>
</tr>
<tr>
<td>12.</td>
<td>Sweden</td>
</tr>
<tr>
<td>13.</td>
<td>United Kingdom</td>
</tr>
</tbody>
</table>
Tax treaties are also crucial in the exchange of economic information of “persons” between the two counter party countries in the tax treaty. Without a tax agreement between countries, it would almost be impossible to track the foreign incomes of residents of a country that live or operate businesses abroad (Tapera, 2012).

2.5.2 Prevention of Double Taxation
A foreign tax credit mechanism is applied to prevent double taxation. Double taxation may arise where two countries do not use the same tax concept. For example, where income is sourced from a country other than the one the tax payer is resident, both the source and resident countries may regard themselves as having rights to tax such income (Government tax bill, 2012).

2.5.3 Tie break Rules and Residence basis of taxation
Where two countries are both on the residence basis of taxation, “Tie break” rules are used to determine the residence status of a resident who lives or has business operations in the two countries. The first consideration is the state in which a person has a permanent home. If the person has permanent home in both countries, the second consideration is “the centre of vital interests”; under which the state in which one’s personal or business relations are closer. If there is still a tie, the third consideration is the state in which one normally stays. Should there still be a tie, the rules next focus on the nationality of the person. Finally, the tax authorities of either countries or their courts may have to decide the residence status of a person (Hyman, 2009).

2.5.4 Non Residents still taxed on Source basis
The following table summarises the various Source Rules according to international practice:
Table 2.6: Source Rules for various Income Streams:

<table>
<thead>
<tr>
<th>Income</th>
<th>Source of Income is determined by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services rendered, including</td>
<td>Where the services are performed.</td>
</tr>
<tr>
<td>Executive directors’ fees</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>Where the property is located.</td>
</tr>
<tr>
<td>Dividend</td>
<td>Where the shares of the company paying the dividend are registered.</td>
</tr>
<tr>
<td>Interest</td>
<td>Where the provision of interest took place or where the capital is employed.</td>
</tr>
<tr>
<td>Royalties-patents, copyright</td>
<td>Where the wits, labour &amp; intellect were exercised or where the owner of the patent is resident.</td>
</tr>
<tr>
<td>etc.</td>
<td></td>
</tr>
<tr>
<td>Royalties-natural resources</td>
<td>Where the minerals are located</td>
</tr>
<tr>
<td>Business Income</td>
<td>Where the business operations are carried out or where entity is resident or has a permanent establishment (PE).</td>
</tr>
<tr>
<td>Non-executive Directors’ fees</td>
<td>Where effective management of the company takes place i.e. the company’s Head office. [Mcmillan v Guest, 24 TC 190]</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>The country in which the property is located.</td>
</tr>
</tbody>
</table>

(Mangoro, 2006)

Since interest income to non-residents is not taxed, there is need for clarity on the taxation of borrowings from Zimbabwe by non-residents.

2.6 Prerequisites for an effective tax reform.

Bird (2004) argues that the best tax policy in the world is worth little if it cannot be implemented effectively. Manuel (2002) further states that “the ability of Government to design and implement a tax system hinges on the capacity of the Revenue Authorities to administer the taxes. Any shortcomings in the administration of tax legislation and the collection of revenue will impinge on the integrity of the tax system and any reform programme”.

It is not enough to have a good tax law. The intended benefits of the tax reform can only be realised if revenue collection agents are able to enforce compliance of the new tax rules among taxpayers. Empirical evidence from other African countries indicate that to
achieve the intended benefits of a tax reform, there was need to capacitate the tax authority and in some cases restructure the tax authority, altogether. This section considers the prerequisite factors necessary for a tax authority to deliver the intended benefits of a tax reform at the implementation stage.

2.6.1 Administrative Feasibility and Legal Supporting Systems

Sierra Leone, has amended her tax law three times in as many years (Mangoro, 2012). It would seem that the process to come up with the new tax law was rushed as the country did not have the capacity to monitor the tax compliance under the new tax model. A country needs the legal system in place to be able to monitor the incomes of residents abroad on a level basis (Mangoro, 2012). Tax treaties are part of the residence basis of taxation. The challenge faced is that whilst drafting a new residence based tax law may be rushed, the negotiation of tax treaties with other countries may not. It would be better to have as many tax treaties as possible; especially those countries where the majority of Zimbabweans abroad are based as well as those from which the majority of the subsidiaries of Zimbabwean registered companies operate from. When a new tax system is effected, a country would need to renegotiate the tax treaties agreed under the old tax base. However, this would invariably be more expedient than a new negotiation altogether.

2.6.2 Enforceability

A tax system must have rules for payment that are easily understood by the taxpayers and are enforceable at a low cost (Hyman, 2009). Tax evasion is the non-compliance with the tax laws by failing to pay taxes that are due and this is illegal. The incentive for tax evasion depends on the costs and benefits expected from non-compliance. Generally, the benefits of tax evasion tend to increase with the amount of money saved by not complying with the tax rules. Tax evasion also increases where taxpayers perceive that the probability of being detected is minimal or is set to decline (Hyman, 2009). To ensure compliance tax authorities must develop the capacity to not only collect the revenue but to follow up any unpaid taxes and enforce penalties against non-compliance (Brys, 2011).
The factors that give ZIMRA the capacity to enforce the provisions of the new tax law include its human resources' skills, financial resources, management information systems aligned to the new tax laws and a culture of professionalism.

2.6.3 Resources Requirements

In Ghana, tax reforms were accompanied by massive donor aid for the restructuring of the tax authority in that country (von Soest, 2008). It is noted that many tax reforms require a new management information system that is aligned to the new tax basis in order to measure the newly defined tax base (both current and expected). Burundi acquired a new information system when it introduced a new tax system. Under the residence basis of taxation, which covers the whole world, the need for authorities to introduce automated payments, electronic transmission of tax returns and electronic filing cannot be overemphasised. The other advantage brought by computerisation is that procedures are easier to standardise, check, analyse and audit than manual transactions.

There is need of capital outlay to support the overhaul of the technology infrastructure. In addition, a paradigm shift in the way the tax authorities run the tax arm was shown to be important in Kenya, because even after the restructuring and increasing the remuneration of the tax officials, corruption remained high and as a result, the full intended benefits of the tax reforms in that country could not be realised. Burundi established new and improved tax audit practices skills when it introduced a new tax system. It went further to establish a new code of conduct for its employees. This was also after restructuring the organisation, introducing a new organisational structure that was aligned to the new work processes. The lessons from these other tax jurisdictions are instructive for Zimbabwe as she plans to implement new tax reforms.

2.7 Summary

The chapter reviewed relevant literature focusing on tax reforms from both theoretical and empirical perspectives. A discussion on the NITB in Zimbabwe was also presented. Further, the analysis highlighted the rationale for tax reforms, what may
militate against effective implementation and possible initiatives to address these constraints. The next chapter presents the Research Methodology.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an account of how the study was conducted and the rationale for the used data collection techniques. It discusses the research design, the study population, sampling techniques and sample size. The chapter also discusses the development of research instruments, data collection and analysis processes. According to Glatthorn and Joyner (2005), research methods are the specific techniques used to collect data with respect to the research problem. The research philosophy is discussed next.

3.2 Research Philosophy

There are two research approaches, namely the Positivist Approach and the Interpretivist (Phenomenology) Approach (Saunders et al., 2007). The former research philosophy is quantitative in nature, whilst the later is qualitative.

The study was guided by the Interpretivist approach which assumes a subjective reality and therefore has major respect on people’s perceptions. The paradigm acknowledges there is a diverse body of knowledge and tries to capture the subjective issues of the research. It relies on interviews (words and observations) to express reality. The interviews explore the attitudes, opinions, feelings and behaviour of individuals (Glatthorn and Joyner, 2005).

Although the data collected is subjective and findings are not statistically projectable to the subject under study, approach helps bring about new theories (Saunders et al., 2007). The Phenomenology research approach also lends itself well to subjective sampling that is used in this study.

3.3 Research Design

The research used a survey research method as this is the best method to obtain primary data from tax professionals. It gives the researcher room to get the expert opinion and perceptions of the individuals. These professionals are well versed with the
changes proposed in the NITB as well as the likely effect of those changes to the government. The opinions of these respondents were important as they brought in a new insight to the survey. The chapter discusses the data collection process next.

3.4 Data Collection Process

The data collection process is critical as the findings of the study are based on the quality of data collected. This section discusses the unit of study, the units of data collection, the sampling strategy and finally the sample size:

3.4.1 Unit of Analysis

A unit of analysis is the object of the study. The unit of analysis for this study is the new income tax act, as understood by the tax professionals.

3.4.2 Units of data collection (Population)

Primary data for this research were obtained from tax professionals from audit firms, tax consultants, ZIMRA and finance managers in industry and commerce.

3.4.3 Sampling Strategy

Sampling is the act, process and technique of selecting a suitable representative part of a study population for the purpose of determining characteristics of the whole population. The study relied on Purposive Sampling as opposed to random sampling, because the tax experts are not necessarily evenly distributed within Harare. The researcher used his own judgement to select tax experts in order to build a sample that is satisfactory (Saunders, 2007) to coming up with the best possible opinions on the benefits expect from the proposed tax legislation as well as the preparedness of ZIMRA to implement the new tax law.

Tax professionals considered for this research are those in tax practice, giving advice to business. Snowballing sampling was also used as the researcher was redirected to other tax professionals not known to him by some respondents (Saunders, 2007). The researcher used tax professionals in this research because the area of study is easily understood by ordinary people. Including the ordinary man or other “non-taxation”
professionals would have resulted in the inclusion of people who would not add value to the research.

3.4.4 Sample Size

The research method used demanded a smaller sized sample to allow the researcher meaningful follow ups on responses to the close-ended questions. A sample size of 36 was settled for, broken into the following:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Number of Firms</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Firms</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Tax Consultancy</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Industry &amp; Commerce</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>ZIMRA</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

3.5 Data Collection Methods

To ensure the reliability of the information resulting from the study, the researcher deployed the use of the two data types. The data used in this study was thus derived from both primary and secondary sources as discussed below:

3.5.1 Documentary Analysis

According to Jewel (1997), secondary data refers to “already available and collected research”. This means it is data gathered and collected prior to and for a purpose other than this research project. The researcher principally reviewed the NITB and noted all the major changes contained therein. These changes were analysed against literature review on the objectives of a tax reform. Literature on tax reforms notes that any tax reforms are aimed at achieving the objectives of increasing government revenue, improving equity, neutrality and administrative efficiency of the tax design of a country.
3.5.2 Primary Data

Primary data refers to original data collected specifically for solving the problem at hand and this data is critical for the study. In order to collect reliable information concerning the likely benefits of the proposed tax legislation and the readiness of ZIMRA to implement the tax reforms, the fieldwork revolved mainly around tax experts.

Primary data for the purposes of the research was collected by means of:

- **Questionnaires-** These were directed towards obtaining feedback on the prevailing situation. Guided Likert scale questions were used to seek factual information and perception, while open ended questions were used to obtain the opinions of the tax experts (see Appendix 1).

- **Interviews**–To follow up on the opinions of some of the tax professionals, unstructured interviews were done, some telephonically. The interviews gave the researcher a chance to seek clarification on key areas of interest that were not fully covered by the questionnaire. Interviews were also used to try and counter the problems of questionnaires which include lower level employees being assigned to respond to questions meant for experts to respond. This ensured that the rightful respondents were reached (Saunders, 2007).

The questionnaire and interview therefore constituted a comprehensive primary data collection method. Closed and open ended questions were used in the questionnaires that were distributed to respondents. Due to commercial confidentiality and sensitivity of organisational information, the questionnaire was designed in a manner that did not require respondents or the organisation itself to reveal their names.

3.6 Data analysis process

Data in this study was analysed using the Statistical Package for the Social Sciences (SPSS) software (Version 17.0). SPSS is a window based program that can be used to perform data entry and analysis and to create tables and graphs. SPSS is capable of handling large amounts of data and can perform all of the analysis covered in the text and much more. It is commonly used in the social sciences and in the business world. It
was used because most of the data being analysed is of a quantitative nature since the positivism approach to research was used in this research. It is easy to use by making the calculation and presentation of statistics relatively easy.

3.6.1 Reliability and Validity of Data
A triangulation of data sources and collection methods was employed to improve the validity of data (Yin, 2009). Thus the weaknesses of any one data source were compensated by the strength of the other data source. A check was made on all questionnaires received from the respondents for completeness and accuracy of data responses obtained.

3.6.2 The reliability of the Questionnaire Instrument used
To measure the reliability of the Likert-scale questions in the questionnaire instrument that was used for the collection of primary data, a statistical test called the Cronbach’s alpha score was calculated. Theoretically, if the alpha score is above 0.7, this shows that the questions used in the research effectively collected the data of the study. Table 3.1 shows that the Cronbach’s alpha score for the Likert questions in this questionnaire is 0.981. As this is well above 0.7, this shows that the questions used in the research are reliable in measuring the benefits of the proposed tax system and ZIMRA’s readiness to implement the changes.

Table 3.2: The Cronbach’s Alpha Statistic for the Likert scale questions:

<table>
<thead>
<tr>
<th>Reliability Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach’s Alpha</td>
</tr>
<tr>
<td>0.981</td>
</tr>
</tbody>
</table>

3.6.3 Data Presentation Strategy
The research organised the data according to frequencies for the Likert- scale questions and presented the data using tables, bar graphs and pie charts to show the various responses of the respondents for the main themes in the questions. These graphs were
used since they are fairly simple to interpret. A further statistical test employed was the Cronbach’s alpha score, which measures the reliability of the Likert-scale questions.

In addition, the SPSS software was used to analyse the data for any association and the significance of that association among the questions. The presentation of data was with the view of achieving the research objective and research questions of finding the intended benefits of the tax reform to the government and finding out whether ZIMRA is ready to implement the tax reforms.

Findings are presented in terms of the following categories:

a) Benefits of the tax reforms in the NITB
b) Readiness of ZIMRA to implement the tax reforms

3.7 Ethical Considerations
All research participants were assured of the utmost confidentiality and anonymity. This was done to reduce the risk that some respondents would unduly give “positive answers” just to please their bosses. To allay these concerns the researcher attached an introductory letter to the questionnaire explaining the nature and purpose of the research.

3.8 Limitations of Methodology
A sample of 36 tax professionals in Harare was used to represent the taxpayers, as most of the ordinary taxpayers are not yet fully versed with the provisions of the NITB. Although the research used mainly guided questions, these were complemented by open ended questions to solicit further opinions from the respondents. The guided questions were used to encourage a higher response rate and follow up interviews helped further clarify responses. Since the changeover of the tax system is a completely new issue, the study could have used an exploratory paradigm. However, the positivism approach was chosen for the reasons already highlighted.

3.9 Summary
This chapter highlighted the study methodology. In particular, it looked at the research design, research instruments and data collection procedures. The data collected was
analysed both quantitatively and qualitatively. Responses were grouped according to each research objective theme in order to be able to draw conclusions. The quantitative aspects of the data were presented using pie charts and bar graphs. The results are presented in the next chapter.
4.1 Introduction

The chapter focuses on the analysis, presentation and discussion of data collected. A quantitative approach was adopted and this was complemented with some qualitative analysis as well. With regards to the quantitative analysis, use was made of the Statistical Package for the Social Sciences (SPSS) version 17.0 which gives statistical descriptions involving the construction of tables, pie charts, and bar charts. However, in cases where data could not lend itself to statistical analysis, content analysis was used. The results of the study are presented below.

4.2 Questionnaire Response Rate

The researcher managed to send out 36 questionnaires to the selected tax professionals based in Harare. A total of 28 questionnaires were completed and collected, representing a 78% response rate. This is shown in Table 4.1 and illustrated in Figure 4.1 below:

Table 4.1 Questionnaire Response rate:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Questionnaires sent</th>
<th>Questionnaires received</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Firm</td>
<td>16</td>
<td>14</td>
<td>88</td>
</tr>
<tr>
<td>Tax consultancy</td>
<td>8</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>Industry &amp; commerce</td>
<td>4</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>ZIMRA</td>
<td>8</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>28</td>
<td>78</td>
</tr>
</tbody>
</table>
Wegener and Babbie (1993) considered a response rate of fifty percent as adequate while that of sixty percent as good. Since the response rate is above sixty percent (60%), the researcher proceeded to analyse the data in this case.

4.3 Findings from the Questionnaires
Findings are presented in terms of the following categories:

1. Benefits of the tax reforms in the NITB
2. Readiness of ZIMRA to implement the tax reforms

4.3.1 Benefits of tax reforms in the NITB

4.3.1.1 Increased revenue inflows to Government
Respondents were asked to provide their opinion on whether the NITB provisions will result in increased tax revenue to the government. The results are summarised in Figure 4.2:
The findings show that 65% of the respondents thought that the new tax system will increase inflows to the government. The main reasons for the expected increase in revenue were that the new tax regime will increase the number of eligible taxpayers as it widens the tax base to include Zimbabwean residents working or operating abroad. Furthermore capital gains on both immovable and movable assets have been brought into the tax net. Any type of receipt, including a fortuitous one is now taxable. All these measures are bound to increase inflows.

However, 21% of the respondents were of the view that there will not be any increased revenue to the government with these tax reforms. They felt that Zimbabwe, being a capital importing country, the shift from the current source basis of taxation to residence basis would not result in any change in the level of corporate tax revenue as there are very few Zimbabwean companies investing abroad (notably Econet Wireless limited). The other reason for doubting the increase in tax revenue is the decline in the domestic corporate tax base. Most industries in Zimbabwe have gone under in the last decade, and the ones operating are doing so, at well below installed capacity (AFRODAD,
It should also be noted that Zimbabwe will only benefit from the residence based tax, where Zimbabwe has a higher tax rate than the other country under consideration (Government bill, 2012). There is therefore not much prospect of increased corporate tax.

4.3.1.2 Clarity of NITB:

One of the issues that aid compliance is the clarity of the tax law itself. A clear law is easy to understand and therefore to comply with (Murray, 2011). Respondents’ were asked to rate the clarity of the definition terms in the NITB and figure 4.3 shows the results:

Figure 4.3: Rating of clarity of NITB definitions:

Only 36% of the respondents thought the NITB definitions were adequate (14% for very good and 22% for good). The rest (64%) were of the view that the definitions lacked clarity or were non-existent, altogether. It was pointed out that a number of terms were not defined in the new tax legislation. Examples include the term “expenditure in the production of income” and “Effective management and control”. Lack of clarity in the
proposed tax law may lead to a lower level of compliance with the tax law provisions by the taxed.

4.3.1.3 Simplicity of administering NITB

The researcher asked the respondents to evaluate whether the new tax system will be simpler for ZIMRA to administer. Figure 4.5 below show the responses of the tax experts on this issue:

Figure 4.4 Simplicity of administering NITB

Only 29% (11% who strongly agree and 18% who agree) of the tax professionals were of the view that the tax reforms will result in a simpler tax regime. They reasoned that the proposed tax reforms aligned the tax rules to GAAP; therefore tax computations for corporates will be easier. This reduces the amount of deferred tax adjustments required in preparing tax returns. Adjustments will no longer be required for prepaid income and expenses.

However, 57% (21% who strongly disagree and 36% who disagree) of the respondents viewed the tax reforms as being more complex. Firstly they pointed out the need for clarity on some definitions in the NITB. Secondly, they reckoned that it was more
difficult to follow up on incomes beyond the borders of Zimbabwe. It is difficult to get people to declare their foreign income-earning assets to ZIMRA or have residents abroad filing their tax returns with ZIMRA. Residence taxation is much easier to evade, or simply avoid, by channelling international investments through tax havens (Mangoro, 2012). The taxpayer is protected through bank-client confidential rules. In addition, a taxpayer needs to have the appropriate evidence of having paid income tax in a foreign country, in order to be granted the foreign tax credit, under the NITB. This places an extra administrative burden on ZIMRA.

Under the NITB, “expenditure for the purposes of trade” are no longer deductible. Effectively, this may make certain administrative expenses disallowable for tax purposes depending on how ZIMRA interprets the new provision. In general, in any jurisdiction, there is a lot of controversy around what to deduct and what not to. Indeed there is a very thin line separating the two. Taxpayers would have to tap into various Case laws, particularly from South Africa. Unless the South African version of “expenditure in production of income” is adopted, expenditures such as bank charges, marketing research, retrenchment costs, insurance, legal costs and capital allowances on capital items that are not producing taxable income will not be allowed.

4.3.1.4 Cost of administering NITB

The tax professionals were asked whether it is likely to be cheaper for ZIMRA to administer the new tax law relative to the current tax law. Figure 4.6 depicts the responses:
A simpler tax system is normally easier to administer. It was therefore no surprise that 61% of the respondents thought that the NITB will not be easier to administer. They pointed out the need for clarity on the new provisions regarding allowable deductions. Empirical studies in Uganda showed that the costs of administering a tax system were reduced once distortions in the tax system were removed.

Once the taxed subjects view the tax regime introduced by the tax reforms to be fair (equity issue), there will be increased compliance of the tax law (Brys, 2011). Where all business forms are taxed in the same manner, there will be no incentive to evade tax by operating in the industry that has some special tax treatment. Currently, in Zimbabwe, mining operations and those in the tourism sector effectively enjoy tax holidays that are not available to other businesses.

4.3.1.5 Consultation of key stakeholders/taxpayers

Respondents were requested to rate the level of consultations that were taken by the revenue authorities in developing the new tax law. Figure 4.4 below reports on their responses:
The responses on the level of consultation indicated a lower level (36%) of consultation by the tax authorities in the development of the tax law. Had there been a wider consultation, some of the issues that are deemed unclear in the bill could have been addressed, therefore improving the clarity of the new tax law and therefore compliance with it when it is implemented. Half (7% who strongly disagree and 43% who agree) were of the opinion that key stakeholders were not consulted in coming up with the new tax legislation. They felt the drafting of the legislation was rushed and hence the particular circumstances of our economy were not taken into account in the provisions of the NITB.

4.3.2 Readiness of ZIMRA to implement the tax reforms

The ability of ZIMRA to effectively implement the tax reforms is dependent on its capacity to enforce the provisions of the tax law.

4.3.2.1 Capacity of ZIMRA

The perception of the tax professionals on ZIMRA’s capacity is shown in Figure 4.7:
The diagram shows that 57% of the respondents disagree with the fact that ZIMRA is ready for the implementation of the new income tax bill. The researcher then carried out further tests to reveal the factors that affect the preparedness of ZIMRA to implement the new income tax bill. The results of the test are shown next.

4.3.2.2 Factors affecting the readiness of ZIMRA to implement the NITB

A two-way ANOVA was conducted that examined the effects of human resources, financial resources and infrastructure on the readiness of ZIMRA to implement the new income tax bill. The results are shown in Table 4.2:

<table>
<thead>
<tr>
<th>Source</th>
<th>Corrected Model</th>
<th>Intercept</th>
<th>Information system</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type III Sum of Squares</td>
<td>36.479</td>
<td>9</td>
<td>4.053</td>
<td>215.004</td>
</tr>
<tr>
<td>Df</td>
<td>9</td>
<td>1</td>
<td>1.467</td>
<td>2</td>
</tr>
<tr>
<td>Mean Square</td>
<td>4.053</td>
<td>215.004</td>
<td>.489</td>
<td>.067</td>
</tr>
<tr>
<td>F Sig.</td>
<td>.133</td>
<td>.000</td>
<td>.551</td>
<td>.016</td>
</tr>
</tbody>
</table>

Table 4.2: Tests of Between-Subjects Effects

Dependent Variables: "Is ZIMRA administratively ready for the roll out of the Residence based tax?"
a. R Squared = .949 (Adjusted R Squared = .924)

There was a significant effect on the financial resources (p-value 0.016) and human resources (p-value 0.016) on the readiness of ZIMRA to implement the new income tax bill in 2014. The information system was statistically insignificant in explaining the readiness of ZIMRA to implement the new bill with a p-value of 0.551. This is against empirical evidence, which suggests that the information system of the revenue authority is critical for a successful tax reform. This may be explained by the fact that the once financial resources are available; ZIMRA should be able to acquire the relevant information systems.

a) Financial Resources

The effect of financial resources on the preparedness of ZIMRA to implement the new income tax bill was significant (p-value 0.016). This can be interpreted to mean that the financial resources are a significant/important factor in the implementation of the new income tax bill. The Games-Howell post hoc test revealed that there is a significant difference between those who disagree with the fact that ZIMRA has got adequate financial resources to implement the new tax bill and those who agree on the adequacy of the financial resources of ZIMRA ahead of the possible passing of the bill.

A simple cross tabulation between the readiness of ZIMRA to implement the new tax bill and the adequacy of the authority’s financial resources produced the following result:
These results are supported by empirical evidence from other African countries which show that a huge injection of financial resources is critical when introducing tax reforms (von Soest, 2008).

**b) Human Resources**

The effect of human resources on the preparedness of ZIMRA to implement the new income tax bill was significant (p-value of 0.016). A simple cross-tabulation between the preparedness of ZIMRA and the adequacy of its current skills revealed the following result:
Figure 4.9: Correlation between ZIMRA’S capacity and human resources skills

According to Figure 4.9, 54% of the respondents agree to the fact that ZIMRA has got the adequate manpower to implement the new income tax bill, 18% of the respondents were neutral and 25% of the respondents disagree with the fact that ZIMRA has got adequate skills to implement the new income tax bill. The training personnel at ZIMRA were undergoing training on the residence basis in readiness to roll out the training to the rest of the staff once the tax bill is signed into law.

**c) Information Technology**

Although the effect of information technology on the readiness of ZIMRA to implement the new income tax bill was not significant according to the two way ANOVA test (p-value 0.551), its analysis provides some useful insights to the study. The simple cross-tabulation test revealed the following results:
According to Figure 4.10, 77% of the respondents disagreed to the fact that ZIMRA has got adequate management information systems and the infrastructure to implement the new income tax bill. The tax authority is currently failing to ensure compliance by the informal sector. It has shown limited ability to curb leakages of Customs duty at borders. The feeling was, with such a track record, ZIMRA’s capacity to track foreign income, for residents that do not remit that income to Zimbabwe was minimal. This is worsened by the fact that Zimbabwe has tax treaties with 14 countries only. The exchange of tax relevant information with the rest of the countries is therefore limited. In addition, ZIMRA lacks technological resources required under the new tax system. For instance, they
neither have automatic payment systems nor electronic filing, which would facilitate exchange of information with other tax jurisdictions.

4.4 Summary
This chapter evaluated and analysed responses to questionnaires and interviews. The data collected showed that whilst there is great upside potential for the economy in moving over to the Residence based taxation system, there are also major concerns which, ideally need to be addressed before the proposed implementation date of 1 January 2014. The next chapter presents the study conclusions and recommendations.
CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The main objective of the study was to investigate the envisaged benefits of the NITB and ZIMRA’s preparedness to roll out the new tax system. This chapter shows the conclusions drawn from a critical analysis of the findings and literature review presented in the previous chapters. In line with the objectives of this study, the researcher also makes certain recommendations at the end of this study in this chapter. The researcher also suggests an area for further study.

5.2 Conclusions
The study concludes that the proposed bill will not have significant impact on the government’s revenue generation capacity.

The main conclusions drawn from the study are summarised as follows:

5.2.1 Benefits of NITB to government

5.2.1.1 Potential for increased revenue
Inspite of the majority of respondents saying that the new tax law increases the revenue to the government, this potential for increased revenue may fail to be realised. Zimbabwean residents employed abroad may simply avoid falling into the NITB tax net by not returning home for the full tax year. With regards to corporate tax, we have very few Zimbabwean companies operating abroad. On the other hand, Zimbabwe’s domestic tax base may continue declining due to the economic challenges the country has faced over the recent years. Studies put Zimbabwe’s informal sector at 70% and this sector currently does not pay tax (Finscope, 2012).
5.2.1.2 Higher levels of non-compliance

Although the fairness and neutrality of the tax law are set to improve in the NITB, we are likely to suffer high levels of non-compliance by taxpayers mainly because of lack of clarity on some of the provisions of the proposed tax law. A number of terms are not defined in the proposed tax law. Chief among these is the term “expenditure incurred in the production of income”. Clarity on this issue is essential because as it is, corporate taxpayers are not clear just exactly what expense is allowable or disallowed under the proposed tax law. Where too much discretion in applying the provisions of the law is left to revenue authorities, this breeds corruption, discourages voluntary compliance and encourages tax evasion (Brys, 2011).

5.2.1.3 Administrative Efficiency

The new tax law makes a great attempt at simplifying Zimbabwe’s current tax law, enacted in 1967 and known for its complexity. Whereas the current tax act has various schedules and diverse sections dealing on a particular issue, the NITB consolidates all schedules and sections dealing with the same issue into one section. The NITB also removes most of the exceptions and exemptions that were granted to various taxpayers. These special treatment provisions made the assessment and management of the country’s tax laws complex and expensive. The removal of these preferences removes a huge layer of bureaucracy and is therefore cost effective. Furthermore, by aligning the tax laws to GAAP, the NITB removes the current deferred tax computation adjustments for prepaid expenses and incomes, thus simplifying the process.

However, with regards to income from outside Zimbabwe, the bill imposes a huge administrative burden on ZIMRA to follow up on incomes and assets of Zimbabweans abroad. This is too broad a scope to implement and a huge cost since Zimbabweans are everywhere in the world. Tax treaties are also required for the exchange of information between countries that are party to the tax treaty. This allows the country to build a reliable database to track taxpayers wherever they may be in the world. With the limited number of tax treaties that the country has, this would be very difficult to implement.
5.2.1.4 Consultation of key stakeholders

Some key stakeholders were not consulted in the development of the NITB. For instance, the small and medium enterprises, which represent the growing informal sector, were not invited to the Tax Steering Committee that developed the NITB. With adequate consultation, most of the sections of the NITB that lack clarity would have been modified. Information dissemination to the affected improves voluntary compliance with the new tax law.

5.2.2 ZIMRA’s capacity to implement the NITB

Although ZIMRA is training its key technical staff on the new tax law, the research found out that the revenue authority do not have the financial and technological resources to implement the changeover from source based tax to residence base. In other jurisdictions, successful tax reforms were accompanied by an injection of capital, mainly for a new management information system. Although the NITB widens the scope of ZIMRA to a Zimbabwean resident’s worldwide income, it may not be economically feasible for ZIMRA to enforce Zimbabwean residents living abroad to file their tax returns and pay the taxes due. This is especially so in the absence of automation of processes at ZIMRA. The study, therefore, concluded that ZIMRA is not ready to roll out the NITB.

5.2.3 Acceptance of Research Propositions

The study accepts the two propositions that the NITB will not have significant impact on revenue generation and that ZIMRA does not have capacity to roll out the new tax bill.

5.3 Recommendations

5.3.1 Consider broadening the domestic tax base

As it is highly unlikely that government would receive increased revenue from outside the country, it is recommended that the government further looks at ways of increasing the domestic tax base, including taxing the informal sector. It is recommended that the government seriously consider strategies of enforcing registration and tax collection from the informal sector, which currently accounts for a turnover of $7.4 billion and
employs 70% of Zimbabwe’s working population (Finscope, 2012). The deindustrialisation of the economy in the past decade has seen continued reduction of both corporate tax and personal tax inflows to the government. Business activity has moved to the informal sector and the tax authorities are urged to understand the business transactions in this sector and come up with cost effective ways of bring the sector into the tax net.

5.3.2 Improve clarity on the new tax law

The research recommends that the deductibility of expenditure for business entities be clarified before implementation of the new law. It is critical that expenditure incurred in genuine business be allowable otherwise this creates a culture of tax avoidance as entities will definitely try to find a way out if the law is too prohibitive.

The government could achieve this by providing an Interpretation Clauses section within the new tax act, to define/explain terms such as “expenditure in the production of income” and “effective management”.

5.3.3 Enhance tax treaties (DTAs)

It is recommended that government reviews the current existing 14 Double Taxation Agreements, which were negotiated under the current source based tax system. In addition, it is further recommended that the country enter into more tax agreements with other countries. This is critical because for the residence tax system to function optimally when implemented, there is increased need for government cooperation with other nations for the exchange of information and creation of a database of the country’s residents abroad. Any tax administration is dependent on data. Without the utilisation of data through information technology and an active auditing role, tax administration cannot carry out its duty of collecting revenue (Bird, 2003).

5.3.4 Capacitate ZIMRA

It is recommended that ZIMRA’s systems be automated to enable them to have electronic filing which is critical for the exchange of information with other tax jurisdictions. This will also allow taxpayers to make electronic payments of their tax
dues to ZIMRA from any part of the world. The further training of assessors on the new tax system is also recommended. This requires a huge injection of financial resource and empirical evidence from other countries show that donor support would be ideal, as the domestic budget may fail to fund the tax reforms to the level required for them to be implemented effectively.

5.3.5 Postpone implementation date of new tax law

Finally, it is recommended that the government consider postponing the implementation date of the new tax law from the proposed date of 1 January 2014 to a later date. This will enable the authorities to adapt the law to our peculiar circumstances, give clarity to ambiguous sections, capacitate ZIMRA and enhance and increase tax treaties with other countries. Furthermore, this will allow for more consultations with key stakeholders and increase acceptability and hence compliance with the new tax law.

5.3.6 Policy Conclusion

In future, it is recommended that before introducing any tax reforms, government should engage key stakeholders so as to pre-empt possible challenges in the new tax law. The authorities should also never underestimate the need to prepare and inform the public of the new changes brought in by tax reforms. In Ghana (1995), the VAT Act was repealed after only three and half months because of poor information to the public which resulted in civil unrest, demonstrations and riots (Von Soest, 2008).

5.4 Area of further studies

It is recommended that further studies be made on how the small and medium enterprises can be harnessed to improve government revenue. Strategies should be explored on how to cost efficiently register the informal sector players and introduce a culture of paying tax among them.
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59


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www.sars.gov.za
Appendix (i)

8 Glencairn Drive
Sunridge
Harare
5 June 2013,

Dear Sir/Madam

Subject: MBA Research Questionnaire.

The researcher is a final year student studying for a Master of Business Administration Degree with the University of Zimbabwe. The researcher is conducting a research on the topic “An investigation of the administrative capacity of ZIMRA to deliver the envisaged benefits of the new income tax bill”. This research is an issue of great importance within Zimbabwe and yet little is currently known about the impact. You are one of a small number of people who are being asked to give your opinion on this issue.

The researcher would greatly appreciate it if you could assist by completing and returning the attached questionnaire by the 20 June 2013. If you have any questions you wish to ask or there is anything you wish to discuss, please do not hesitate to telephone the writer on the following telephone numbers: Cell 0775 094 227 and Emails: wangupm2010@gmail.com or peter.mushure@nust.ac.zw

All information you provide will be totally confidential. You will notice that your name and address will not appear on the questionnaire and that there is no identification number. This is purely an academic research and all the information received will be treated in the strictest of confidence.

Thank you in advance for your assistance in this matter.

Yours Faithfully

Peter NyashaMushure
Appendix (ii)

SECTION A: Introductory Questions:

1. What is your position?
   
2. In which industry do you work?
   1. Audit Firm
   2. Tax Consultancy Firm
   3. Industry or Commerce
   4. ZIMRA

3. At what level have you studied a Taxation Course?
   1. Postgraduate
   2. Degree
   3. Diploma
   4. Other
SECTION B: Impact of the Residence Tax base –Structured Questions

Indicate how much you agree with the following statements on the impact of the proposed change from a Source tax base to a Residence tax base, which brings into income the “worldwide” earnings of residents.

1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.

Please tick the Appropriate Box for Each Question:

<table>
<thead>
<tr>
<th>Q</th>
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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>The residence basis of taxation is likely to increase the revenue inflows to government coffers.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>ZIMRA is administratively ready for the roll-out of the Residence based tax (capacity).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>ZIMRA’s management information systems and infrastructure are adequate for the new tax system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>ZIMRA has adequate financial resources to implement the new tax system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>ZIMRA’s current skills are adequate for the new tax system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Taxpayers are ready for the proposed implementation of the Residence basis of Taxation on 1 January 2014.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Taxpayers were consulted in coming up with the new tax system and acceptability is likely to be high.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. Tax Compliance will likely improve with the new tax law, thus tax avoidance will be low.

12. The new tax system is cheaper to administer when compared with the current tax law.

13. Adopting a low tax rate in the NITB will lead to increased inflows to government.

14. The new tax system brings simplicity to tax administration when compared with the current tax law.

15. In your opinion, how do you rate the clarity of the definitions used in the NITB?
   
   5. Very Good [ ]
   
   4. Good [ ]
   
   3. Not sure [ ]
   
   2. Poor [ ]
   
   1. Non Existent [ ]

16. What is your perception of ZIMRA’s culture and competence with regards to enforcing tax compliance issues?
   
   5. Very Strict [ ]
   
   4. Strict [ ]
   
   3. Not sure [ ]
   
   2. Relaxed [ ]
   
   1. Non Existent [ ]
SECTION C: Impact of the Residence Tax base – Open ended Questions

17. With the Residence tax system, what are the benefits that will accrue to government or to taxpayers?

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18. What challenges does the new tax regime bring to ZIMRA or business?

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19. Would you say ZIMRA has adequately prepared for the implementation of the NITB, specifically with regards to financial resources, skills and systems? Explain.

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20. What are the provisions in the proposed tax legislation that increase the tax base?

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21. What factors would drive increased compliance with the new tax system?

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22. What can the government do to raise awareness on the NITB?

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............................................................................................................................................
Appendix iii

The table below makes a comparison of the current tax rates and the ones that would be applicable under NITB:

Table 2.1: Comparison of current & proposed tax on capital gains:

<table>
<thead>
<tr>
<th>Income</th>
<th>Current (CGT Act)</th>
<th>Proposed in NITB (business income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable securities</td>
<td>1% listed</td>
<td>25.75%</td>
</tr>
<tr>
<td></td>
<td>5% unlisted</td>
<td>25.75%</td>
</tr>
<tr>
<td>Immovable Property (both Business &amp; Investment):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquired Before 1 February 2009</td>
<td>5% of Proceeds</td>
<td>25.75%</td>
</tr>
<tr>
<td>Acquired After 1 February 2009</td>
<td>20% on capital gains</td>
<td>25.75%</td>
</tr>
<tr>
<td>Movable Property:</td>
<td>nil</td>
<td>25.75%</td>
</tr>
<tr>
<td>Computers, Motor vehicles, Trading stock</td>
<td>nil</td>
<td>25.75%</td>
</tr>
<tr>
<td>Intangible Assets: Goodwill, Patents etc.</td>
<td>nil</td>
<td>25.75%</td>
</tr>
<tr>
<td>Principal Private Residence to non-resident spouse</td>
<td>nil</td>
<td>25.75%</td>
</tr>
</tbody>
</table>
Appendix (iv)

ZIMRA is administratively ready for the roll-out of the Residence based tax?

Games-Howell

<table>
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<tr>
<th>(I) Zimra's current skills are adequate</th>
<th>(J) Zimra's current skills are adequate for the new tax</th>
<th>Mean Difference (I-J)</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
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<tr>
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<td>.249</td>
<td>.000</td>
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<td>.211</td>
<td>.000</td>
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<td>.250</td>
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<td>.843</td>
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<td>1.53</td>
<td>.327</td>
<td>.003</td>
<td>.51 - 2.55</td>
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ZIMRA is administratively ready for the roll-out of the Residence based tax?

Games-Howell

<table>
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<th>(I) Zimra's current (J) Zimra's current skills are adequate skills are adequate for the new tax for the new tax system system</th>
<th>Mean Difference</th>
<th>Std. Error</th>
<th>Sig.</th>
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<th>Upper Bound</th>
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</tbody>
</table>

Based on observed means.
The error term is Mean Square (Error) = .108.

*. The mean difference is significant at the 0.05 level.