

# **AN INVESTIGATION INTO THE CAUSES OF TAX AVOIDANCE AND TAX EVASION IN ZIMBABWE: A SURVEY OF BUSINESS OPERATORS IN BULAWAYO**

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## **Abstract**

*Tax evasion and avoidance are the twin devils that confronts and destruct every tax system whether in the developing or developed world. 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 European Union resulting in the country having to rely on internally generated income for its operations including but not limited to tax collections. The study, aims at examining comparatively, the causes of tax evasion and tax avoidance between SMSs and Large corporations operating in Bulawayo the second largest city in the country. Questionnaires were administered, one to solicit information from companies and the other from ZIMRA officials. Descriptive statistics and discriminant analysis were used to address the objectives of the study. Results shows that SMEs are more likely to default from tax payment than large scale corporations. Corruption, high tax rates and lack of trust on Government and tax authority by taxpayers were among the reasons for evasion and avoidance. We recommend the Government to review tax rates for affordability and ZIMRA to undertake intensive tax campaigns to educate people on this important and mandatory national exercise of paying taxes due.*

**Keywords:** Tax avoidance, tax evasion, Tax compliance, Large corporations, Zimbabwe

## INTRODUCTION

In an attempt to trap Jesus, the Pharisees sent their disciples and Herodians to ask Him whether it was right to pay taxes to Caesar or not. “Show me the coin used for paying tax.”... “Whose portrait is this? And whose inscription?”... “Give to Caesar what is Caesar’s, and to God what is God’s.” (New international version, Matthew 22:19-21)

Bible scholars will easily appreciate that this was during the Roman colonial rule and that tax was collected by the said colonial masters, this points to the ancients of tax. In Africa today, South Africa and Kenya are generally considered the most efficient tax collectors in sub-Saharan Africa, Kumar (2014). The importance of an efficient tax system cannot be over emphasised to the socio-economic, technological and political well-being of a nation. An efficient tax system in this context is defined as a tax that enables the taxpayer to pay exactly what is due to the state. Overpayment places an unnecessary burden to the taxpayer and underpayment cripples Governments on their ability to provide essential services to the citizens.

Tax is the major source of income for many if not all Governments, whether for developed or developing nations. Countries have set dedicated institutions for tax collection purposes. In addition to these institutions, there are various Acts which provides a road map on how to administer tax. All these efforts point to the significance of tax as revenue generation mechanism for a nation. Mobilizing domestic resources as a means to finance development has become an important developmental issue. In the past the emphasis on financing development focused on scaling aid and external borrowing. For a long time mobilizing domestic revenue has been neglected, despite being a better long-term option. The reasons for this included the inherent pessimism about raising revenue, a prevalent ‘small-state’ ideology and a preference for foreign aid-led solutions, AFRODAD report (2011). In the same report, it is alleged that taxation is a major tenet of any domestic resource mobilization tools at the disposal of developing countries. Taxation also plays an important role in shaping the distribution of benefits from higher income citizens to those most in need in a country. Another less discussed importance of taxation is its centrality to good governance, as it allows the government more policy space and capacity to be responsive and accountable to national objectives that are not tainted by the conditionalities of foreign aid.

Despite the presence of governing Acts and administrative structures for tax collections purposes, tax avoidance and evasion continue to cripple Governments efforts in gathering enough financial resources for the betterment of their respective nations.

Tax evasion is the non-payment of taxes by individuals, corporations and trusts and it often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities in order to reduce their tax liability.

It includes dishonest tax reporting such as declaring less income, profits or gains than the amounts actually earned or overstating deductions.

Tax avoidance on the other hand is the legal use of tax laws in order to reduce one's tax burden through deliberate omission of income on a tax return, non-payment of taxes owed or not filing a tax return altogether to avoid having to pay taxes to the Government.

Tax evasion and avoidance both have negative implications on the economy as they hamper governmental efficiency engaging in beneficial programs and result in an eroded tax base which in turn widens the national budget deficit.

Section 98 of the Zimbabwe's Income Tax Act (Chapter 23:06) refers to tax avoidance in general as a transaction, operation or scheme that has the effect of avoiding or postponing tax or was entered into by abnormal means or manner or created abnormal rights or obligations.

If the Commissioner believes avoidance or postponement was the sole or main purpose of the transaction, operation or scheme, he may set the scheme aside. What aggravates the problem in the Zimbabwean scenario is that the Zimbabwe Revenue Authority lacks capacity to fully administer its tax management systems. The table below shows revenue contribution for 2009 and 2010 according to the 2011 budget statement.

Table 1: Revenue contribution in 2009 and 2010

<b>TAX</b>	<b>% CONTRIBUTION IN 2009</b>	<b>% CONTRIBUTION IN 2010</b>
VAT	39	39
PAYE	15	19
CUSTOMS DUTY	26	16
CORPORATE TAX	4	10
EXERCISE DUTY	7	7
OTHER TAXES	3	3

*Source: 2011 Budget statement*

Since 2009, VAT has been the major contributor of revenue contributing 39% of the total (Table 1.1) above. PAYE and Customs duty may sometimes swap positions as is the case reflected in the table above, whereby in 2009 the contribution of customs duty was 26% against that of PAYE which was 15%. However in the year 2010, PAYE contributed more than VAT (19% and 16% respectively). It is important at this point to mention that avoidance and evasion both have a detrimental impact of lowering the amount of revenue collected by the country. Zimbabwe has for the past couple of years experienced drastic financial constraints to sustain its economic activities as well as paying for employment cost resulting in the country recently failing to pay bonuses to its employees. Furthermore, given the economic sanctions imposed by the European Union and dwindling Foreign Aid, the importance of an effective tax system free from

the twin devils namely avoidance and evasion cannot be overemphasised to the development of the country. The twin devils can be practiced by individuals and/or corporations. They can be for the various forms of tax for example avoiding and evading VAT, PAYE, Customs duty, and any other form of tax is at risk of being avoided and evaded.

Although tax evasion and avoidance are problems that face every tax system, the Zimbabwean situation seems unique when viewed against the scale of corrupt practices currently prevalent in the country. Despite the closure of several companies in Bulawayo due to harsh economic downturn, there are still a number of SMEs and vibrant large-scale corporations currently operating therein. If tax collection can be instituted effectively from these companies, a good contribution to Government revenue can be realised.

In view of the alluded background, the researcher intends to focus on tax avoidance and evasion by all business player categories in the City of Bulawayo to gain a clear picture of how much the Government of Zimbabwe might be losing due to tax noncompliance, mainly focus in this study will be on both SMEs and large scale corporations

## LITERATURE REVIEW

There is a clear cut difference between tax avoidance and tax evasion (Adebis and Gbegi, 2013). One is legally accepted and the other is an offence (James and Nobes, 2008). Jayeola, 2010 pointed out that tax evasion is an attempt to escape tax liability (wholly or partially) by breaking the tax law and it is a criminal act since it is achieved principally by making false declarations such as under-reporting income or over reporting relieves and allowances. While, tax avoidance is an attempt to escape tax liability by circumventing the law. Thus, even though the tax evader and tax avoider have a similar end (that is, reduce tax liability) their means to that end differ (Ayua, 1996). The evader is a criminal while the avoider is just smart taxpayer who exploits loopholes in the tax laws (and related laws) to reduce tax liability. It is important to realise that all these researchers agree to the fact that tax avoidance and evasion can be clearly distinguished in terms of legality. The definition propounded by (Ayua, 1996) is more informative as it stresses both contrasting and similarities in the two acts. "Both result in reduced tax liability," which is actually a similarity in the two acts, and thus the difference lies in how that reduction is achieved. Interestingly, (Joel and Shlomo, 2002) in one of their chapter of the handbook of public economics, distinguished tax avoidance and evasion by making reference to what they termed "the classical distinction" by (Holmes, 1916) who wrote (as cited by them):

*"When the law draws a line, a case is on one side of it or the other, and if on the safe side is none the worse legally that a party has availed himself to the full of what the law permits. When an act is condemned as evasion, what is meant is that it is on the wrong side of the line ....."*

It is worth mentioning the consistence in the differences between the terms adopted by all the above writers. Holmes, 1916 also draws a clear cut line as (Adebis and Gbegi, 2013) later on suggested.

Joel and Shlomo (2002), in as much as they partially agreed also to such a definition in its simplicity, they allude that in practice, there are many gray areas where the distinction is not clear. According to them thus, the resultant of this unclearness is that, tax authorities may wrongly characterize particular cases. What it vehemently mean is that a tax authority may call an evader an avoider and thus will go unpunished. Contrary, an avoider may be wrongly classified as an evader thus will be punished undeservedly.

One can draw a further distinction within the class of legal responses to taxation. At times we will refer to real substitution responses, or real responses for short, as those responses which come about because the tax law changes the relative price of different activities, and that induce taxpayers to respond by choosing a different consumption basket. Conceptually distinct from real substitution responses are efforts to reduce one's tax liability actions taken in response to the tax system that do not involve shifts along a given budget set (Joel and Shlomo 2002).

## **METHODOLOGY**

The population in this study consisted of all ZIMRA staff based in Bulawayo, Large scale companies that are registered to pay tax and SMEs in Bulawayo. Having defined the population, it is possible to construct a sampling frame. Tustin et al. (2005) define a sample frame as a master list of all samples in the population from which the representative sample can be drawn. For the purpose of this study, the sample frame was drawn from all tax registered companies in Bulawayo (SMEs and Large scale companies) and all ZIMRA employees working in Bulawayo. A sample frame may fail to account for the entire population leading to what is called sample frame error. Not all the members of the sample frame will be included; a representative sample will be drawn.

### **Sampling**

In this research, probability sampling was used. More specifically stratified random sampling methodology which falls under the probability class was used. The stratification criterion used was the size of the company. By size, we mean whether the company is a SME or large scale company. In each stratum, simple random sampling methodology was used to select the companies for the inclusion in the study. The sample size was determined using the Yaro Yamani formula.

According to Yamani, 1964 the sample size is given by:

$$n = N/[1 + (Ne^2)] \dots\dots\dots(3.1)$$

Where:

$n$  = is the sample size

$N$  is the population size

$e$  = is the error limit (0.05 on the basis of 95% confidence level)

The population  $N$  in this case is based on all companies both large and those that can be categorized as SMEs according to ZIMRA classification criterion. Thus  $N= 209$  (Registered large scale corporations) +10008 (Registered SMES). Using Yamani's formula we compute the sample as:

$$n = 10217/[1 + (10217 \times 0.05^2)]$$

$$n = 385$$

Now we let  $N = 385$ , the number of population units in the target population (Where the required sample size is taken to be a population for purposes of stratification). The next step is to determine weights for each stratum based on the total number of units in the stratum as follows and making use of the table below:

Table 2: Summary of tax registered companies in Bulawayo by category

Company category	Total registered
SMEs	10008
Large scale companies	209
Total	<b>10217</b>

Source: ZIMRA Bulawayo secondary data

We let  $N_h$  the number of population units within each stratum  $h$  for  $h = 1$  and  $2$

By letting the first stratum to be the SMEs, we note from table above that  $N_1 = 10008$  and  $N_2 = 209$ . We define the weight of stratum  $h$  as:

$$W_h = \frac{N_h}{N} \dots\dots\dots \text{Equation (3.2)}$$

Using equation (3.2) above we get  $W_1 = 0.98$  and  $W_2 = 0.02$

We shall use the Proportional allocation to strata rule for stratified random sampling to obtain better precision that makes use of equation (3.3) given below:

$$\frac{n_h}{n} = \frac{N_h}{N} \dots\dots\dots \text{Equation (3.3)}$$

Equation (3.3) by making use of equation (3.2) reduces to:

$$n_h = n \times \left(\frac{N_h}{N}\right) = n \times W_h \dots\dots\dots \text{Equation (3.4)}$$

Using equation (3.4) we computed the number of companies for each company to be included in the sample and we got the results summarized below:

Table 3: Sample size for each registered company category

Company category	Sample size computed proportionally to size
SMEs	$385 \times 0.98 = 377$
Large Scale	$385 \times 0.02 = 8$
Total Sample size	<b>385</b>

In addition to the above questionnaires administered to the two categories of company, a different set of questionnaire was administered to the tax authority in Bulawayo. The number of questionnaires administered were chosen arbitrarily to exceed 10% of the total number of employees.

Given the population type in this study, stratified random sampling was considered appropriate and thus was used. Stratification was chosen to cater for heterogeneity in the population brought by the two different company classes based on size.

### Ethical Consideration

- Respondents were informed in advance of the research and what it sought to achieve.
- Confidentiality of information was emphasized to the respondents to do away with the fears of victimization to allow free disclosure of information.

## ANALYSIS AND RESULTS

### Demographic and Social Cultural attributes of respondents

A total of 385 were recruited in the survey. 94 of the respondents were in the 18 to 29 years age group constituting 24.4% of the total respondents. The modal and group was the 30 to 39 years age group accounting 26.0% of the total. It is worth mentioning that 25.5% of the respondents were the elderly group (50+), The 50+ age group normally is an age group that the general populace will endeavor to imitate in every facet of everyday life as people have a general belief that they have seen it all.

The results shows almost equal representation by gender that is 50.6% male against 49.4% female who were included in the study. The result is a clear effort by the Government of Zimbabwe to achieve female empowerment as many females are now being involved in business venture a practice which was more for men in the colonial era.

The number of respondents for each company category was determined using the Yaro Yamani formula (Equation 3.4). 377 individuals were selected to represent SMEs (97.9%) and



only 8 (2.1%) people were representing large scale corporations. The pie chart above shows the results.

### Marital status and Highest level of education

135 respondents accounting 35.1% of the total respondents were married, 125 (32.5%) were single and the rest 125 (32.5%) respondent pointed to other marital status. Possible these could be divorced, and/or widowed.

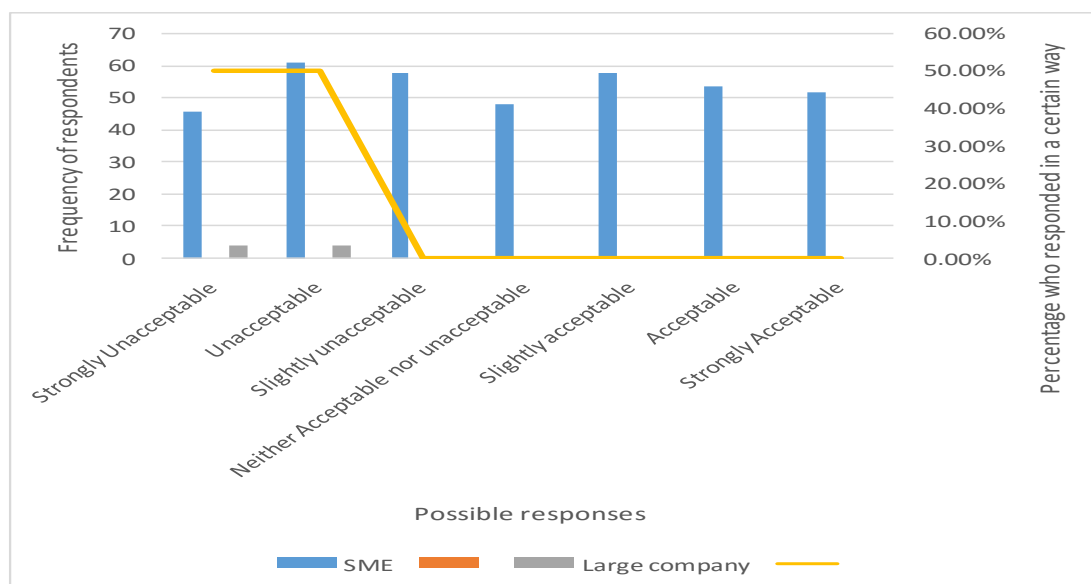
Most of our respondents had secondary education, with 31.4% having tertiary education and quite a large number of respondents had up to primary education.

### Comparison of Tax morale between SMEs and Large scale companies

The intrinsic motivation to pay tax is referred to as tax morale. To get an insight on compliance and noncompliance issues between SMEs and large scale corporation, five questions to measure tax morale of respondents were administered. There were seven response categories for each question. The first three response categories that is slightly acceptable, acceptable and strongly acceptable were added. The other three were treated the same as the first but were considered to mean the factor was unacceptable. The response “neither acceptable nor unacceptable” was considered as a reflection that the respondent was undecided.

### *Trading or exchanging goods and service with friends or neighbour and not reporting it in your tax form*

Figure 1: Multiple bar graph showing distribution of respondents to the test item



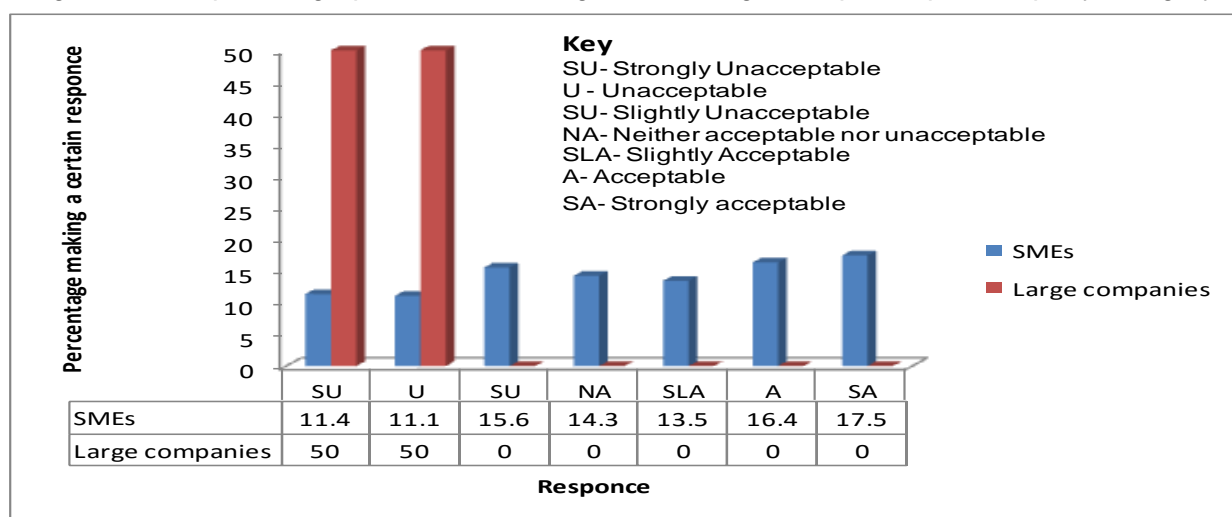


As shown in fig 1 above, all respondents from large companies were of the view that not reporting trading or exchanging goods and services with friends or neighbor in the tax form was unacceptable. Contrarily, only 43.8% of the SMEs shared this view, with 12.7% remaining undecided and 43.5% of the respondents from SMEs contending that it is acceptable. The result differed with findings by Munnich (2007) who pointed out that compliance for SMEs was 6 times higher than those of large scale corporations.

### ***Reporting your main income fully but not including small outside income***

A chi-Squared test for the null hypothesis “There is no significance difference between the respondent’s company category and whether reporting main income fully but not including small outside income will be done”, was conducted. A p-value of 0.000 is indeed less than the level of significance of 0.05 or even 0.001. As a result, the null hypothesis is rejected in favor of the alternative. We thus conclude that the fact that you belong to a large company or to an SME determines your behavior on whether to report your main income fully but not including small outside income. To get a clearer picture a follow up analysis was done using descriptive graphical technique. The results of the analysis are displayed in Fig 2 below. 47.4% of the SME respondents believe it is acceptable to report your main income fully but not including outside income against almost no respondent holding a similar view from the large scale company counterparts. Instead, 100% of the large scale respondents believe such an act is unacceptable. However it is worth mentioning that some SME respondents (38.1%) also shared the same view that reporting your main income fully but not including small outside income was acceptable. 14.3% of the SME respondents remain undecided on the matter.

Figure 2: Multiple bar graph with bottom legend showing % response per company category



***Being paid in cash for a job and then not reporting it in your tax form***

45.6% of the SME respondents considered being paid in cash for a job and then not reporting it in the tax form as unacceptable against the 100% large scale respondents who shared a similar view. 16.4% of the undecided respondents were from the SME, with 37.9% saying that being paid in cash for a job and then not reporting it in the tax form was acceptable.

***Cheating on tax if you have the chance***

41.6% of the SME respondents believe cheating on tax if given the chance is not acceptable versus the 100% respondents from the large scale side holding a similar view. However, none of the respondents from the large companies indicated that such an act is acceptable except those from the SME who account 44.8% of the total SMEs respondents.

**Tax Evasion and avoidance**

Three test items were used to measure tax evasion. There were seven response categories for each statement namely: “Highly unjustifiable”, “Unjustifiable”, “Slightly unjustifiable”, “Neither justifiable nor unjustifiable”, slightly justifiable”, “Justifiable” and “Highly justifiable”.

The frequencies of the first three response categories were added and taken to mean “Unjustifiable”, whilst the frequencies of the last three categories were added to signify the factor in question is “justifiable”. The forth response category was taken to mean undecided.

Table 4: Summary response distribution for tax evasion and avoiding questions across company categories

Question/Test item	Company category	Response category						
		HU	U	SU	N	SJ	J	HJ
Claiming Government benefits to which you are not entitled	SME	18.8%	16.2%	13.3%	10.6%	13.0%	13.3%	14.9%
	Large	50.0%	25.0%	0%	0%	25.0%	0%	0%
Cheating on taxes if you have the chance	SME	11.7%	14.6%	16.2%	17.2%	12.7%	12.5%	15.1%
	Large	25.0%	25.0%	25.0%	0%	0%	25.0%	0%
Someone accepting a bribe in the course of their duties	SME	15.1%	11.9%	15.6%	13.5%	15.4%	15.9%	12.5%
	Large	25.0%	0%	25.0%	25.0%	25.0%	0%	0%

Table 4 above shows that 25% of the respondents from large scale companies' claim that it is justifiable to claim government benefits to which you are not entitled, with the rest (75%) claiming it is not justifiable. On the other hand, 41.2% of the respondents from SMEs pointed out that it is justifiable to claim government benefits to which you are not entitled which is 16.2%

more than those from large companies sharing the same view. 10.6% from SMES are undecided and 48.3% thinks it is not justifiable against 75% (26.7% less) than those sharing the same opinion from large scale companies.

With regards to the issue of cheating on taxes if you have the chance only 25% of the respondents from the large scale approved the act as justifiable with the rest viewing it as not justifiable. Quite a high number of SMEs respondents believe the idea of cheating on taxes if you have the chance is justifiable (40.3%), 17.2% are undecided and the rest 42.5% consider the act as unjustifiable.

Finally, on the issue of someone accepting a bribe in the course of their duties 50% of the large scale respondents believe it is unjustifiable and 25% were not decided with the remaining 25% pointing out that the act is justifiable. On the other hand, 43.8% of the respondents from the SMEs believe the acceptance of a bribe in the course of one's duty is justifiable, 13.5% were undecided on the matter and the rest (42.6%) condemned the act is unjustifiable.

Conclusively, the responses for the three test items that were meant to solicit views from the potential tax payers reflected some negative attitude and hence can be a sign that both small and large scale corporations can engage in tax avoidance and evasion. However it is worth mentioning that SMEs tends to have a low morale attitude as compared to the large scale counter parts and hence one might infer that there are more likely to evade and avoid than their large scale counterparts.

### **Attitude towards legal system, government at all levels, tax avoidance, trust in fairness of tax officials and tax administration.**

To measure trust in the legal system, a single statement for each was used that is, for trust in government at all levels as well as attitude towards tax administration and fairness of tax official. Like in the previous sections of this chapter, the manner of presentation was such that the frequencies of the first three responses were added to mean unfavourable. That is a respondent whose response is "Very unfavourable", unfavourable or "Moderate unfavourable", is interpreted to mean the respondent is unfavourable to the statement in question.

#### ***Trust in the legal system***

Both SMEs and large company respondents are unfavourable to the legal system. 41.6% of the SMEs respondents do not trust the legal system, versus 75% of the large scale companies who share the same view. Most interestingly, no single large company respondent is in favour to the legal system. However 45.4% of the SMEs are in favour of the legal system.

***Trust in government at all levels***

Companies totally disapprove government at all levels as shown in appendix H (100%) of the respondents are not in favour of the government. There are mixed feelings amongst SMEs as some are for and others against. 44.8% of the SMEs are against government and 40.5% are in favour thereof.

***Trust in tax administration***

75% of the large scale respondents believe that their attitude towards tax administration is unfavourable, whilst the remaining 25% expressed their attitude as favourable.

On the other hand, SMEs respondents have mixed opinion over the way tax is administered. 45.9% of the SMEs respondents do not favour the tax administration, 14.1% are undecided and 40.1% favours the tax administration.

***Attitude towards fairness of tax officials***

As shown in appendix J, Large scale companies do not seem to have any trust in the fairness of tax officials with up to 100% of the respondents from this category pointing out that there are unfavourable to the fairness of tax official. To the contrary, SMEs respondents have mixed feelings in this regard. 42.1% being favourable to the fairness exhibited by tax officials and 44.5% however being unfavourable.

**Discriminant Analysis model based on attitude towards payment of tax**

A discriminant analysis was conducted to predict, given a set of variables pertaining to a potential tax payer whether he/she is an evader or not.

Preliminary results shows significant mean differences for some of the predictors on the dependent variables. While the log determinants were quite similar, Box's M indicated that the assumption of equality of covariance matrices (Homoscedasticity assumption) was not violated.

The discriminant function revealed a significant association amongst groups and all predictors accounting for 69.3 of between group variability, closer analysis of the structure matrix revealed only four significant predictors namely company category (-0.546), age of respondent (.593), marital status (0.46) and gender (0.75), with the rest of the variables being poor predictors. The cross validation classification showed that overall 89.1% were correctly classified.

### **Canonical Discriminant Function Coefficients**

The discriminant function D fitted was:

$D =$

$$0.065 - 3.548(\text{Your company is a ?}) + 0.10(\text{Trust in the legal system}) - \\ 0.038(\text{Trust in the government at all levels}) - 0.024(\text{Trust in tax administration}) - \\ 0.033(\text{Trust in fairness of tax officials}) + 0.644(\text{Gender}) + 0.602(\text{Marital status}) - \\ 0.035(\text{Highest level of education}) + 0.573(\text{Your age group})$$

We interpret the above function in the same manner that a multiple linear regression will be interpreted. In the above case, assuming all the factors are hold constant,  $D=0.065$ , the coefficient of each independent variable shows the percentage partial contribution of each variable to the discriminant function controlling for all the other variables in the equation.

### **Causes of tax avoidance and evasion in Zimbabwe**

To ascertain whether or not SMEs and large scale companies were engaged in tax avoidance and evasion, Section D questions were used. Descriptive frequencies were obtained for each of the test items.

The Eight questions used each contained six possible responses. The manner of interpretation was such that the first two responses that is, completely acceptable, somewhat acceptable was taken to mean acceptable. Neither acceptable nor unacceptable was taken to mean not decided and hence will not be taken into consideration and Somewhat Unacceptable and completely acceptable was taken to mean acceptable. Finally “Don’t know” was weighted equally such that half will be considered as having said acceptable and the other half unacceptable. The results are presented below as displayed in appendices P through to W:

### **Exaggerating Business expenses to reduce the amount of personal taxes you pay**

39.05% are of the view that this is acceptable and 46.85% thinks this is unacceptable. This taken indirectly means 39.05% of the companies irrespective of whether there are SMEs or large scale are involved in tax avoidance and evasion by exaggerating business expenses to reduce the amount of personal taxes they pay. This laterally means whatever amount ZIMRA collects in Bulawayo, it actually 46.85% of the true amount.

Asked on whether “Putting in place complicated financial arrangements in order to minimise or eliminate your tax bill” was acceptable or not,

38.3% respondent that this is acceptable and 46.8% said it’s unacceptable. Even though the responses are slightly skewed to the moral sense, the amount of skewness is not quite acceptable using the same argument presented above.

Pertaining “Using loopholes in legislation to minimise or eliminate your tax bill”, 42.5% can use loopholes in legislation to minimise or eliminate tax with 40.1% believing this is taboo. In this case many tax payers are actually on the wrong side implying that taxpayers believe if they can manipulate the law, it is acceptable. This could be an indication not only of moral decay but, a law fearless society, somehow dreaming to live in the imaginary land of “Do as you want”.

Concerning not fully reporting all your income to reduce the amount of tax you pay, 39.3% thinks this is acceptable whilst 43.3% disapproves the act of not fully reporting all income to reduce the amount of tax you pay.

On the other hand as shown in appendix T, 42.75% makes payments to staff without deducting and paying PAYE contributions with only 41.45 percent complying with the statutory requirement.

42.65% of their potential taxpayers will not report all their income from rental property with only 41.05% honestly reporting their income from rental property. 41.7% of the PAYE taxpayers will not report all income earned in their spare time whilst 43.5% will report.

Finally asked whether relocating business premises during tax blitz, was accepted or not, 42.02% of the potential taxpayers will relocate business operations premises during tax blitz whilst 41.55% will not relocate. Possibly the 41.55% are actually the taxpayers who will not fear as the law will only be feared by the one on the wrong side thereof and the 40.02% are evaders and avoiders who will try to run away to avoid reprimand.

### ***Possible factors contributing to tax avoidance and evasion.***

The results presented above gives a clear indication that companies in Bulawayo are engaged in tax avoidance and evasion basing on the responses received. What really causes these companies approximately above 40% of them to be engaged in tax avoidance and evasion? Remain unanswered. In this subsection we present results to reflect the actual causes of engaging in these two act that have robbed nations billions of potential income. Section E of the questionnaire and also the entire questionnaire B (ZIMRA staff questionnaire) responses will be used to answer the question “Why companies evade and avoid tax”

### ***Causes of tax avoidance and evasion as perceived by ZIMRA officials***

A total of 50 ZIMRA employees were recruited in the study based in Bulawayo. The results below summarised the demographic characteristics of the respondents from ZIMRA.

Interesting there were 25% females and 25 male interviewed. 71 Questionnaires administered only 50 were obtained.

## Factors contributing to tax avoidance and evasion from the perspective of the tax authority

23 test items were used to solicit information on the causes of tax avoidance and evasion. Each question had, except for two of them five responses. The responses were: Strongly agree, Agree, Undecided, Disagree, and strongly disagree.

The manner of interpretation was that the first two was taken to mean agreement and the last two was interpreted as disagreement. For example on the question “I have low level of knowledge on tax”, If more respondents that is above 50% agree, then the conclusion will be there is need to train tax official on tax issues as this might be contributing to tax avoidance and evasion. The following table 9 summarizes the results.

Table 5: Factors contributing to tax avoidance and evasion

Test Item	Total % of respondents agreeing	Total % of respondents disagreeing	Conclusion
I have low knowledge on tax	0	100	Not a contributor
I am ignorant of tax laws	0	100	Not a contributor
Tax rates are too high	100	0	Contributor
Long distance to tax payment offices	100	0	Contributor
Tax revenue staff sizes is too small	66	34	Contributor
There is general apathy towards tax collection	84	16	Contributor
Some deliberately attempts to evade tax	100	0	Contributor
Most are ignorant of tax incentives	100	0	Contributor
Limited logistical supply (Vehicles, office space, computer and so on)	100	0	Contributor
Lack of automation hinders collection	66	34	Contributor
Do you think there is corruption in the tax system?	100	0	Contributor
There is quality staff recruitment and training	100	0	Contributor
There is education on tax laws (seminars, role play and so on)	66	34	Contributor
Tax rates should be reduced to increase compliance	100	0	Contributor
Open more offices and collection centres	100	0	Contributor
Staff sizes should be improved	66	34	Contributor
There is persecution of tax defaulters and evaders	0	100	
There is enough external support from law enforcement agencies	100	0	Contributor
There is enough sensitisation on tax incentives	0	100	Not a contributor
There is provision of adequate logistics (Vehicles, office space and so on)	0	100	Not a contributor
Automation of the tax system	16	84	Not a contributor



Out of the hypothesized 21 factors, only five of the factors were found not to contribute to tax evasion and avoidance according to the responses summarized in table above. We used “majority win and minority lose procedure” to decide on which factors causes avoidance and evasion in Zimbabwe are thus those factors with “Contributor” at the conclusion column.

## **DISCUSSION AND CONCLUSION**

### **Comparison between SMEs and large scale companies on compliance and noncompliance with tax payment results**

The different morale attitude results reflected that SMEs are more unmoral in attitude as compared to the large scale corporations. Taken in another way, such an attitude implies that SMEs are most likely to be less compliant as compared to large scale companies. The result agrees with findings by Nyamwanza et al 2013 in the City of Gweru who revealed that most SMEs were found not to comply with income tax and PAYE as most of them do not believe in the tax system and viewed them as too high; thus they greatly affect their businesses.

Despite that the research by Nyamanza et al, 2013 did not make a comparison between SMEs and large scale companies, its findings and the findings in the current study are perfectly the same. A glance on the results on the causes of tax avoidance and evasion will provide an answer as to why SMEs do not comply as compared to large scale corporations.

The factors identified seem to be more detriment to SMEs than the large scale counterparts. For example most of these SMEs are making very low profits in their business so much that if high tax rate is the cause of evading and avoiding then, it will most likely affect SMEs than large scale companies as they may literally be left with nothing if they do pay.

However, the results differ considerable with the findings by Munnich (2007), who revealed that compliance by SMEs is 6 times higher than that of large scale companies.

Mohani, 2003 alluded that compliance is a function of the level of education in a direct positive correlation manner.

Factors identified in the study as contributing to tax evasion and avoidance have been identified in literature on various studies. A study by Hove et al, 2012 at the Beitbridge border post identified corruption as the one of the causes. Atawodi and Ojeka, 2012 conducted a study in Central North of Nigeria to determine factors affecting tax compliance by SMEs. The primary factor they established was the high tax rates being charged by tax authorities, which agrees with the results found in this study.

One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2003). However the results in this study seems to contradict this finding in the sense,

most of the respondents seem to have above primary education but the level of compliance with tax payment is low

The primary findings are that, SMEs tend to evade and avoid taxes more than the large scale companies even though both company categories are involved in the act. Moreover a couple of factors have been identified as contributing to tax evasion and avoidance. Among the factors identified are:

- High tax rates;
- Long distances to tax payment office;
- General apathy towards tax collection and so on

Thus we recommend the following strategies to bring sanity in the fiscal environment:

1. Government to review the tax percentage across various tax categories on the premise that better lower than never;
2. Government to try and make it easy for the people to pay their tax, for example people can submit their tax remittances online and pay online to avoid walking long distances which demoralises and will result in avoidance and evasion;
3. ZIMRA to intensify tax education and public campaigns to bring tolerant and acceptance that taxation is a national duty and obligation of all rather than taxpayers to view it as a burdensome exercise that intend to take away their hard earned cash; and
4. ZIMRA to use the discriminant model to stratify their campaign so as to intensify operations to those who are declared high evaders and avoiders by the model.

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