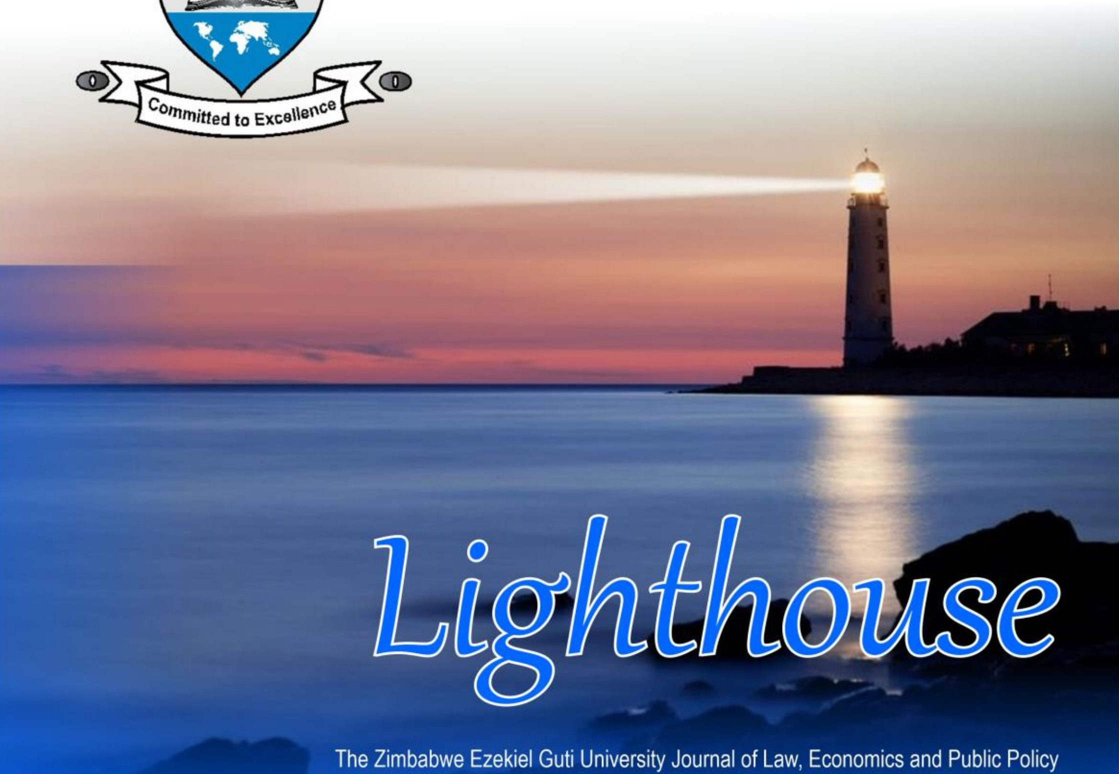
ZEGU
ZIMBABWE
EZEKIEL GUTI
UNIVERSITY
Committed to Excellence



Lighthouse

The Zimbabwe Ezekiel Guti University Journal of Law, Economics and Public Policy

ISSN 2957-8842 (Print)

Vol. 3 (Issues 1&2), 2024

Published by the Zimbabwe Ezekiel Guti University Press
Stand No. 1901 Barrassie Road,
Off Shamva Road
P.O. Box 350
Bindura, Zimbabwe

Typeset by Divine Graphics

Printed by Divine Graphics

SUBSCRIPTION AND RATES
Zimbabwe Ezekiel Guti University Press Office
Stand No. 1901 Barrassie Rd,
Off Shamva Road
P.O. Box 350
Bindura, Zimbabwe
Telephone: ++263 8 677 006 136 | +263 779 279 912
E-mail: zegupress@zegu.ac.zw
http://www.zegu.ac.zw/press

About the Journal

JOURNAL PURPOSE

The purpose of the *Lighthouse: The Zimbabwe Ezekiel Guti University Journal of Law, Economics and Public Policy Journal* is to provide a forum for urban solutions based on a systems approach and thinking as the bedrock of intervention.

CONTRIBUTION AND READERSHIP

Lawyers, criminologists, economists, public policy experts, bureaucrats, students, researchers and many other experts located in both the private and public spheres.

JOURNAL SPECIFICATIONS

Lighthouse: The Zimbabwe Ezekiel Guti University Journal of Law, Economics and Public Policy

ISSN 2957-884 2(Print)
ISSN 3007-2182 (Electronic)

SCOPE AND FOCUS

The journal is a forum for the discussion of ideas, scholarly opinions and case studies on law and policy, statutes, constitutions, general rules of the game (institutional mechanisms) and policy pronouncements or declared positions that are put to scrutiny, weighed, interpreted and evaluated. In all these matters, the intention and context usually define the outcomes and impact. The journal is produced bi-annually.

Guidelines for Authors for the *Lighthouse* Journal

Articles must be original contributions, not previously published and should not be under consideration for publishing elsewhere.

Manuscript Submission: Articles submitted to *Lighthouse: The Zimbabwe Ezekiel Guti University Journal of Law, Economics and Public Policy* are reviewed using the double-blind peer review system. The name(s) of author(s) must not be included in the main text or running heads and footers.

Total number of words: 5000-7000 words and set in 12-point font size with 1.5 line spacing.
Language: British/UK English
Title: must capture the gist and scope of the article and must be succinct
Names of authors: beginning with the first name and ending with the surname
Affiliation of authors: must be footnoted, showing the department and institution or organisation.
Abstract: must be 200 words
Keywords: must be five or six containing words **that are not in the title**
Body: Where the authors are more than three, use *et al*.
Italicise *et al., ibid.* and all words that are not English, not names of people or organisations, etc. When you use several authors confirming the same point, state the point and put them in one bracket in ascending order of dates and alphabetically, separated by semi-colon e.g. (Falkenmark, 1989, 1990; Reddy, 2002; Dagdeviren and Robertson, 2011; Jacobsen *et al.,* 2012).

Referencing Style: Please follow the Harvard referencing style in that:

- In-text, citations should state the author, date and sometimes the page numbers.
- The reference list, entered alphabetically, must include all the works cited in the article.

In the reference list, use the following guidelines, religiously:

Source from a Journal

Anim, D.O. and Ofori-Asenso, R (2020). Water Scarcity and COVID-19 in Sub-Saharan Africa. *The Journal of Infection*, *81*(2), 108-09.
Banana, E, Chitekwe-Biti, B. and Walnycki, A. (2015). Co-Producing Inclusive City-Wide Sanitation Strategies: Lessons from Chinhoyi, Zimbabwe. *Environment and Urbanisation*, *27*(1), 35-54.
Neal, M.J. (2020). COVID-19 and Water Resources Management: Reframing our Priorities as a Water Sector. *Water International*, *45*(5), 435-440.

Source from an Online Link
Armitage, N., Fisher-Jeffes, L., Carden, K., Winter, K. (2014). Water Research Commission: Water-sensitive Urban Design (WSUD) for South Africa: Framework and Guidelines. Available online: https://www.greencape.co.za/assets/Water-Sector-Desk-Content/WRC-Water-sensitive-urban-design-WSUD-for-South-Africa-framework-and-guidelines-2014.pdf. Accessed on 23 July 2020.

Source from a Published Book
Max-Neef, M. (1991). *Human Scale Development: Concepts, Applications and Further Reflections*, London: Apex Press.

Source from a Government Department (Reports or Plans)
National Water Commission (2004). Intergovernmental Agreement on a National Water Initiative. Commonwealth of Australia and the Governments of New South Wales, Victoria, Queensland, South Australia, the Australian Capital Territory and the Northern Territory. Available online: https://www.pc.gov.au/inquiries/completed/water-reform/national-water-initiative-agreement-2004.pdf.
Accessed on 27 June 2020.

The Source being an Online Newspaper Article
The Herald (2020). Harare City Could Have Used Lockdown to Clean Mbare Market. *The Herald*, 14 April 2020. Available online: https://www.herald.co.zw/harare-city-could-have-used-lockdown-to-clean-mbare-market/. Accessed on 24 June 2020.

Taxation, Law and Socio-economic Resilience: The Zimbabwe Case

PRISCILLA MOYO[1] AND MARKNOUGHLER CHIPETIWA[2]

Abstract

The pervasive nature of globalisation has seen some significant impacts in the field of economics, forcing lawmakers to review tax policies. Research conducted on tax has for long failed to furnish simple reflections on what a good system of taxation is. It is either researchers are reluctant, or a good taxation system depends on specific government objectives. This article shows that the production of goods and services for society generally requires funds. A successful government would need imposition of taxes to lawfully gain income. The article gives an overview of some of the contestation surrounding tax evasion concepts and the extent to which taxation laws have either helped governments or not. Taxation can be understood as a mandatory contribution to the support of government and taxation law now is the body of laws that govern person's liability or obligation to pay tax to the government. A good taxation system requires that the costs of administration remain relatively low. The article argues that over the last centuries, a rise in costs of administration has negatively contributed to ordinary citizens being found in breach of the laws for reason that tax is impossible to pay in a deteriorating society where costs of administration are high, which creates an imbalance of income versus costs. Most successful governments would need imposition of taxes to lawfully gain income for the furtherance of other government objectives. The present article, although in part, does not intend to complete survey of literature review, it focuses on the main arguments relating to the purposes of tax in society, the extent to

1 Nelson Mandela University. Orcid ID: 0000-0002-1406-6380, priscillamoyo740@gmail.com
2 Department of Law and Legal Services, Zimbabwe Ezekiel Guti University. Orcid ID: 0009-0005-8666-5031, chipetiwam@gmail.com, mchipetiwa@staff.zegu.ac.zw

which one can legally evade tax and the rationale used by legislators when designing taxation laws.

Keywords: tax evasion, taxpayer, government policy, value added tax

INTRODUCTION

The best tax system for any country is presumably one that reflects its economic structure, its capacity to administer taxes, its public service needs and its access to such other sources of revenue (Bird, 2013). Since taxes are the main source of funding for public goods like public infrastructure and law and order maintenance, raising revenue continues to be the most important role of taxes in a world where many governments are dealing with declining revenue, rising expenditures and ensuing fiscal constraints. Tax policy is not just about economics, it is about politics (Moore, 2007). There are several general tax policy concerns that have historically influenced the formation of taxation systems, presuming a particular amount of income that must be produced that depends on the larger economic and fiscal policies of the country concerned. All the changes in the economy brought about by the implementation of tax systems are included in the consequences of taxes (James and Nobes, 2008). Taxation has an impact on several variables, including employment, investment, consumption and output. Governments could not support their societies' needs if they did not collect taxes. The government uses the money it collects from taxes to fund social projects which makes them essential. However, whether in the rich or developing world, tax avoidance and evasion are the double crimes that face and destroy all tax systems. Adhere (2013) asserts that the Zimbabwean situation seems unique when viewed against the scale of corrupt practices prevalent in the country and the detrimental effects of economic sanctions imposed by the West, resulting in the country having to rely on internally generated income for its operations, including, but not limited to, tax collections. To escape from the constraints of tax, corruption, high tax rates and lack of trust on Government and tax authority by taxpayers, are among the reasons for evasion and avoidance (*ibid.*). This write-up will scour out how taxation laws operate in regulating tax payments and the socio-economic adaptation thereto.

CONCEPTUAL FRAMEWORK

In this section, the conceptual strands underpinning this study are critically outlined and canvassed. Tax in principle should be paid, but when it happens that a taxpayer refrains from or refuses to report income from labour, the existing danger is that such conduct, if deemed illegal, the law imposes sanctions. Such a practice of tax avoidance has led to a new practice of escaping taxes, especially in times of high taxation. The article adopts the ability-to-pay concept, the common optimal taxation concept and the avoidance concept. These concepts are important to give a strict and fair analysis as to why taxes are to be paid and the rationale used by lawmakers for those people who can legally evade taxes. The theory of optimal taxation can be seen as a recipe for minimising the costs of taxation. The costs on which this literature focuses are, as already noted, the efficiency costs of a distorted tax system. This theory focuses on the issue that if the costs of administration are low, taxpayers are always willing to pay, and if costs of administration are high, they can refrain from paying. However, such refrain is against the law. Sandmo (2004) argues that tax evasion is a violation of the law, while it can be argued that an evasion of tax is not generally a violation of the law if certain requirements are met. When a taxpayer refrains from reporting income from labour or capital, which is, in principle, taxable, he/she engages in an illegal activity that makes him/her liable to administrative or legal action from the authorities (Sandra, 2004). Slemrod and Yitzhaki (2002) argue that avoidance consists of actions that do not change an individual's consumption basket which, presumably, includes his/her consumption of leisure. The prevailing doctrine of tax evasion depends on the ability-to-pay concept. This approach treats government revenue and expenditure separately. Taxes are based on taxpayer's ability to pay and they are seen as sacrifice by taxpayers, which raises issues of what the sacrifice of each taxpayer should be and how it should be measured. These theories have helped to establish the relationship between taxation and the law, and the legality of evading taxes and the impact it has on societies.

Two things can be inferred from historical records of taxes. First, in contrast to popular belief, international tax law predates the 1920s. Tax law on a global scale has always existed. According to Scott (2017), tax law and states are inseparable, as it is unlikely that a state - from its pre-modern form to its post-modern one – would be born without an easily accessible basic element that can serve as a basis for appropriation and that can be easily taxed, such as grain. Second, there is nothing new to the ideas of international tax laws as we understand them. They have progressively changed over time and between nations to account for the various purposes of taxation. Garbutt (1984) illustrates that the foundations of international tax law are social, political, cultural, economic and philosophical. Thus, levies' aims differ according to the principles advocated in the country at the time of the tax.

Tax appears from the hazy past as a component of historical civilisations (Bird, 2013). Because of the cultural and societal structures of ancient empires and the lack of accurate historical documents, it is impossible to pinpoint the exact moment when taxes were first implemented. Honouring leaders constituted both a political and a religious obligation. Therefore, "tithing", which the Bible refers to as offerings to the temple, was both a tax and a gift (Ayua, 1996). Humans were frequently viewed as the monarch's or emperor's property in the early ancient empires, when they owned everything. Building pyramids, fighting in wars, building levees — these kinds of services were frequently performed by the subjects of municipal projects and governmental operations. The people were made to perform these tasks as part of their obligation to the emperor. Providing services to the government was a kind of taxation, just like paying taxes. In ancient civilisations, the central authority did arise, maybe when specialisation progressed to the point where, for example, requiring everyone to work on the pyramid became unfeasible and inefficient (Garbutt, 1984). Rather, it became more cost-effective for the government to employ a portion of the populace to carry out the necessary services, with the remaining citizens funding government expenses, while engaging in other activities.

LITERATURE REVIEW

The present section presents a review of literature that mapped the discourse of the present article. The literature is reviewed along the lines on how the international scene, which includes international bodies, on how it has understood taxation and the relationship it has with the law.

The international tax laws of many nations include tax treaties as a significant component. There exists a current total of over 3 000 bilateral income tax treaties and this number is steadily increasing. The bulk of these agreements draw their foundation primarily from the United Nations Model Convention on Double Taxation between Developed and Developing Nations and the Organisation for Economic Co-operation and Development Model Tax Convention on Income and on Capital (OECD Model). (Atawodi *et al*, 2012). Most tax arrangements are bilateral (Diamond and Suez, 201l). There are not many multilateral income-tax treaties, but tax experts have long advocated for one, and the OECD Base Erosion and Profit Shifting (BEPS) project is currently considering the idea of one, though it is unclear exactly what the multilateral treaty would cover. Chan (2000) states that though its specific definition is ambiguous, reciprocity is a crucial underlying principle of tax treaties.

The League of Nations did not establish international taxation in the 1920s. It is the outcome of an antiquated historical construction. This method adheres to the characteristics of *jus gentium* and its evolution from mecum to multilateral instrument (MLI). Historical recurrences demonstrate how international tax law is everlasting and how history is cyclical. Because of this, states copy one another, people constantly revolt, and modern tax measures frequently include components of ancient taxation. International tax law, however, must change to meet the needs of the modern world and transcend this cyclical understanding of time, exposing its mutation (Gordon and Li, 2009). It is constructed in response to historical facts while embracing modernity. Globalisation, technological advancement and economic growth have caused concepts to change (Diamond and Suez, 2011). Examples include citizenship to nationality; foreigner to consumer; source state to market state; fiscal sovereignty to fiscal jurisdictions; and bilateralism to multilateralism (James, 2008).

In 1776, the renowned economist Adam Smith wrote a book, *An Enquiry into the Nature and Causes of the Wealth of Nations",* which is still relevant today. In that book he described four ideas which he called the canons of taxation. They can also be applied to evaluate a tax regime's quality or badness. Equity, certainty, efficiency and convenience are among them. Adam Smith’s ideas are now nearly always used as a jumping off point when talking about taxation.

According to John Locke's social contract theory, each citizen must be willing to give up some of their freedom in exchange for government protection. This suggests that people are willing to make contributions towards such defence. With Zimbabwe's colonial occupation beginning in 1890, modern tax law was introduced. There were many different types of taxes in pre-colonial feudal countries, but they are unrelated to the present tax system. When colonial administration first began, taxes such as hut and cow taxes were imposed, not to generate income but to topple feudal systems and establish a capitalist economy based on hard effort (Diamond and Saez, 2011). This was done with the intention of generating a money economy and driving Africans to look for work (Scott, 2017). The colonial regime did not build a tax structure intended to raise money until much later, about 60 years later. Low tax rates were used in the early years of the new tax system as a means of encouraging white settlement and agriculture (in tax havens). The nation did not fall into a period of heavy taxation until after Unilateral Declaration of Independence (UDI) in 1965, when then Primister of Rhodesia, Ian Douglas Smith, was up against opposition from the British government and international community. This still holds true.

The *Nyambirai v. NSSA 1995 (2) ZLR 1 (S)* case at the Supreme Court of Zimbabwe, highlighted the taxation aspect. The question that needed to be resolved in the Nyambirai case was whether or not mandatory levies that were placed on and paid for by employees qualified as taxes. The applicant, a young attorney at the time, declined to disclose his National Social Security Authority (NSSA) contribution because he disagreed with the programme's goals. He said he could take care of himself and, therefore, did not need a public pension. He argued that the levy was unconstitutional as a compulsory deprivation of his property, contrary to section 16 of the old constitution. One of the exemptions to mandatory deprivation stated in the constitution was "payment of a tax". After carefully examining the NSSA levy's elements, the court concluded that it qualifies as a tax because it was mandated by law, required payment to the state and the proceeds had a designated use. The court also considered whether the tax or levy was legitimately justified in a democratic society. This was the case because the Constitution only allowed for taxes that were logically acceptable in a democracy. The levy was deemed properly justified by the court due to social governments could not support their societies' needs if they did not collect taxes. The government uses the money it collects from taxes to fund social projects that makes them essential (McKetcher and Evans. 2009). Among these projects are those related to housing, transportation, infrastructure development, health, education and government. In addition to social programmes, governments utilise tax revenue to support areas like environmental protection, scientific research, security and other areas that are vital to the welfare of their citizens. A portion of the funds are also used to support programmes like childcare, unemployment assistance, pensions, among others. (Auerbach, 2010). Governments could not raise the necessary funds to support these kinds of programmes without taxes. In addition, taxes have an impact on a nation's rate of economic expansion. James and Nobes (2008) states that a nation's gross domestic product (GDP) is typically influenced by its taxes. Because of this contribution, taxes support economic growth which, in turn, influences the nation's economy by raising living standards, boosting employment creation, etc.

DISCUSSION

The Economic Importance of Taxes

The country needs reliable infrastructure, including telephones, electricity and roads, for business to thrive. Governments either directly created this infrastructure or through close government engagement. Governments use the tax revenue they receive to fund the construction of infrastructure which stimulates economic growth across the nation. (Adhere *et al*, 2013). Businesses also benefit from the concept of taxes since governments can utilise the money collected to finance loans and other forms of economic stimulation. Taxes contribute to a nation's standard of living (Phoon, 2012). There is a good chance that consumption will be greater and higher when living standards rise. When there is a market for their goods and services, businesses thrive. Businesses would be guaranteed more domestic consumption with a higher level of living. All citizens should profit from taxes since they are necessary. Because of this, it is critical that people pay their taxes and realise that they are not merely a way for the government to "grab money".

Socio-economic Impact of Taxation Systems

Taxation lowers disposable income and, more severely, the purchasing power of the impoverished, limiting their ability to afford comforts, necessities and indulgences (Babcock and Loewenstein, 1997). As a result, work and save less because of their decreased consumption. Investment decisions are based on one's ability to save and higher taxes have the effect of somewhat reducing available funds for investments. The financial burden of taxes and the psychological states of taxpayers, both have an impact on people's propensity to labour, save and invest. (Harris, 1989). The taxpayer's psychological state has an impact on their willingness to work, save and invest. Every tax is perceived by taxpayers as a hardship. The taxpayers' psychological state of mind acts as a deterrent to their desire to work, save and invest (Babcock and Loewenstein, 1997). The net effect will be determined by how elastic their income demand is. Taxation can affect the amount or size of production and structure of production in the economy by directing resources in the appropriate directions.

In the final analysis, it might have some positive benefits on output. High taxes will discourage the use of dangerous medications and goods. As a result, there will be less incentive to produce these goods and the limited resources will, instead, be used to produce other goods that promote economic expansion. Marx *et al.* (2010) echoes that in a similar vein, tax breaks on specific goods are granted in an area deemed to be backward. Thus, by distributing resources to the underdeveloped regions, taxes may encourage balanced regional development.

James and Nobes (2008) conclude that tax revenue used for development initiatives will boost employment levels within the economy. Taxes have a negative impact on savings and investment volume which exacerbates the recession and unemployment issues. Reducing the amount of surplus purchasing power in people's hands should be the goal of taxes during periods of inflation. (Shame, 2014). This can be achieved by increasing the current tax rate and enacting new levies in response to inflation. It will contribute to price stability in this way. Conversely, tax cuts during a slump contribute to higher employment and economic activity levels (Desai and Hines, 2003). Therefore, the purpose of taxes during a depression should be to raise the purchasing power of the populace by using the tax revenue to fund development initiatives that have the potential to create jobs and income. (Marawanyika, 2023).

Kenya and Namibia

Revenue Statistics (2023) highlights that positive results have emerged from the Kenya Revenue Authority's and the private sector's digitisation and automation improvements. Tax administration and policy have changed because of the M-Pesa money-transfer network. Taxpayers can submit and pay their taxes electronically through the system that also includes an Internet application called the Tax System for tax management. To increase service delivery efficiency, encourage paperless operations, enforce compliance, reconcile tax collections, foster accountability and promote transparency, the Kenya Revenue Authority has also automated and digitalised several of its processes.

Digitisation of Value Added Tax (VAT) processes have helped identify data errors and raised VAT collections by more than $1 billion between 2016 and 2017 (Tax News Update, 2020). Although both the amount of VAT paid and the time it takes to comply have stayed constant in Namibia in recent years, they are still higher than the global average. The Namibian Inland Revenue Department moved to an integrated tax administration system at the end of 2016 (TNU, 2020). This system includes new features and reporting options that will speed up tax return processing and lower the amount of lost returns.

Taxation System: Zimbabwe

Maravanyika (2023) asserts that the Zimbabwean Minister of Finance, Economic Development and Investment Promotion, Mthuli Ncube, suggested expanding income tax bands, imposing a 1% wealth tax on homes and apartments valued at US$100 000 or more, setting up a digital platform to combat tax evasion, especially with regard to cigarettes, and imposing a US$0.02 per gram fee on sugar found in soft drinks (apart from water) starting on January 1, 2024 (*The Herald*, December 18, 2023). In addition to the requirement that multinational corporations pay a minimum of 15%of their income, tuck shops and dealers need to obtain licenses and tax clearance certificates to purchase goods directly from manufacturers and wholesalers (*ibid.*). Toll rates are also required to be raised on important highways. According to Minister Ncube, the Treasury attempted to find a compromise between boosting tax-free income, bonus and delivery taxation thresholds for smallholder farmers and generating funds for important government initiatives (*The Herald*, 2019). Under the Income Tax Act [Chapter 23:06], Zimbabwe imposes income tax on businesses and individuals with respect to income derived from sources within or presumed to be within Zimbabwe. Gains from the sale or other disposal of certain assets from a source within Zimbabwe are also subject to a capital gains tax.

Withholding taxes are additionally levied by the Income Tax Act on dividends paid to resident and non-resident shareholders, non-resident fees, remittances, royalties and interest from non-residents, automated financial transactions, intermediate money transfers and non-executive director fees. The Act also imposes presumed taxes on the revenue received by small and medium-sized businesses. The terms of any applicable double taxation agreements, however, apply to all taxes imposed under the Income Tax Act.

The Socio-economic Adaptation to Taxation in Zimbabwe

Minister Ncube underlined that Zimbabwe is highly pro-poor. Looking at the impact on the health sector, therefore, the introduction of the sugar tax can create a cancer fund (*The Herald,* December 7, 2023). The government hopes to establish a cancer fund to purchase supplies and other items related to cancer treatment. Regarding the education sector, the Ministry of Primary and Secondary Education will receive the largest portion of the 2024 budget. It is noteworthy that 275 new schools were created in the previous year. "...as more secondary schools are constructed, the effect they have on children who leave their rural homes to board somewhere else where they can get a proper education is amazing," Minister Ncube stated (*The Herald*, December 13, 2023).

Zimbabwe has experienced little external concessionary borrowing from the international community, including the Bretton Woods institutions, the World Bank and the International Monetary Fund (IMF), because of sanctions that have been in place for more than 20 years. Because of this, the economy of the nation has deteriorated over time and President Emmerson Mnangagwa's government has supposedly been on a relentless engagement and re-engagement drive to improve relations with the international community. The government has used an inward-looking approach to resource mobilisation to support important programmes such as infrastructure development projects, including roads, dams, health care and educational facilities, given the limited borrowing capacity (Ndlovu, 2023) The government has exercised caution and will continue to enforce a strict monetary policy to prevent the printing of extra money, a powerful catalyst for runaway inflation. Among its many infrastructure development initiatives, the government has started building the Gwayi-Shangani and Kunzvi dams and renovating the Harare- Masvingo-Beitbridge highway in the last five years.

The Minister of Finance reiterates:

> *"We are attempting to address the issue of domestic resource mobilisation. Therefore, even in this budget (2024 fiscal policy statement), we need to focus on it. That is really crucial, so if you see us scrounging around for pennies here and there, it's because we need the money. However, we'll try to be cautious so as not to put too much strain on the economy — it's very important that we don't want tax weariness to result from our actions".* (*The Herald,* January 31 2024).

Certain essential products are no longer subject to a 15% VAT after thorough consideration. There is not any price increases for basic food items like bread, milk, cooking oil, mealie-meal, salt, sugar and flour because they are not subject to VAT. On the other hand, some basic commodities like meat, rice, bath and laundry soap, toothpaste and washing powder, have been moved to the standard rating that implies price increases should be kept at a minimum. Retailers can now purchase directly from manufacturers if they have a current tax clearance certificate and are registered with the VAT, according to the 2024 budget plan.

The Confederation of Zimbabwe Industries (CZI) sent a statement to its members stating that Zimbabwe may halt a policy that requires companies to purchase items from licence and tax-compliant companies in response to certain market reactions. The industry lobbying group's chief executive officer, Sekai Kuvarika (2022) declared that the government has granted a moratorium, allowing companies to trade under the terms of December 2023, while the engagements are being finalised.

Tax Avoidance and Evasion

Even with regulatory laws and administrative frameworks in place to collect taxes, governments are still unable to obtain sufficient funds for the development of their individual countries due to tax avoidance and evasion. The non-payment of taxes by individuals, corporations and trusts is known as tax evasion. To lower their tax liability, taxpayers frequently engage in purposeful misrepresentation of their financial situation to the tax authorities. (Phoon, 2012). It involves dishonest tax reporting, such as overstating deductions or declaring income, profits or gains lower than the actual amounts obtained (Moore, 2007). Tax avoidance, on the other hand, is the legal application of tax rules to decrease one’s tax burden by deliberate omission of income on a tax return, non-payment of taxes owed or not submitting a tax return altogether to avoid having to pay taxes to the Government. (Adebisi and Gbegi, 2013).

Both tax avoidance and evasion have a detrimental effect on the economy because they reduce the effectiveness of government initiatives and erode the tax base which increases the deficit in the federal budget. Tax avoidance is defined as any transaction, operation or plan that has the purpose of avoiding or deferring tax, entered into by unusual means or manners, or generated unusual rights or duties under section 98 of the Zimbabwe Income Tax Act (Chapter 23:06). The revenue Commissioner may set aside the plan if he determines that the transaction, operation or scheme's primary goal is avoidance or postponement. The inability of the Zimbabwe Revenue Authority (ZIMRA) to properly run its tax administration systems is what makes the situation in Zimbabwe worse.

While tax avoidance and evasion are issues that affect all tax systems, the scope of corrupt practices that are currently common in Zimbabwe, makes the country's predicament appear unique. Even though the severe economic crisis forced many businesses in Bulawayo to close, the city nevertheless, hosts a sizable number of small to medium enterprises (SMEs) and active large-scale firms. Effective tax collection from these businesses could result in a significant increase in government revenue.

RESULTS: CLOSING THE GAP IN THE TAXATION SYSTEM

The taxation system in Zimbabwe is extremely cumbersome. The nation's high tax burden is having a negative impact on the general public and different economic sectors, especially those that are employed in a formal capacity. One of the main ways the government makes money is through the Pay AS You Earn (PAYE) system, but the high tax rates are making things harder for people who are already having financial difficulties. Rethinking the tax levels and brackets is essential to provide formal employees some relief. It is imperative that the tax-free threshold be raised right away to protect essential livelihoods from needless financial hardship. The intermediate money transfer tax (IMTT), which adds extra costs to every transaction, which regular Zimbabweans make, is another major source of worry. The rate was reduced from 2% to 1%, a decision that is considered by the Zimbabwe Investment and Development Agency (*The Herald*, 24

July 2023) as a step towards the right direction. Economic growth can be promoted by lowering corporate taxes, providing incentives for the creation of jobs and streamlining tax compliance processes.

The government must distribute tax funds in an economical and transparent manner to promote confidence in the tax system. To gain support for the tax system, it will be important to make sure that taxpayers can clearly observe advances in public services, infrastructure and social welfare programmes (Stiglitz, 2010). The expense of living keeps getting out of hand. In recent months, there has been a sharp increase in the cost of items, especially necessities like rent and essential medical medications. The macroeconomic environment is still unstable. It has a detrimental impact on access to food and livelihoods, particularly for low-income households. This is made worse by the fact that the US dollar is the primary medium of exchange. The Finance Minister of Zimbabwe must find a balance between bringing in money for the government and giving aid. The minister must strike a balance between bringing in money for the government and helping regular Zimbabweans who are disproportionately affected by high taxes.

On another note, sugar-filled beverages are subject to a levy in South Africa. This leads to the topic of so-called sin taxes. Certain products and services thought to be expensive or detrimental to society, are subject to a sin tax. They aim to discourage people from participating in behaviours that are detrimental to society. Indeed, they also generate income. Zimbabwe might likewise enact similar levies to discourage businesses that negatively impact society from continuing.

CONCLUSION

The best taxation system for any country is one that seeks to improve economic structure with reasonable costs of administration. The aspect of taxation is no longer that of economists, but it is now a matter of politics. In return, political decisions and objectives may, to some extent, affect taxation policies. The article shows that even though both types of businesses are complicit in the act, SMEs tend to avoid or evade taxes more than large corporations. Furthermore, a few elements that support tax avoidance and evasion have been found. High tax rates, distances to the tax payment office, a general lack of interest in tax collecting and other issues, are among the explanations mentioned.

As a result, this study suggests a few tactics to stabilise the financial situation. Based on the idea that a lower tax rate is preferable to none, the government should assess the tax percentage across all tax categories. The government can try to make it easier for citizens to pay their taxes. For instance, taxpayers can pay online and submit their tax payments online. That saves time and discourages individuals from walking large distances that leads to avoidance and evasion. In addition, ZIMRA should step up its tax education and public awareness campaigns to change taxpayers' perceptions of taxes as a burdensome practice that aims to syphon off their hard-earned money. They may also use the discriminant model to organise their campaign and target individuals who the model deems to be high tax evaders. That call for reform would require all stakeholders, including ministries responsible for finance, trade and investment, foreign affairs, Members of Parliaments and general citizens to all have a say in decision-making, especially for decisions which might be a detriment to themselves. Such will erase and cure the overlapping and hanging questions of what a good taxation system is.

REFERENCES

Adebisi, J. F. and Gbegi, D (2013). Effect of Tax Avoidance and Tax Evasion on Personal Income Tax Administration in Nigeria, *American Journal of Humanities and Social Sciences 1*(3), 125-134.

Auerbach (2010). Directions in Tax and Transfer Theory. In Melbourne Institute –Australia's Future Tax and Policy Conference, Melbourne Institute of Applied Economic and Social Research.

Ayua, I .A (1996). *The Nigeria Tax Law*. Beirut-Lebanon: Spectrum Law Publishing.

Babcock, L. and Loewenstein, G. (1997). Explaining Bargaining Impasse: The Role of Self-Serving Biases. *Journal of Economic perspectives, 11*(1), 109-126.

Bird, R.M. (2013). Taxation and Development: What have we Learned from Fifty Years of Research? *Public Finance and Management, 13*(4), 266-288.

Chan, C.W. Troutman, C.T. and O‟Bryan, D. (2000). An Expanded Model of Taxpayer Compliance: Empirical Evidence from United States and Hong Kong, J*ournal of International Accounting, Auditing and Taxation, 9*(2), 83-103

Desai, M. and Hines, J. (2003). Old Rules and New Realities: Corporate Tax Policy in a Global Setting, *National Tax Journal 57*, 5937-60.

Diamond, P. and Saez, E. (2011). The Case for a Progressive Tax: From Basic Research to Policy Recommendations. CESIFO Working Paper 3548.

Garbutt, D. (1984). The Significance of Ancient Mesopotamia in Accounting History. *The Accounting Historians Journal, 11*(11), 83-101.

Gordon, R. and Li, W. (2009). Tax Structures in Developing Countries: Many Puzzles and a Possible Explanation, *Journal of Public Economics 93*, 855-66.

Harris, T.D. (1989), The Effect of Type of Tax Knowledge on Individuals' Perceptions of Fairness and Compliance with the Federal Income Tax System. PhD Thesis, University of South Carolina.

James, S. and Nobes, C. (2008). *The Economics of Taxation, 8thed.* Birmingham: Fiscal Publications.

Marawanyika, G. and Ndlovu, R. (2023). Plans Wealth Tax, New Lithium Levy to Boost Revenue Bloomberg News Zimbabwe. https://www.bloomberg.com/news/articles/2023-11-30/zimbabwe-plans-14-fold-increase-in-spending-to-aid-economy. Accessed 10 January 2024.

Marx, J. *et al*. (2010). *Financial Management in South Africa. Third Edition*. Cape Town: Pearson.

McKerchar, M. and C. Evans (2009). Sustaining Growth in Developing Economies through Improved Taxpayer Compliance: Challenges for Policy Makers and Revenue Authorities. The *Journal of Tax Research, 7*, 171.

Moore, M. (2007) How Does Taxation Affect Quality of Governance? *Tax Notes International, 47*, 79-98.

Phoon, M. (2012). Tax Evasion, Inequality and Progressive Taxes: A Political Economy Perspective. School of Economics and Finance Queensland University of Technology.

Sandmo, A. (2004). The Theory of Tax Evasion: A Retrospective View. Norwegian School of Economics and Business Administration. Discussion Paper 31/04.

Scott, C. (2017). *Against the Grain – A Deep History of Earliest States,* 22. London: Yale University Press.

Sandra, G. and Panji, A. (2022). Judicial Review of Criminal Liability of Doctors for Malpractice. *Journal of Indonesian Scholars for Social Research, 2*(2), 98-106.

Shame, M. (2014). State CEO in Tax Evasion Scam [*The Financial Gazette*]http://www.zimbabwesituation.org/?p=38529. Accessed 10 January 2024.

Slemrod, J. and Yitzhaki, S. (2002) .*Tax Avoidance and Administration*. In: Auerbach and Feldstein (eds). *Handbook of Public Economics, Volume 3*. Amsterdam: Elsevier Science.

Stiglitz, J. (2010). Development-oriented Tax Policy. In: Gordon, R. (ed.). *Taxation in Developing Countries*. New York: Columbia University Press.

Tax News Update (TNU) (2020). A Review of the 2020 National Budget, Namibia Issues 2020 Budget, Global Edition.