

Customs and Tax Reforms Effect on Manufacturing and Retail Sectors in Matebeleland (Zimbabwe) (2000-2010)

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Abstract:

The last decade (2000-2010) has been witness to one of the largest customs and tax experiments in economic history, the transformation from one tax system to the other. These changes in the customs and tax systems have had a lasting impact on the manufacturing and retail industries in Zimbabwe. The purpose of this dissertation is to test empirically whether customs and tax policies exist in Zimbabwe and whether these policies/reforms have been beneficial to the local industry. This is done by studying the manufacturing and retail industries in Matebeleland province. A sample of twenty (20) companies has been drawn from the Matebeleland region. Questionnaires have been distributed and interviews conducted with these companies using the stratified random sampling method. Results of the survey indicate that the customs and tax systems that have emerged are, at least in some way, satisfactory in terms of policy but deficient in terms of administration and enforcement. Inadequate education on implementation of the changes in tax and customs systems has contributed to some existing policies on customs and tax incentive not being correctly implemented. Controls on the implementation of the existing policies are not water tight, leaving room for implementers' discretion and ambiguity. Experiences with the tax reforms have been diverse, with some respondents knowing very little about them. It also shows that despite changes in customs reforms, many businesses are still relying heavily on imported goods.

The results from the study suggest that further tax reforms should take into account the need to build vertical accountability of the tax system by ensuring that taxpayers are more involved in the formulation of tax policy and planning for any reforms. Policy makers and implementers of taxes and customs laws should be engaged in meetings to map the way forward whenever changes to taxes and customs systems are about to take place. This should be followed by public awareness campaigns. The tax system must protect local industries, encourage the investments that make manufacturing successful, not tax it to benefit the rest of the economy.

Key words: Tax Planning, Tax and customs reforms,

Introduction

The Zimbabwean business environment has not been friendly to most investors from around year 2000 to 2009. Most companies closed in the manufacturing and retailing sectors of the economy, notably G&D shoe manufacturing, Archers, Zimglass Limited, among others closed down, with the likes of BATA Shoe Company and Phillips relocating to other countries. Cotton printers and Femina garments scaled down. For those that survived the tide; they resorted to importation of equipment, raw materials or even finished goods to improve in the market business. The Independent (Friday 24th June 2005) commented that: "...the specter of increased company closures, unemployment, rising inflation and low productivity in the key manufacturing sector, where many companies are reportedly operating at less than 20% capacity has witnessed several business operators resorting to importing goods...."

The local production capacity was reduced significantly from over 75%, with most manufacturing companies scrambling for survival and operating at an average of 20% capacity. Most of these companies resorted to importing finished goods as substitutes for manufactured ones. Foreign currency was a limiting factor.

The government moved in and introduced tax incentives to try and control the balance of payment through different tax reforms that ensure a win-win situation on both survival of companies and minimizing of too many imports against exports lest the balance of payment would be in trouble. Zimbabwe's balance of payment position had worsened with reports that the figure in 2004 stood at -US\$309 million. The country's account deficit was expected to decline by 24% of gross domestic product (GDP) in 2004 compared to the projected 2%. The then acting Minister of Finance and Economic Development Patrick Chinamasa highlighted this in the press Independent (Friday, March 26, 2004) when he said:

"...absence of balance of payments and project support have compromised performance on the capital account where we now project a negative balance of US\$309 by end of year. Given the shortage of foreign currency government finds itself constrained in the implementation of critical services and projects apart from incurring huge external losses..."

The introduction of Pay As You Earn (PAYE), Presumptive Tax on all informal commercial imports, for example, flea market goods and companies not registered for tax, self assessment of Income Tax, Excise Duty,

Special Excise Duty on alcoholic beverages, importation of vehicles older than five years and of second hand goods, Road toll fees on all vehicles entering Zimbabwe and any province, inclusion of Carbon tax in fuel prices for local vehicles and payment of carbon tax for all foreign registered vehicles on entry into Zimbabwe, amongst others. These were to save the economy from further declining.

Years 2000 to 2009 were characterized by high inflation rates, high interest rates, high unemployment, and foreign currency shortages. The Reserve Bank of Zimbabwe routinely printed money to fund the budget deficit, causing the official annual Consumer Price inflation rates to rise from 32% in 1998, to 133% in 2004, 585% in 2005, passed 1000% in 2006, 26000% in November 2007 and to 11.2 million % in 2008. Meanwhile, the official Currency Exchange Rate fell from about ZW\$1(revalued) per US\$1 in 2003 to ZW\$30000 per US\$1 by September 2007. Interest rates were hovering around 20% on day in day out basis. The overall industrial production capacity had dropped by 47% and unemployment rate increased to over 85% by the end of 2008 with many people leaving employment as a result of retrenchment, company closure, or voluntarily in a bid to seek better pastures. Over 65% employees left the country in search for foreign currency to sustain family baskets. February 2009 saw the introduction of the multi currency system in Zimbabwe. It was observed that a few products, which had disappeared from the shelves, were brought back into business. The government policies, for example, the policy on sourcing of foreign currency by companies, declaration of foreign receipts from exports and proof of use of the foreign currency received, restrictions on quantities of goods and money to be either imported or exported, became detrimental to growth by certain companies. The parallel market, illegal though, had become the source of foreign currency for most importers and so they could not declare source of funds. These policies were put in place to help the business people fully participating in building the economy. The reforms introduced by the government therefore, were viewed by others as helpful to the development of the economy while others viewed them as being detrimental to its growth.

The Confederation of Zimbabwe Industries (CZI) once warned the government to avoid imposing legislative reforms that are, too retrogressive to the development of industries and thus keeping away potential investors,(FIN-Gazette 12th May 2005). It is against this background on the effect of Zimbabwe's customs and tax reforms on imported goods to the manufacturing and retailing sectors that the researchers have taken interest in carrying out this study.

Justification of the research: With tax incentives put in place during the period 2000-2010, within the given background to the study, this has substantially induced the research to be undertaken.

Theory and Empirical Studies

The tax reform: The Oxford Dictionary defines tax as a sum of money to be paid by people or business firms to a government. Part two also reflects that it is something that makes a heavy demand like a tax on one's strength. The same dictionary defines reform as – to make or become better by removal or abandonment of imperfections or faults. It follows then that tax reforms means a better system of making people or business firms pay money to the government.

G.A. Godfrey (1996) defined tax reforms as systematic changes to the present tax system that try to simplify the current challenges to the system from both the administrators of the system and the general public as a whole. The timing of the changes or of effecting the changes however, should be done carefully and strategically so that the whole system can not be distorted or deformed as was suggested by **William Aheruand Gerald Prante (2003:44)**. **Benjamin Flanklin (1999)** reiterated that tax reforms involves changes to the systems of taxes that includes levying of duties on imported and exported goods such as in excise duty and import tax.

The researchers viewed the different definitions to the tax reforms as one and thus involves changing the tax systems including levying of duties on goods across national boundaries to simplify the old systems that would not have found favor from both the administrators and the general public.

Which tax reforms: Gerald Carson (1996) stated that over the years, tax systems have been changed from time to time due to the nature of economies of different countries or according to the cultures of those nations. He thus said

“----- changes to tax systems vary according to the economy of each country and sometimes the living standards of the people in the country provokes the tax environment and thus prompts tax reforms.”

He goes on to give an example of the tax systems in the United States of America in which some business entities are exempt from tax due to their locality or location in some states.

Income tax reforms: According to Income Tax Act(Chapter 23:06) Sec 8(1), the determinant of taxable income is provided from any amount received by, accrued to or in favour of a person or deemed to have been received by or to have accrued to or received by or in favour of a person in any year of assessment from a source within or deemed to be within Zimbabwe excluding any amounts so received or accrued which is proved by the taxpayer to be of capital nature and, includes any amount so received or accrued by way of annuity or in respect of services rendered or to be rendered. The Income tax system therefore was meant to create a separate taxation of income from other sources or forms such as Capital Gains tax on immovable property and marketable

securities.

In other countries, **Hank W. (1996)**, suggested that the income tax reforms were provided, especially in Finland, to expand the tax base and thus ending various tax deductions, which allow people to get some types of income tax-free concessions. He argued that by expanding the tax base through the eliminating of gaps caused by various tax deductions, it is possible to lower the tax rate – the percentage of their income that tax payers have to pay to the state.

The value added tax: The formulation of Value Added Tax in Zimbabwe, which is tax on added value for goods and services at every stage in the production chain line, was a result of short-comings of the Sales Tax system. John Brondolo (2009) in his article reiterated that the significant rapid decline in sales tax base was a result of a historic collapse in retail sales. In Zimbabwe, it was imminent to change the sales tax system since many unregistered operators were running away from paying sales tax even though the threshold warranted them to do so.

The Value Added Tax Act (Chapter 23:12) provides for the levying and charging of indirect tax (VAT) on the supply of goods and services. It also explains that this tax is levied on the importation of goods and, under some circumstances, on the importation of services.

The VAT was therefore introduced to close the gap for unaccounted tax at some point in the line of production. This was done also to try and improve the economy through contribution by all the business people to the fiscus, thus Gerald Prante and William Aheru (2003), say:-

“while simplifying the tax system is a worth objective, the ultimate goal of fundamental tax reforms is to improve the economy’s performance by riding the tax system of policies and provisions that distort economic behaviour and impair economic growth”.

The Paye/Final deduction System (FDS): The Income Tax Act (Chapter 23:06), provides for levying of tax on individual’s remuneration. Under the 13th Schedule paragraph 1, remuneration is defined as all amounts from services rendered that include basic salary, benefit allowances, cash in lieu of leave, bonuses, gratuity, enrolment, transport or housing allowances or any form of enjoyment by an employee during the time of rendering his services. The calculation of amount to be paid is in accordance with the Finance Act, which is the charging act. The amount so charged is calculated by the employer, who is the agent of the state.

The final deductions system on the other hand, is a tax reform on PAYE that ensures that a cumulative deduction of employee’s tax on remuneration is done by employers to ensure that the amount so withheld in any year of assessment is nearly the same as the income tax liability for the concerned employee for the whole tax period – **EverniceTagara and WadzanaiSono(2001)**. On taxing individuals’ remuneration, the rates of tax depend on individuals’ income and their classes as was indicated by **Gerald Carsan (1996:28)** thus:-

“---- the rates of individuals’ tax depends on individuals’ incomes and their classes, and in US tax law, the six tax levels of tax rates applicable are 10%, 15%, 25%, 33% and 35%. The level of taxable income for each bracket depends on the filing status of the individual-----”.

The Excise duty/import tax: The excise duty is tax on excisable goods such as cigarettes, wines, beer, and tobacco and used imported vehicles – Customs Tariff Handbook second (2nd) schedule. Part 1 of the 2nd schedule provides for the levying and collection of duty excisable goods. The excise duty replaced import tax which was charged up and above goods of a value exceeding certain amount that was repealed in the year 2005.

The locally produced goods are charged excise duty. These include locally produced wine, spirits, and tobacco and on used motor vehicles when changing ownership.

The Capital Gains Tax: According to EverniceTagara and WadzanaiSono (2001), the capital gains tax came into effect after Zimbabwe got independence and was meant to broaden the tax base. It is only charged on immovable properties and marketable securities. The Capital Gains Tax Act (Chapter 23:01) section 7 stipulate that a gain from a sale of immovable asset and marketable securities should have tax levied on it.

Withholding taxes: The Income Tax Act (Chapter 23:06), sections 26 – 36C outline various withholding taxes which include resident shareholders’ tax and interest, non-resident tax and fees, remittances and royalties, tobacco levy (section 36A) automated financial transaction tax and informal traders’ tax.

2.2.6 (a) Resident and non-resident shareholders’ tax

Shareholders are subject to a withholding tax on dividends at a rate of 20% per annum, if the shares however, are registered or listed on a stock exchange i.e. Zimbabwe Stock Exchange, the tax is exempt. The tax so withheld is a final tax by the taxpayer. **L.W. Hill (1999:14)** states that:-

“--dividends from foreign companies accruing to an individual ordinarily resident in Zimbabwe are liable to a tax at fixed rate of 20%. They are accordingly and effectively separated from income liable at normal rate”.

2.2.6 (b) PAYE – Pay As You Earn

This is another form of withholding tax and as has already been explained, the basis for calculation of the actual amount withheld by the employer is the final deduction system.

Informal Traders Tax: The Income Tax Act (Chapter 23:06) section 36C stipulates that there shall be charged,

levied and collected throughout Zimbabwe for the benefit of the consolidated revenue fund an informal traders' tax in accordance with the twenty-sixth schedule at a rate fixed from time to time in the charging Act. Evernice Tagara and Wadzana Sono (2001) describe an informal trader as a person who has no proper business records, but carries out a business and earning an insignificant amount of income from that business, that is (ZWS\$100 000) in 2002 and is commonly grouped with people operating flea markets.

A 10% tax on informal traders' business is levied as informal traders' tax and is withheld up and above the rentals paid to the flea market owner such as the city authorities. The levying of informal traders' tax was done in such a way in order to try and simplify the tax system thereby encouraging informal traders to register and thus reduce tax evasion – L. Street (2001).

Presumptive Tax: This is a new tax system introduced in Zimbabwe to widen the tax base and hence harness revenue that can be lost through pilferage or very informal means – Simon James and Christopher Nobes (2008). The group that the government of Zimbabwe has targeted for presumptive tax includes commuter bus operators, flea markets, hair salon and boutiques. The rates of tax are fixed from time to time as is prescribed by the charging Act (Finance Act Chapter 23:04). For the commuter bus operators, the rates differ according to the passenger carrying capacity such as fifteen (15) seaters - \$150, eighteen (18) seaters - \$200, twenty-five (25) seaters - \$300 and thirty-seaters and above \$400.

WHY TAX REFORMS:

Adam Smith (2004:34) indicated that;

“every tax ought to be so contrived as both to take out and to keep out of the pockets of the ‘people’ as little as possible, over and above what brings into the public treasury of the state”.

This means for every state to do well, the treasury coffers should have enough funds so as to keep the country going from the tax payers' money. The Bible according to St Luke 2 verse 1 (King James Version) reads

“And it came to pass in those days that there went out a decree from Caesar Augustus, that the entire world should be taxed...”

Ever since the world has been rendering Caesar what belongs to him and in form of taxes, different studies have been carried out about the importance of tax reforms and the need to use an efficient and effective tax system for the benefit of the state and the industry at large. Most governments are able to sustain their day to day running through revenue collections from taxes, and according to Chavez, Rosgn and Calhio (1999), the development of any nation depends heavily on proper management of tax systems that have benefits in political, economic, social and personal needs. Thaps, Chalms and Taylor (1992) also concurred when they said proper taxation should improve the social lifestyle of the nation and should help develop the economy of the country.

Taxation reforms have been linked to many developments though some authors talk of Christian stories and others have historic backgrounds. In Zimbabwe, taxation has its roots from the Roman Dutch Law, during the Rhodesian era where the white settlers introduced a head tax in order to force native blacks to work in gold mines so as to raise money for their tax. Changes however, to the tax systems have been done from time to time depending on the changes in economies of scale – J Creedy (1985). He reiterated that changes to a tax system or laws are sometimes done to reflect the present time situations.

Benjamin Franklin (1999) has indicated that nothing is as certain as death and taxes, and according to Income Tax Act section 14 as read with the 3rd schedule paragraph 4 (a), the president of the Republic of Zimbabwe is immune to tax. The tax reforms are also effected to simplify the tax environment that is saturated with doubt and unrealistic approaches to administering such tax system as was the Sales Tax system in Zimbabwe – E A Godfrey (2002). This was also supported by Gerald Prante and William Aheru (2003:87) thus they say:-

“while simplifying the tax system is a worth objective, the ultimate goal of fundamental tax reforms is to improve the economy's performance by riding the tax system of policies and provisions that distort economic behavior and impair economic growth”.

Benjamin Franklin (1999:74) again argues that implanting a tax system is one thing and complying with the laws is another. This suggests that even though tax reforms are introduced to simplify the whole taxation process, some elements of the tax payers remain docile that they may not even want to be part and parcel of the tax regime. Parasuramainetal (1990), Oliver (1993) has described this as a performance gap characterized by the “disconfirmation theory”. The theory suggests that tax payers evaluate their services by comparing their expectations, of what happens during service delivery, with their perception of the performance of different tax reforms.

The tax reforms are also effected due to failures of other tax systems that would have proved to have hindered progress and growth of the Industry – Andrew W. Mellow. This man, a US economic analyst commented on the New Treasury Systems and said

“---- the present tax system is a failure, it was an emergency measure, adopted under the pressure of war necessity and not to be counted upon as a permanent part of our revenue structure----”

Wright (1999:143) also cemented the argument by saying “once a tax system is adopted, and is well introduced,

the vulnerability to economic fluctuation is reduced, impoverishment is eliminated and the relationship between the tax payer and the government is thus improved”.

THE EFFECT OF TAX REFORMS

The tax reform involves a lot of research and can consume a lot of time and resources such as money – (Wikipedia.org, 14 April 2010:22:43). Revenue bodies have to take full responsibilities and report constantly on the performances of new tax systems as is expected by governments of different nations. Sometime tax reforms are tailor-made to suit the different environment of different nations, Benjamin Franklin (1999) and other states can try and adopt the tax systems in other countries. A country should make sure that the poor are never required to pay any tax whatsoever until they rise above the poverty line so as to achieve system compatibility and equality of opportunity tax reforms will therefore, among other things, work towards building a simple system of taxes that ensures equality among citizens and protect local manufacturers and retailers from stiff competition – (http://en.wikiversity.org/wiki/towards_a_better_India, 04/10/2011 19:11). For revenue bodies, the effect of increased focus on reporting the outcomes and impacts resulting from their activity call in for consideration aspects of tax payers’ compliance and that of administrative efforts to improve voluntary compliance by tax payers – J. Creedy (1985).

This is a complex area for all revenue bodies, particularly given the difficulties inherent in producing accurate and reliable estimates of tax payers’ reporting compliance across the major tax reforms can be detrimental to the growth of the economies of countries especially for the developing countries that may experience economic down turn with growth continuously lowering. The main channels through which developing countries are affected are:-

1. Decline in prices of commodity exports. The most affected countries being exporters of oils and metal.
2. Decline in demand for services where taxes on individual’s income are huge.
3. Decline in workers’ remittances due to unwillingness to comply with tax laws where workers are left with nothing for savings.
4. Decline in foreign direct investment where taxes are huge as compared with other nations around the globe.
5. Possible decline in overseas development assistance.

Those whose economies are highly specialized and have huge tax rates, the industries are affected and are specifically vulnerable, especially when combined with pre-existing poor governance or weak state institutes to administer tax.

In export and imports, the effect of tax reforms is of numerous humanitarian concerns especially for the Sub-Saharan African as was suggested by Evernice Tagara and Wadzanai Sono (2001). The drop in commodity export prices results in loss of foreign exchange and hence a deterioration of current account balances resulting from too much importing. For some countries whose tax reform on importation and exportation are repressive, an intense fiscal pressure usually face the governments who will be unable to provide the necessary social safety nets, and may also cut back on spending on social services and infrastructure development.

FACTORS THAT ARE CRITICAL IN TAX REFORMS

Provision of Growth Incentive: During the release of a survey on tax reforms and contribution to the fiscal, Amit Mitra, a secretary general to the Revenue Bodies in the Middle East, said that to increase the tax base, it is necessary to provide tax systems that are helpful to growth of small to medium enterprises (SMEs) thus

“there is a need to increase that tax base by introducing the systems that provides growth incentives to small and medium enterprises and providing investment related incentives to large corporate especially in the current economic environment”.

Almost 10% of the government’s tax receipts come from just few companies, the survey has revealed – New Delhi report (March 2009).

Generating extra resources: In Pakistan, Prime Minister Yousaf Raza Gilani has directed the Federal Board of Revenue to improve on tax reforms that would broaden tax bases and book tax evades generating extra resources. FBR Chairman Suhail Ahmed then highlighted the major ways of expanding revenue bases through introducing ‘important’ the reforms in his paper. He elaborated on the reasons for low tax to GDP ratio and gave examples of narrow tax base, exclusion of large number of services, agricultural sector, taxation and low compliance, large undocumented informal sector traders of goods and the weak audit by administrators of taxes.

Tax deductions and eliminations of gaps: According to Hank W (2006), in his paper – Expanding the tax base, a working group was set up to reform taxation in Finland and had its goals an establishing a tax base that is as wide as possible to harness all potential leakages of revenue. In practice, this can be done by ending various tax deductions, which allow people to get some type of income tax-free incentives but expand the tax base through eliminating the gaps caused by various deductions.

Technology and educating tax payers: In Islamabad, exports at a pre-budget public consultation seminar stressed the need for broadening tax bases besides merely changing the tax system and collection of revenue

through technologies and thus making people realize their national responsibility. This was outlined in the first eve pre-budget public consultation titled

“Change in Collective National Behavior, How to Expand Tax Base in Pakistan; Idea for the Budget 2010-11”.

During the meeting and speaking on the occasion Former Chairman Federal Board of Revenue, Abdullah Yousaf said that inefficient tax system should be replaced by machinery strong enough to do the job and thus he presented a concept of utilizing data warehouse to evaluate taxable income of individuals or companies. This has become the practice in countries such as South Africa, Botswana, United States of America and Australia to mention just a few.

EFFECTS OF ECONOMIC CRISIS ON TAX REFORMS

According to Karl W. Smith, in his research entitled “The Effect of the Global Economic Crisis on Tax Revenue”, which was carried out in North Carolina (USA), tax revenue fluctuate in response to economic crisis and hence the need for more tax reforms.

The following conclusions were made:-

Tax revenues: Tax revenues rise and fall with the economy, but not all revenue sources are equally sensitive to all areas of the economy. The state’s income tax revenue depends largely on its employment levels. Higher levels of employment however, do not mean more workers are paying more tax to the state, but also larger profits for corporate bodies or businesses. The state’s sales tax or Value Added Tax revenue depends on the level of retail sales and property tax revenue depends on the average property values. Historically, income tax is the most volatile source of revenue; it rises very quickly during periods of economic growth and falls rapidly during recessions.

Sales tax: A few communities in North Carolina e.g. (Swain and Dare counties) were experiencing large swings, in the property values however, for most of the state, the property tax base remained stable. The sales tax base on the other hand experienced a rapid decline, one that outpaces not only its historical performance but also the income tax base as well. This change in performance is the result of a historic collapsed in retail sales. Some of this decline was a result of a reduction in automobile sales. Much of it, however, was because of a drastic change in the spending and saving patterns of American consumers.

Gross domestic product: John Brondolo (2009) concluded that the global economic crisis has led to a substantial decline in government revenue relation to gross domestic product (GDP) in many countries, which seemed likely to continue for time. For many countries, tax reforms were introduced in the period 2000 to 2008 when generally governments revenues dropped by an average of 8 percent point of GDP worldwide. This decline appeared to have accelerated in 2009: the annualized tax yield decline average 4 percentage points of GDP across selected emerging and developing economies in the final quarter of 2009.

EFFECT OF TAX REFORMS ON IMPORTS AND EXPORTS

According to J. Creedy (1985:61) tax reforms include import tax on imported goods as well as excise duty. These forms of taxes are administered under the Customs and Excise Act (Chapter 23:02) as read with the General Regulations. The same Act gives powers to the Commissioner General of Taxes to administer customs duties and effect controls of certain imports and exports and thus assist several government agents in controls.

SECTION 47 (1) (a) – (e) of Act (Chapter 23:02) prohibits important of goods such as basis, counterfeit or forged coins) currency that is (not manufactured wholly). The section 47 (1) (f) empowers the Commissioner General to enforce controls on behalf of any other authorities. The following are authorities governing the important of certain types of Goods:-

(a) STRUCTURAL INSTRUMENT (SI) 766/74: This is legislation on importation and exportation regulation authority. It stipulates that generally goods should be imported through an open general import licence (OGIL) and is read in conjunction with the International Trade Import and Export legislation Sec. 3(1)

(b) STRUCTURAL INSTRUMENT (SI) 350/93: This is the agricultural order act that governs the important of agricultural produces such as seeds and fertilizers. It stipulates that no such produce can be imported without a permit or licence. This also works hand in hand with the Grain Marketing Board Act (Chapter 18:14).

(c) STRUCTURAL INSTRUMENT (SI) 154/76: This is legislation on important of plants that are prone to pests and diseases. It is also read with the Animals Health regulation Act 57/89. These stipulates that no important of plants can be effected without the clearance from the health department and get a permit. Section 3 (2) of the Feticide Regulations (SI 10/77) also applies to these imports.

(d) STRUCTURAL INSTRUMENT (SI) 745/77: This is legislation on important of medicine and allied substances. It stipulates that all medicinal products should be labeled for them to be imported and the shelf- life should be displayed prominently. This is also read with the Dangerous Drug Act (Chapter 15:02) that includes restrictions on importation of dangerous drugs such as Narcotic, drugs. A permit will need to be obtained from the Ministry of Health.

EMPIRICAL EVIDENCE FROM OTHER RESEARCHERS

Tax reforms in other countries have always been done in accordance with the pieces of legislation governing the running of taxations in those countries – Gerald Carson (1998). The tax systems in the United Kingdom, USA, Wales, Scotland, Northern Ireland, Nigeria and Athens, South Africa, Botswana and Egypt have dependent highly on the economies of those countries.

Sometimes tax systems are allowed to continue over a period of time if the economies do not rapidly change – **Andre W. Mellow**. This was also supported by Gerald Carson (1996) where he indicates that tax systems depend entirely on cultural and individual nations' norms and beliefs or values. An example is business cooperates in the United States of American who are not coerced to pay tax (income tax) but knows that it is an obligation to pay tax and the filing system is done strategically.

In countries such as UK, Northern Ireland and Sweden, informal traders' tax is declared and paid voluntarily. This means that where one feels that the income derived from informal traders' business is not adequate the filing of income declaration forms will not take place.

In Africa, there are different perceptions as to how to come up with proper tax systems that can be wholly adopted by the tax payers. An example is a tax system on informal traders and control of their importations and exportations. These perceptions are believed to be emanating from relevant stimuli from certain environments developed out of different social classes of tax payers. These social classes may share similar values, life styles and behaviors such as in Nigeria, Ghana and Cote-d'Ivoire. Schoell W.F. and Guiltman J.P. (1998) describe them as relatively stable and homogeneous divisions or classes in a society of individuals, families or group of people. These perceptions came as a result of high tax rates in Africa compared to Europe or America's rates.

The Economic Justice Network (2007) has revealed that high tax rates and customs duties in Africa is one of the reasons that most business remains informal and why smuggling of goods is on the rampant. Some of the SADC countries such as Zambia, Malawi and the DRC have resorted to cross border trading and most of the businesses are not formal ones due to the high income tax rate and ever changing legislations.

CONTROL ASPECTS AND BEST PRACTICE

The recent literature on behavioral responses to tax reforms has shifted focus by many developed countries from elasticity of income earned to more stabilizing of the economy through revenue controls.

In countries such as The United States of America (USA), Canada and Australia, the focus is mainly on protecting the business ventures by introducing tax reforms that are not detrimental to growth of the industry as was suggested by Feldstein (1999). This is called a behavioural approach, which is associated with substantial tax changes at the top of the income distribution- Austein and Carroll (1999).

Gruber and Saez (2002) have argued that control aspects on tax reforms give rise to income responses that can end up in lowering marginal tax rates at the top of income distribution. In countries such as United Kingdom, Canada, Norway and Sweden reforms strongly target the top of income distribution and thus provide variation in both interest and exchange rates,

The problem of implementing tax controls on reforms was viewed by Slemrod (2005:18) as a mammoth task by administrators of tax systems due to lack of data containing tax payers details on new reforms. The main reasons were given as firstly, the impossibility to disentangle tax-driven increases in the top incomes from increases that are driven by non-tax factors such as skill-biased technical change and globalization. This problem is particularly important in countries that have experienced strong secular increases in top income shares, and may result in a substantial upward bias in the elasticity estimates. Secondly, defining treatment and controls according to pre-reform income level creates a mean-reversion problem because a tax payer with a positive income shock in the pre-reform year will tend to have a lower income in the following years.

Slemrod and Giertz (2010:64) have argued that such income controls are constrained by the fact that the identification comes from different tax changes across pre-reform income levels, and in general, the results turn out to be extremely sensitive to specification. The control measures however, according to Danish tax reforms, hold the promise to avoid the biases that link tax returns data to administrative data containing detailed socio-economic information for every tax payer that are controlled directly for some underlying non-tax components of permanent and transitory income that are important for the biases outlined already. Secondly, the evolution of the Danish Income distribution has been much more stable than most other countries and even egalitarian societies such as Sweden.

In most developed countries, controls of tax reforms were associated with the following three main aspects:

- a) Differential changes in marginal tax rates across different tax brackets
- b) Changes in the bracket cut-offs that moved large groups of tax payers to different brackets
- c) A move from a fully asymmetric treatment of different income components such as labor income versus capital income and positive income versus negative income.

It follows then that where a tax system is based on asymmetric tax treatment of different income forms, an estimate of elasticity of overall taxable income with respect to the marginal tax rate is not very meaningful as there is no single well-defined marginal tax rate associated with this income concept- suggested Slemrod (2005:23)

In developing countries, the effects of tax reforms have seen marginal tax rates on labor and capital income in each bracket. This was illustrated by Chetty et al (2009:42) as bottom, middle, and top tax brackets over a period of time. For labor, they explained, the marginal tax rate in the top bracket has been declining from 73% to 62% and the tax rate in the middle bracket from 62% to 49% while the bottom tax rate has increased from 26% to 38% and then decline over the later part of the period.

The analysis of the tax control effect for the developed and developing countries was reviewed by the Integrated Database for Income Tax Reforms from 2000 to 2007. For individuals, the data set contains detailed tax returns information along with a large set of socio-economic variables such as place of residence, gender, age, marital status, education, occupation and industry. For corporate tax, data is based on income levels and margin of tax and the currency being used.

Factors of success of Egypt's tax and customs reforms implementation

❖ Engaging trade community

Through a series of workshop, USAID assisted the Egypt customs authority (ECA) in reaching out to and learning from its customers. As an outcome of frequent workshops, advisory committees on trade facilitation were created and were used to truly consult rather than to inform representative groups from among the trade community to advice customs and the government on their issues, experiences and concerns. This has created an atmosphere of mutual trust and cooperation between ECA and its stakeholders.

❖ Flexibility of USAID approach to assistance

USAID engaged foreign experts in some areas such as the review of the customs law. To help motivate demand, a project conducted a series of assessments. In 2004, the minister of finance made accelerated customs reforms a priority which led to development of a comprehensive plan for customs reform.

❖ Comprehensive approach to reforms

USAID assistance was based on a comprehensive rather than piecemeal approach to customs reform. Effort was made to convince customs officials that automation alone would not solve the problems faced by ECA, and that reforms related to procedures, regulation and human resources were as important as securing a modern IT system. These efforts were very successful and the custom reform plan developed was a reflection of the new vision that ECA started to develop. ECA counterparts also realized that they must coordinate with a diverse spectrum of parties involved in trade transactions, including importers, exporters, customs brokers, freight forwarders, shipping agents, carriers, banks, airport authorities, other government departments and control agencies.

❖ Government leadership

The ministry of finance and the commissioner of taxes were committed to ambitious economic reform. Emphasis was increasingly on facilitating trade as opposed to regulating or taxing it. Reorganization planning process through workshops was essential for the smooth transition to the organizational structure.

❖ Donor coordination

As the largest donor, USAID has been engaged in bringing together the IMF, EU, Euro-customs and other donors and entities. EU supported with a cash transfer program, IMF with independent reviews. Donors' activities have been closely coordinated to ensure consistency and complementarily through monthly joint meetings between donors and customs commissioner.

Team work, proper planning, adequate resources and personnel, education, accepting help from others and open door policies, among other things, are keys to the success of any tax reform implemented.

Materials and Methods

The aim of this study is to find the effects of customs and tax reforms on imported goods to manufacturing and retailing companies in Matebeleland Province. The researcher had to choose the descriptive survey design, which proved to be best suitable for the nature of the study. The study is about investigating the effects of tax reforms to the manufacturing and retail industry in Zimbabwe. Data collected is continuous, but requires statistics of events that already have taken place. Describing how the chosen industries were affected positively or negatively needed the descriptive survey method, which best describes how things are and not how they ought to be.

The Research Design: the researcher used two perspectives that are relevant to this study and these are the quantitative and qualitative perspectives. In quantitative research type, the researcher was able to use numerical data to express measured characteristics and convey concepts such as quantity and amount as well as magnitude. In qualitative research plan, non numerical aspects were covered and this measured continuous data or information that is not discrete in nature.

Target Population: The target population was manufacturing and retailing industries in Matebeleland. These are research participants used in the study. In this study, the subjects were importers and exporters who are registered with ZIMRA in Zimbabwe and are manufacturers or retailers who are affected in any form or another by the new tax reforms. Since the researcher could not cope up with the volume of the subjects to be interviewed or where data could be obtained by any means, sampling had to be done.

Sample: In this study, the researcher used a probability sampling technique known as stratified Random Sampling. The researcher used this sampling technique to come up with twenty (20) companies, seven (7) in Bulawayo, five (5) in Beitbridge, three (3) in Gwanda and five (5) in West Nicholson. The companies selected were :Berlin Towers, Datlabs, Lobels, Security Mills, Ascort Clothing, Kango, Monarch Steel, Melrose Trading, Arenel Sweets, Dunlop, Delta, Merlin, Halsteds, Mike Apple, Southwales Engineering, Monaco Takeaways, David whitehead, Premier Gaskets, Monarch and Kango Products.

Data analysis and Discussion

The following categories are of the management and other officials in the twenty (20) companies studied through questionnaires. There was a 100% response rate for questionnaires.

- Sixteen (16) managers from 16 companies, with 100% response rate.
- Twenty (20) accountants from 20 companies, with 100% response rate.
- Fourteen (14) buyers for 14 companies, with 100% response rate.
- Five (5) ZIMRA officers from 3 ZIMRA offices, with 100% response rate.
- Five (5) other employees picked at random, with 100% response rate.

Interviews were conducted with fifteen (15) officials from selected twelve (12) companies. The response rate was 75% as the interviews had been scheduled with twenty (20) officials.

Data scanning: The data was collected from the managers, accountants, buyers and a few other employees of different companies. The data set taken had a panel feature with a period before the reforms and at least 5 years in the reform era (2000-2010), which made it appropriate for research purposes. The data focused on the years 2000(pre-reform base year) and 2010 for base results. Although many reforms were effected throughout the years, a longer period was included to allow a more accurate response of manufacturers and retailers to all the customs and tax reforms implemented for years 2000 to 2010.

Organizing data: This is the arrangement of physical records of a data set, in a way suitable for different format for which presentation was done. Leedy (1997:108) reiterated that if data is scanned, sifted and arranged in a proper manner, it will be easy to present it through different formats. The data collected consists of raw facts, such as individual attitudes and views towards a certain aspect of tax reforms. For the data to be transformed into useful information, it had to be organized in a meaningful way.

Data presentation: The presentation process is going to take different forms in this chapter and these include pie charts, bar graphs, histogram, scatter plots, bar charts, tables and line graphs.

Distribution of questionnaires indicates that a total of 60 questionnaires were distributed to the twenty (20) companies and all the questionnaires were returned duly completed. This gives a response rate of 100%. This was attributed to the ample time given for the questionnaires to be completed so as not to interfere with their busy schedules.

Planned interviews conducted indicate that of the 20 interviews which were scheduled, only 15 were conducted. This can be attributed to busy schedules and commitments of some interviewees who could not slot in time to be interviewed. The response rate was generally satisfactory as it covered over half of the intended interviews.

4.3.2 Experiences and qualifications of respondents

Table 4.3 below shows the experience and qualification of the respondents both from the industry and staff from ZIMRA.

Respondent's qualifications and experience: The response rate (100%) was characterized by the various experiences and qualifications levels of the respondents as outlined in the table above (table 4.3). 31 out of 60, which is 52% of the respondents have shown five (5) years in the companies they work and 84% of them have their diplomas in various fields or degrees in the relevant area of specialty.

Category of employment: Of the 75 respondents, 64 (85%) are permanently employed; only 11 (15%) was attributed to contractual workers. Contract workers were mainly those in the shop floor. This is presented in the pie chart in fig 4.0. Those permanently employed are more conservative with organization systems, hence provide reliable data.

Industries interviewed: Of the 20 companies interviewed, 5 (25%) are in the manufacturing industry, 9 (45%) in retailing, 3 (15%) in mining, 2 (10%) in farming and 1 (5%) in service provision. The findings were mainly concentrated on the retailing and manufacturing industries with 45% and 25% respectively, which is satisfactory as these are the major industries under study.

Knowledge of tax issues: The interviews conducted and questionnaires answered showed that the majority of

the respondents have reasonable knowledge of the tax issues and custom duties.

Of the sixty (75) respondents asked about their knowledge of taxes and customs issues, only 8 (10%) of them indicated that they have never attended any ZIMRA workshop and therefore had very little or no knowledge on tax and custom issues. The same respondents were not sure whether their organizations were registered for tax purposes. However, 67 (90%) of the respondents, mostly accountants and buyers, including ZIMRA officials seem to have been exposed to knowledge on taxes and custom issues and are willing to learn more about the tax system.

Tax reforms affecting the industry: When asked the categories of tax heads reforms that affect their industry, the 75 respondents from the twenty (20) companies, 75/75 (100%) of the respondents in the manufacturing and retail business are aware of the VAT reform from sales tax. This tax head has a 100% contribution rate and is followed by the introduction of self assessment on income tax. Self assessment had 70/75 (93%); with a rate of 18/20(90%) of the companies in the production and retail sector having registered for tax purposes. Duty suspension on raw materials and basic commodities gave a further down response of 60/75(80%) in the industry. VAT and duty suspension on agricultural implements had 52/75 (69%) response, mainly from the farming and mining industries. The removal of duty free allowance on some importations, got its response mainly from those in the retail industry with 55/75 (73%);presumptive tax had 50/75 (66%);while excise duty on vehicles older than 5 years had the least response at 43/75 (57%).

Average effect of the taxes and customs duty on business operations: The industry in general is mostly affected by the value added tax VAT which erodes 35% of profits of the companies in the industry. This is followed by customs duties taking about 28% and income tax at an average of 22%. PAYE averages 10%, informal traders' tax at 3% and 2% for presumptive tax. Income tax affects the industries more directly as it is levied on the organizations' profits whereas PAYE affects employees as it is levied on their earnings. Presumptive tax mainly affects informal traders, yet most of the companies in these industries are well established and registered for tax.

The interviews also conducted with the ZIMRA officials indicated that for the period 2005-2010, VAT was providing more revenue collection to ZIMRA followed by custom duties, income tax and then PAYE.

Contribution of different tax heads to revenue collection: The effect of various tax heads and custom duties in the manufacturing and retail industry can be shown by the trend above. Income tax contribution to revenue has been generally high over the years compared to PAYE except for 2008 where the contributions were the same.

A lot should be done to the Zimbabwe tax Law to improve the industry's operations: results shows the findings on the industries' views on the need for revision on Zimbabwe tax law

Response on need for revision on Zimbabwean tax law shows that the respondents in that manufacturing and retail business believed that a lot needs to be done on the Zimbabwe tax law to suit the business environment. This shows that there is a general impression that a lot should be done to the Zimbabwe tax law to improve the industry's operations.

ZIMRA's performance on implementing tax systems and providing information to tax payers: When contacted for comment on whether legislation on customs and taxes issues is well implemented by both ZIMRA and players in the industry. This shows that there is a general impression that ZIMRA's performance on implementing tax systems and providing information to tax payers is bad.

Tax implementers are doing enough to educate the public on changes to the tax system.

The respondents in that manufacturing and retail business generally believe that tax implementers are doing enough to educate the public on changes to the tax system. This shows that there is a general notion that tax implementers are doing enough to educate the public on changes to the tax system. Examples cited by those in agreement were, among others, the "did you know?" columns in newspaper, posters and Revenews magazines by ZIMRA, the customs and excise acts available to everyone at government printers and also ZIMRA officials at different ports are willing to give information when approached by clients. Those who disagreed argued that not everyone has access to the documents mentioned above, not everyone is literate and most of the information has jargon a layperson cannot easily understand. Some cited that one only gets the information when they approach to a ZIMRA port for clearance which is quite inconveniencing.

Tax systems' effect on business operations: The surveys conducted showed that changes to customs duties, (including surtax, excise duties, and import tax),as well as VAT, the final deduction system (FDS) under PAYE systems and the presumptive tax and have badly affected business operations in Zimbabwe. This was revealed by 14 out of 20 (70%) of interviewed respondents citing the effects as negative compared to 6 out of 20 (30%) who cited that a positive effect.

Some of the reasons cited by respondents who were for the idea that some changes to taxes and custom systems have affected business operations were:-

- (a) 10 out of the 12 (83%) respondents cited lack of knowledge of changes by the tax payers.
- (b) 11 out of the 12 (92%) respondents cited that the system is difficult to implement as it requires staff

- training at the expense of the organization.
- (c) 7 out of the 12 (58%) respondents cited that some reforms have made the system more complex than before.
 - (d) 10 out of the 12 (83%) respondents cited that some of the reforms gave an advantage to external/foreign competitors which affect local industry.
 - (e) 8 out of the 12 (67%) respondents cited limited research by the researchers of the possibility of changes to tax and customs.
 - (f) 12 out of the 12 (100%) respondents cited limited education to both tax payers and ZIMRA officials.
 - (g) 5 out of the 12 (42%) respondents cited unwillingness to implement changes to taxes and customs systems.
 - (h) 6 out of the 12 (50%) respondents cited general resistance to change by the public.

The responses given showed that reason number (f) that of lack of education to the tax payers and ZIMRA officers is the major contribution to negative effects of changes to tax and custom systems. This constitutes 100%. It is followed by reason (b) which is difficult to implement as it requires staff training at the expense of the organization. It constitutes 92%. The other major contributors to negative effects of changes are the reasons number (a) and (d). This is the lack of knowledge by the tax payers of changes to the tax systems and that some reforms favor external/foreign competitors which affect local industry.

Conclusions and Policy Recommendation

In spite of the findings drawn from this research, it can be deduced that the research was effectively carried out. This is against the background that the research sought to investigate the effect of tax reforms and customs reforms to both the manufacturing and retail industries in Zimbabwe. The research has highlighted that although the taxes and customs reforms have a negative effect on business operations, it does not however mean business profits are affected. The major effect of tax and customs reforms is the impact on raw materials and products in business operations and not the profit aspect. The research revealed that inadequate education has been imparted to the implementers of taxes and customs reforms and hence making it difficult for applicability and reliability of taxes and customs laws. The research also revealed that the changes to taxes and customs issues is not a one nation thing, but applies all over the globe and still some countries are doing very well despite changes in their taxes systems. The research was therefore a success in bringing out that economic downturn in some countries has no relationship with the tax and customs reforms in such countries.

Recommendations

To the Industry

The research recommends that the industry be always braced itself for tax and customs changes by keeping abreast with government policies on tax and customs laws. It should make consultation programs with major government wings, the regional taxes and customs laws and provide their employees with education on such issues so as to be alert whenever changes to tax systems are introduced.

To the Government

The government should engage policy makers and implementers of taxes and customs laws in meetings to map the way forward whenever changes to taxes and customs systems are about to take place. This should be followed by public awareness campaigns through the press, radios, television and even the internet to make the public aware of the new changes. The tax system must encourage the investments that make manufacturing successful. Policy objectives should be met, such as transparency – taxpayers should understand how and when they are paying tax and how much tax they are paying. To achieve best practice in policy, controls should be water tight and also be reviewed from time to time whenever a new policy is implemented.

With proper education and planning whenever new reforms are introduced in the country for taxes and customs issues, efficiency and effective implementation of the systems will be achieved. Inclusive and participatory decision making should be considered.

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