

**THE DETERMINANTS OF TAX MORALE: EXPERIENCE
FROM TWO AFRICAN COUNTRIES**

By

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submitted in accordance with the requirements for the degree of

DOCTOR OF COMMERCE

in the subject of **Economics**

at the

UNIVERSITY OF SOUTH AFRICA

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SUBMITTED: JUNE 2021

DECLARATION

I, Joseph Nyamapfeni (student number: 57638047), hereby declare that this thesis, entitled **“The Determinants of Tax Morale: Experience from Two African Countries”**, is my own work and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

I further declare that I have not previously submitted this work, or part thereof, for examination at UNISA for another qualification or at any other higher education institution.

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Date:28 June 2021.....

DEDICATION

This study is dedicated to my lovely wife, Lesley, and to my adorable kids Chelsea, Victoria and Jordan Nyamapfeni.

ACKNOWLEDGEMENTS

I offer my most profound thanks to my Supervisor, Professor Zurika Robinson, for her mentorship that provided me with guidance on the best way to compose a doctoral thesis. Also, Professor Robinson's commitment helped me to formulate solid contentions and to be bold in communicating the discoveries of this research. Special appreciation likewise goes to UNISA for financial assistance through the Master's and Doctoral Support Programme.

I also thank my family for the help they have given me. My parents have consistently urged me to follow my dreams as far as possible; I wish to do right by them as they have consistently done by me. I thank my lovely wife, Lesley, for her understanding and consolation during the difficult occasions of restless evenings; she wouldn't fret the forlornness. I additionally thank my children Chelsea, Victoria and Jordan for giving their daddy sufficient opportunity to accomplish his work. Last, but definitely not least, I thank my Lord for divine direction throughout this research.

ABSTRACT

The aim of this thesis was to analyse and compare tax morale and its determinants in South Africa and Zimbabwe, as well as in Zimbabwe in different economic environments. The study applied the standard models of tax evasion, game theory, prospect theory, agent-based theory and slippery slope framework to explain the variability in the determinants of tax morale between South Africa and Zimbabwe under different economic and political environments. The study becomes novel in that it provides a comparative analysis of the determinants of the tax morale between Zimbabwe and South Africa under contrasting economic and political time scales. The study also tested a new variable, namely hunger, on how it affects tax morale in Zimbabwe and South Africa.

The study was guided by quantitative research which was used to inform the study. Data was collected using questionnaires from the 2010-2014 and 2017-2020 World Values Survey (WVS). For Zimbabwe, Wave 6 and Wave 7 had a sample size of 1500 and 1200 respectively. The Wave 6 survey for South Africa had 3531 participants. Data was analysed using STATA software 2013 Version. The study's dependent variable, tax morale and independent variables included marital status, age, income level, employment and religion among others, and analysed them using the Ordered Logit Model. The Ordered Logit Model was used to empirically model the effects of the identified variables on tax morale.

The study concludes with an understanding of how tax morale and its determinants is crucial for governments in their bid to boost voluntary compliance. Also, different economic milieus for a particular country affect the level of tax morale significantly. Tax morale was established to be high when Zimbabwe was experiencing economic growth due to the introduction of multi-currency, herein called the dollarization period, and the opposite was true for the post-dollarization era. Surprisingly, the study's results showed that Zimbabweans have a higher tax morale than South Africans, who have better standards of living. In addition, the determinants of tax morale also differ from one economic situation to another and from one country to another. Corruption, which is a menace in both countries under study, has proven to be an important factor that influences tax morale. Results of all the models show that demographic factors have little effect on tax morale. The study introduced an important variable of hunger in its analysis of determinants of tax morale. Though this variable was insignificant for

South Africa, the study showed that there is a negative relationship between hunger and tax morale for Zimbabwe in both economic situations.

Based on the thesis's findings, policy makers should consider the eradication of corruption and hunger in order to boost tax morale, which in turn improves tax compliance. Also, policy makers should include improvement in the perception of democracy in the mix of enhancement strategies of tax compliance.

Key Words

Tax morale; Contributing Factors; South Africa; Zimbabwe; Order Logit Model; Dollarization; Post-Dollarization

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LIST OF ACRONYMS AND ABBREVIATIONS

Key Acronyms	Meaning
AfDBG	African Development Bank Group
AFRODAD	African Forum and Network on Debt and Development
AIDS	Acquired Immunodeficiency Syndrome
ASYCUDA	Automated Systems for Customs Data World
ATR	Advance Tax Ruling
BCR	Binding Class Ruling
BPR	Binding Private Ruling
CDF	Cumulative Distribution Function
CGT	Capital Gains Tax
CIT	Corporate Income Tax
COVID-19	Coronavirus disease
DTA	Double Taxation Agreements
ECR	Electronic Cash Registers
ECTS	Electronic Cargo Tracking System
EPZ	Economic Processing Zone
ESD	Electronic Signature Device
ETI	Employment Tax Incentive
ETR	Electronic Tax Register
EU	Expected Utility
EVS	European Values Survey
FDI	Foreign Direct Investment
FDS	Final Deduction System
FED	Fiscalised Electronic Device
Fig	Figure
FOB	Free-On-Board
FP	Fiscal Printer
GDP	Gross Domestic Product
GNU	Government of National Unity
ICAZ	Institute of Chartered Accountants of Zimbabwe
IDZ	Industrial Development Zone

IMF	International Monetary Fund
IMTT	Intermediated Money Transfer Tax
ITF	Integrity Transparency Fairness
IRS	Internal Revenue Services
LR	Likelihood Ratio
LRT	Log Likelihood Ratio Test
MDC	Movement for Democratic Change
MLE	Maximum Likelihood Estimators
OECD	Organisation for Economic Co-operation and Development
PPR	Principal Private Residence
QPD	Quarterly Payment Date
PAYE	Pay As You Earn
RBZ	Reserve Bank of Zimbabwe
RoR	Receiver of Revenue
RESET	Ramsey Regression Equation Specification Error test
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Service
SANEDI	South African National Energy Development Institutes
SAS	Self-Assessment System
SBC	Small Business Corporations
SEZ	Special Economic Zones
STT	Securities Transfer Tax
SDGs	Sustainable Development Goals
SDL	Skills Development Levy
SIA	Special Initial Allowance
SMEs	Small And Medium-Sized Enterprises
SVDP	Special Voluntary Disclosure Programme
TAA	Tax Administration Act
UK	United Kingdom
USD	United States Dollar
UIF	Unemployment Insurance Fund

VAT	Value-Added Tax
VCC	Venture Capital Companies
VDP	Voluntary Disclosure Programme
WVS	World Values Survey
ZANU PF	The Zimbabwe African National Union – Patriotic Front
ZIMRA	Zimbabwe Revenue Authority

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

In developing countries, especially African countries, tax revenue contributes more than 90 per cent of the total revenue accruing to governments. Ndedzu et al. (2013:144) found that tax revenue as a percentage of total revenue for the Zimbabwean Government reached a maximum point of 98 per cent; thus in Zimbabwe, tax revenue is government revenue (Bonga et al. 2015:25). According to Kołodziej (2011:22), taxes are the obligatory monetary contributions that are made to the state's revenue fund and are assessed and imposed by a government agency on the activities, enjoyment, expenditure, income, occupation, privilege and property by individuals and organisations.

Kundt (2017:01) highlighted that the mobilisation of domestic resources in developing countries, principally through transparent, fair and efficient tax systems, is regarded as a central means of achievement for the Sustainable Development Goals (SDGs), especially SDG number 16 which deals with peace, justice and strong institutions. Over the decades, tax has continued to be an indispensable facet of public policy, both as a way of financing government expenditures and as a means to finance the livelihoods of low-income people (van de Boorgaard et al. 2018:260). More so, taxation plays vital roles in developing economies, such as reduction in inequalities of income, social welfare, and poverty (Maboshe and Woolard, 2018:14; Enami et al. 2019:51). Important also, taxation plays a strategic role in building up institutions, markets and democracy through making governments accountable to taxpayers.

Despite the significance of taxes, governments in developing countries are faced with the challenge of low tax compliance. Tax morale as it relates to the quality of governance is the least understood but most fundamental dimension of tax compliance (Sebele-Mpofu, 2020:02). There is thus a need to determine the extent to which the different time scales within the Zimbabwean landscape affected the tax morale (pre-Government of National Unity (GNU), GNU and post-GNU eras). More so, there is also a need to make a comparative analysis of tax morale between South Africa and Zimbabwe such that governments are enabled to step up their strategies on increasing

tax compliance. Empirical studies have revealed that low tax compliance is more evident in developing countries mainly because of low tax morale, poor public governance quality, ineffective tax systems, perceptions of corruption and the recent growth of the 'hard-to-tax' informal sectors (Rosid et al. 2018:338; Musimenta et al. 2017:25; Badaoui and Magnani, 2013:02). Furthermore, tax non-filing is rampant in developing for example, in India, Chattopadhyay and Das-Gupta, (2002) found that an average of one in six possible taxpayers file a tax return while in Pakistan, less than one per cent of every 180 million file a tax return (Waris, 2013). Tax non-compliance takes two forms, namely, tax evasion and tax avoidance whereby tax evasion is illegal and tax avoidance is legal. The Global Financial Integrity report (2020:02) found that developing countries lost US\$8.7 trillion to illicit financial flows from 2008 to 2017. The report shows that tax evasion contributed 77.8 per cent of the illicit financial flows. Adherence to tax laws is thus important if governments are to close the tax gaps and achieve sustainable economic development.

Horodnic (2018:868) emphasized that tax non-compliance remains one of the principal issues for many governments around the world. Various models, such as deterrence models, prospect theory and game theory to mention but a few, have been propelled to explain tax compliance behaviour among a country's citizens. An important phenomenon that has gained ground over the past two decades in trying to understand the compliance behaviour of taxpayers is tax morale (Sá et al. 2014:112). The growth in the use of behavioural economics in tax compliance demonstrates how governments are seeking to use an understanding of tax morale to improve tax compliance with tax laws (OECD, 2013).

The concept of tax morale came as a result of failure by previous research to explain why people pay tax even when the tax rates and probability of audit are low, and the difference in tax compliance rates among nations (Torgler et al. 2007:02). Luttmer and Singhal (2014:02) define tax morale as the non-monetary factors that motivate the payment of tax. Research has shown that tax morale is positively correlated with tax compliance and tax effort (Ali et al. 2014; Cummings et al. 2009; Fagbemi and Segun, 2014:07; Daude et al. 2013:32). At an intrinsic level, tax morale is based on the assessment of state legitimacy, credibility and political ratification as well as perceived fairness and effectiveness of the state and its institutional environment (corruption, tax justice and application of the rule of law) (Everest-Phillips, 2010; Dickerson, 2014).

Thus, this study will look at tax morale at an intrinsic level as there is a need to determine how the political, legal and regulatory environment has affected the taxation levels within the South African and Zimbabwean context.

The connection between tax morale and compliance indicates the effect of the former on tax revenues. Torgler et al. (2008:318) found that low tax morale results in overstating expenses and under-reporting income, which ultimately means that little will be going to the fiscus. Moreso, Sebele-Mpofu (2020) also indicated that there is a causal relationship of some sort, perhaps two connections – the vicious and virtuous cycles of governance – namely tax morale and tax compliance. As such, there is a need to determine the direction and strength of the relationship which exists within the South African and Zimbabwean context between tax morale and tax compliance.

Zimbabwe is a predominantly interesting country to analyse tax morale and its determinants because there have been a number of major changes that have occurred to its economic situation and tax system over the past 20 years. The most notable examples have been the introduction of the self-assessment system in 2008 and the introduction of the Value Added Tax in 2004. Of particular interest also was the introduction of dollarisation and the subsequent abandonment of the multi-currency four years later.

South Africa and Zimbabwe provide a good test of studying the determinants of tax morale in developing countries. The two countries have experienced extraordinarily different economic histories, despite being geographic neighbours. South Africa is the major trading partner of Zimbabwe and a major hub for receiving Zimbabweans who choose to engage only in cross-border trading or seeking employment. Tevera and Zinyama (2002:30) estimated that 8 million Zimbabweans are living illegally in South Africa. Politically, South Africa has had five executive presidents since attaining its independence in 1994, whereas Zimbabwe had two executive presidents only since 1980. Moreso, the United Nations Development Programme ranks South Africa on number 114 while Zimbabwe is ranked on 150 that Human Development Index. The index measures achievement in key dimensions of human development, for example, a long and healthy life, being knowledgeable and have a decent standard of living. In addition, South Africa is the world's most unequal country, with a Gini coefficient of 63.0, while Zimbabwe is relatively equal with a Gini coefficient of 44.3.

Research has shown that tax morale in African countries is generally lower than it is in developed and transition countries. OECD (2019:13) noted that countries with low levels of tax revenue as a percentage of GDP have low levels of tax morale, possibly because Third World countries have challenges in the provision of public service, voluntary tax compliance, and fiscal stability. It is against this background that this research intends to examine tax morale and its indicators in South Africa and Zimbabwe for the governments to step up their strategies on increasing tax compliance.

1.2 Problem statement

People generally do not want to pay tax (Torgler, 2004:238). The issue of tax compliance has been contentious since biblical times, when Jesus said, “Therefore render to Caesar the things that are Caesar’s, and to God the things that are God’s” (Matthew 22:21 KJV). Thus, tax compliance will remain open for research for as long as there are taxes (Lillemets, 2010:233; Torgler, 2007:64). The growing literature strand on the factors affecting tax morale is due to the rising body of evidence concerning its effect on tax compliance behaviour. Low levels of tax morale and consequently low tax compliance levels are a cause for concern for the South African and Zimbabwean governments as they pose a threat to the tax base. Ramfol (2019:01) identified low tax morale as one of the contributors to a potential tax revolt in South Africa. The two countries introduced a plethora of deterrence policies to improve tax compliance, but not much has been realised in terms of tax revenue. The enforcement efforts aimed at increasing tax compliance done by ZIMRA and SARS include intensifying tax audits, placing garnishee orders on tax defaulters, increasing the number of prosecution cases, the introduction of a canine unit to reduce smuggling, and use of scanners at border posts.

Studies have shown that deterrence factors such as fines, tax audits, penalties and tax rates are not enough to encourage tax compliance; hence the need to put great emphasis on the understanding of tax morale in a particular country (Halla, 2010:10). More so, Frey (1997) explained that if fines and penalties (which he described as extrinsic motivation) are increased, they drive out the eagerness of citizens to pay tax. The concept was supported empirically when the Rwanda Revenue Authority conducted a taxpayer letter experiment in 2016. The results showed that letters to

taxpayers indicating the relationship between taxes and public services were more successful than deterrence letters (Mascagni et al. 2017).

There is a dearth of literature and research on governance and tax morale in the African continent and Zimbabwe in particular. Most of the studies discussed were carried out in developed countries and mostly in OECD countries (Sebele-Mpofu, 2020). Research on tax morale in developing countries is scarce (Torgler, 2003:03; Tusubira and Nkote, 2013:01) and specifically in Zimbabwe (Sebele-Mpofu, 2020). There is, therefore, a need for this study to be carried out to establish the extent to which the political and economic conditions in Zimbabwe over time have influenced the tax morale. Zimbabwe was excluded in a study by Daude et al. (2013) on what drives tax morale focusing on developing countries. Cummings et al. (2009) used an Experimental and Survey Evidence approach to investigate the effects of tax morale on tax compliance in Botswana and South Africa.

Far too little attention has been paid to factors that affect tax morale in Zimbabwe. Ngwenya (2014) and Maseko (2014) researched the determinants of tax compliance of SMEs, which are different to the determinants of tax morale. Nyamwanza (2014) concentrated on attitudes and practices of SMEs only toward tax compliance in Zimbabwe. Sebele-Mpofu (2020) used the interpretive research philosophy to investigate the connection between governance quality and tax morale and compliance in Zimbabwe's informal sector. More so, there are limited studies that make a comparative analysis of the tax morale between two countries, and that is the novelty of this study. To the best of the researcher's knowledge, no study has examined in depth the factors that affect willingness to pay tax, especially using the ordered logit model of econometrics, focusing on South Africa and Zimbabwe.

The research is driven by the popular Shona adage, "Headache is not a problem; what caused the headache is the problem". In the same line, low tax morale and tax compliance are not a problem; the challenge is that of why South Africans and Zimbabweans are not willing to pay tax. Hence the motive for this research, mainly to identify and analyse the factors that influence willingness to pay tax in South Africa and Zimbabwe.

1.3 Objectives of the study

The main objective of the study is to identify and analyse the factors that influence tax morale in South Africa and Zimbabwe. The objectives are as follows:

- i. To critically assess the dynamics of the tax systems in South Africa and Zimbabwe;
- ii. To determine the level of tax morale in South Africa and Zimbabwe;
- iii. To determine the relationship between tax morale and tax compliance;
- iv. To examine the determinants of tax morale in South Africa and Zimbabwe; and
- v. To determine the tax morale in Zimbabwe in different economic situations.

1.4 Research questions

The following research questions are derived from the objectives:

- i. What are the dynamics of the tax systems in South Africa and Zimbabwe?
- ii. What is the tax morale level in South Africa and Zimbabwe?
- iii. What is the relationship between tax morale and tax compliance in South Africa and Zimbabwe?
- iv. What are the determinants of tax morale in South Africa and Zimbabwe?
- v. What is the Zimbabwean tax morale under different economic conditions?

1.5 Significance of the study

The study will be valuable to taxpayers, revenue authorities and governments of the less-developed countries as well as to academia.

The research is timely because the two governments are struggling to meet their objectives because of diminishing tax revenue. Developing countries have forgone important capital projects because of low revenue caused by low tax compliance levels. The study is sound on the basis that it will serve as a contributing resource to reduce the tax gap in neighbouring countries, South Africa and Zimbabwe. An understanding of tax morale and improving the willingness of businesses and individuals to pay tax will be important as tax administrations seek to increase tax compliance, thereby raising revenues inflows, even in the post-pandemic era of COVID-19.

Developing countries are characterised by large informal sectors. In developing countries, the informal sector is estimated to comprise more than 50 per cent of the total economy; hence the government need to tax the informal sector to increase revenue collections. In recent years, there has been increasing interest in ways to effectively bring informal sector players into the tax net. The research will help policymakers to find strategies that the government may use to collect its dues from them. Giving tax morale the importance it deserves, developing countries will reduce the size of the informal economies, which prove difficult to tax. The study will also help the developing countries (especially African countries) to understand the characteristics of their taxpayers so that their tax system can be tailor-made. The research will even help the taxpayer to know why he/she is taxed. Focus on tax morale is thus important in improving the taxpayer–tax authority relationship.

Understanding the tax morale of taxpayers will also help policymakers to build a culture of paying tax amongst the citizens of the country. Knowledge of tax morale will enable the governments to categorise their taxpayers using the factors that influence their willingness to pay tax. Grouping the taxpayers will also help the governments when doing a cost-benefit analysis of taxation.

Furthermore, the investigation is justified because it will provide recommendations for further studies on the factors that influence the decision by taxpayers in developing countries to pay or evade taxes. The research is the first to identify and analyse the determinants of tax morale in South Africa and Zimbabwe and thus will contribute to the sparse literature on tax morale in developing nations. The study will also contribute to the literature by identifying important factors that affect tax morale in developing countries other than those listed by prior studies.

1.6 Scope and delimitation of the study

The main aim of this study is to identify and analyse factors that influence taxpayers' willingness to pay taxes in South Africa and Zimbabwe. Conceptually, the study is aimed at identifying and analysing the factors that influence tax morale in South Africa and Zimbabwe. Therefore the study will not look at the effects of tax morale in South Africa and Zimbabwe. The study is physically delimited to South Africa and Zimbabwe only and will be used to compare the two countries. Theoretically, the study will be guided by the standard models of tax evasion, game theory, prospect theory, agent-

based theory, slippery framework and principal-agent theory in identifying and analysing the factors that influence tax morale in South Africa and Zimbabwe. The research is limited to individual taxpayers 18 years and older interviewed in the World Values Survey in selected cities of South Africa and Zimbabwe. The study is also limited to the period in which the surveys were conducted, that is 2010-2014 and 2017-2020. With the above limitations, the study cannot be generalised for the whole population.

1.7 Outline of the study

Chapter 2 seeks to clarify the tax culture in Zimbabwe with the focus on tax avoidance and evasion measures, and the effects of non-compliance. Chapter 3 reviews the tax system in South Africa and the trends in revenue collection. Factors affecting tax compliance as well as measures taken by SARS to improve tax compliance, will also be discussed in this chapter. Chapter 4 explores the relationship between tax morale and tax compliance, including a discussion of factors that influence tax morale in developing, transition and developed countries. Theories of tax compliance and tax morale will also be deliberated as they form the foundation of this study. Chapter 5 outlines the methods and procedures that will be employed to identify and analyse the factors that influence tax morale in both South Africa and Zimbabwe. The model of estimation will be discussed as well as the justification of the model. Chapter 6 applies the research methodology elaborated in Chapter 5. Estimation, presentation and interpretation of the results will be the object of this Chapter. Chapter 7 concludes the study by providing the main findings, conclusions and policy recommendations.

CHAPTER TWO

THE DYNAMICS OF THE TAX SYSTEMS IN ZIMBABWE

2.1 Introduction

Tax systems are dynamic, iterative systems which change over time for several reasons, and the most common influences on a changing tax system are political and economic (Mcauliffe, 2017). This chapter seeks to clarify the tax culture in Zimbabwe with a focus on tax avoidance and evasion measures and the effects of non-compliance. In order to understand the Zimbabwean tax culture, revenue collection, tax amnesty and tax debt need clarification. The chapter enables the researcher to articulate the tax environment in Zimbabwe, which is imperative in the understanding of tax morale.

2.2 The macroeconomic and tax environment in Zimbabwe

Generally, Zimbabwe has been regarded as an agro-based country, with more than 80% of the populace depending on agriculture for their livelihoods. Although the agriculture sector has been affected by the controversial land reform, it remains a significant contributor to the Zimbabwean economy (Makate et al. 2019:01). Zimbabwe has managed to maintain a comparative advantage because of the mineral resources it owns, such as iron ore, chrome and coal, as well as its cheap labour. According to Mutandwa and Genc (2018:231), Zimbabwe could still turn this into a competitive advantage by engaging in continuous improvement of its manufacturing systems, using the available raw materials. However, over the past two decades, the Zimbabwean economy has been through a pervasive economic collapse. Furthermore, certain developed countries such as the United States of America and Britain have imposed sanctions on Zimbabwe, which has made it difficult for her to access credit lines and donor funding.

Although it is internationally acknowledged that SMEs play a significant role in economic development, the sector has been criticised for being a 'hard to tax' sector (Dlamini, 2017). This is the case in Zimbabwe, where despite these SMEs having become the major employer, they are not contributing meaningfully to the fiscus as they are generally non-compliant on tax remittances (Nyamwanza et al. 2014:1). A slowdown in economic activities depresses the implementation of tax legislation and

this is exacerbated by the activities of the informal sector (Maiti and Bhattacharyya, 2019:1; Loayza, 2016:130). The challenges in raising tax revenue from the informal sector in Zimbabwe have not just been a result of the nature of the SME sector itself, but because of the lack of capacity and will by tax authorities to implement and administer taxation legislation (Dube and Casale, 2017:63). Zimbabwe, like any other developing country, faces the following challenges such as insufficient staff with appropriate skills, lack of up-to-date equipment, complex tax laws, corruption, the growth of informal traders and paltry budgetary allocations (Matsanyangwe, 2013:49; ZIMRA, 2009:23). Zimbabwe has had a number of phases in terms of political legitimacy, especially in the form of disputed elections. In 2008, 2013 and 2018 these elections were disputed and as such, there is a need for this study to determine how these phases of political disputation have affected the level of tax compliance and morale within the Zimbabwean context.

2.2.1 Economic stability

The period 2007-2009 went down as a historic one for both good and bad reasons on the economic front, as the country reached the peak of its economic meltdown and rampant inflation, and the collapse of the economy severely devalued the Zimbabwean currency (Mufudza et al. 2013). In this study, 2009 to 2014 is the period which is taken as when the economy of Zimbabwe was stable. The period saw economic growth when the ZANU-PF government entered into a Government of National Unity with the opposition MDC party that lasted until 2013. The Zimbabwean Government adopted the multi-currency system in 2009, in which the USD dollar was the predominant currency (Pilossof, 2009). The appropriation of the US dollar as the foremost mode of trade balanced the economy astoundingly rapidly. Accordingly, the approaches turned out to be more objective, and the economy recorded surprisingly high paces of development, but from a low base (Southall, 2017). There was sufficient foreign money in circulation to facilitate the transition, allowing the banking system to stabilize (Southall, 2018). In addition, Zimbabweans witnessed the return of consumer goods to the shops, and a much-welcomed increase in business confidence. These and other factors facilitated rapid growth, particularly in the mining, agricultural and financial sectors.

The economy of Zimbabwe grew at an average of 12% for the period mentioned above, making it one of the fastest-growing economies in the world, improving from negative growth from 1998 to 2008 (Knoema, 2020). Table 2.1 below, shows the increase in Gross Domestic Product for this period termed economically stable. During this period inflation averaged 3%, a remarkable decrease from more than 1000% that had characterised the preceding period (IMF, 2020).

Table 2. 1: Zimbabwe’s current GDP for the period 2010 to 2019

Year	GDP (Current)
2010	USD12.0417 Billion
2011	USD14.1019 Billion
2012	USD17.1148 Billion
2013	USD19.091 Billion
2014	USD19.4955 Billion
2015	USD19.96 Billion
2016	USD20.55 Billion
2017	USD22.04 Billion
2018	USD24.312 Billion
2019	USD21.44 Billion

Source: World Bank (2020)

The bad reason for the period of stability was that the country’s total debt including arrears as at 31 October 2009 was US\$5.417 billion, representing a debt to GDP ratio of 121.7% (Ndedzu et al. 2013). Of this amount, external payment arrears were US\$3.839 billion, about 71% of the overall debt. Government arrears alone were US\$2.340 billion whilst parastatal, Reserve Bank and private sector arrears accounted for US\$895.7 million, US\$568.8 million and US\$34.4 million respectively. This is not in line with the targets for macroeconomic convergence in the SADC which require that the overall budget deficit (excluding grants) and public debt should be less than 10% and 60% of GDP respectively (Ndedzu et al. 2013).

The budgetary emergency that influenced the banking sector in the period 2003 to 2004 saw five banks put under curatorship, two sold and four saved through the Troubled Bank Fund. The crisis was to a great extent ascribed to poor corporate administration. During this economically stable period, corporate administration picked up dynamism as proven by the distributing of Corporate Governance Guidelines by the Reserve Bank of Zimbabwe (RBZ) in 2004 (Dube and Murahwe, 2015).

According to Horodnic (2018), higher GDP levels, lower levels of systemic corruption, good social protection schemes together with increased levels of trust in government departments as well as public expenditure heighten tax morale levels and ultimately reduce tax non-compliance. The study will thus test the view by Horodnic (2018) to determine the validity of the argument in explaining the tax morale with the Zimbabwean context during the period extending from 2009 to 2013. Torgler and Schneider (2007) highlighted that tax morale is negatively correlated with shadow economy activities and positively correlated with direct democracy. This may be explained by differences in the fairness of tax administration, perceived equity of fiscal exchange, attitudes toward respective governments, and differences in culture, which also interact with demographics and trustworthiness (Kempe et al. 2020). Overall, this study intends to determine the strength and direction of the relationship between tax morale and tax evasion under the economic and political environments which Zimbabwe underwent.

2.2.2 Economic instability

This period was when the Zimbabwean economy suffered stunted growth. The economic meltdown has led to massive deindustrialization and a significant decline in both manufacturing and agricultural productivity and output, leading to an unprecedentedly dramatic increase in unemployment and poverty (Mutandwa and Genc, 2018:230; World Bank, 2020). More so, the production of the main foreign currency earners in mining such as gold, diamonds and coal fell by more than 27%.

The year 2013 meant the lapsing of the Government of National Unity (GNU), and elections were held. Soon after the 2013 elections, foreign investment largely dried up, renewed growth slumped and Zimbabweans found themselves facing an acute liquidity crisis (Southall, 2018). More so, the Indigenisation Act was enacted which

directed that all mines had to be 51 per cent Zimbabwean-possessed, leading to failure by the government to lure internal venture or enhance exports, and an increase in production costs. The Indigenisation Act has also been credited with creating further uncertainty in the economy and negatively impacting the investment climate in the country. To put it plainly, the limit of the economy to procure US dollars through exports had fallen significantly, and the flexibility of cash circulating within the nation had evaporated (Southall, 2017). There were not enough funds to grease the economy, notably for the informal sector, upon which poor Zimbabweans are largely dependent. Subsequently, the Reserve Bank of Zimbabwe (RBZ) imposed severe limits upon the amount that people could withdraw from their bank accounts, leading to a crisis of confidence in the banking system (Dube and Gumbo, 2017).

Southall (2018) posited that bond notes were presented by the Reserve Bank of Zimbabwe in late 2016 identical in value to the US dollar to address the intense cash shortage distressing the economy. Bond notes were overwhelmingly dismissed by Zimbabweans, who expected that they proclaimed a re-visitation of the effects of hyper-inflation which had pulverized livelihoods and investment funds in 2006–2008. Again, the RBZ reacted by restricting the measure of dollars that people could pull back to a stream, driving depositors to queue for quite a long time to lay hands on their cash. There had thus been a huge breakdown of trust in the banks, with no one needing to keep their cash in them.

As needs are, Zimbabweans turned to offer the bond notes to illegal money changers at an enormous discount. This indicated that the public had no trust and confidence in the monetary authorities of Zimbabwe due to the vividly recalled recent history of hyperinflation, failed banks and worthless local currency (Maziva, 2016). The RBZ's efforts to establish confidence in bond notes, currently trading at a marked discount to the dollar on the local black market, did little to alter a negative opinion, and there were protests.

Credibility was a major concern in the choice of a monetary policy framework to replace the multi-currency regime given the culpability of the Reserve Bank of Zimbabwe (RBZ) in the recent hyperinflation (Buigut, 2015). In this case, it needs to be understood how the changes in the Zimbabwean state legitimacy, credibility,

political ratification, corruption, tax justice and application of the rule of law over the period from 2009 to the present, affected tax morale.

In addition, the period was affected by Cyclone Idai, resulting in reduced economic activities, especially agriculture, which experienced a double-digit decline. The World Bank (2021) estimated that the number of extremely poor citizens rose to 7.9 million in 2020 due to the COVID-19 (coronavirus) pandemic and its impacts. The Bank further indicated that the increase in poverty levels was driven by economic contraction and the sharp rise in the prices of food and basic commodities. Furthermore, the shrinkage of agricultural production following an El Nino-induced drought worsened the circumstances, especially in rural areas. Additionally, Cyclone Idai also worsened the situation in three key provinces that typically account for 30% of agricultural output. Additionally, the dry spell prompted a more extensive effect in the electricity and water spheres, causing inescapable proportioning and levy changes in accordance with overall costs

The surge in inflation was a further challenge that characterized this period. The inflation rate has been increasing since October 2018, mainly because of the monetisation of sizable financial shortfalls of the past, price distortions, and deterioration in the value of bond notes. Annual inflation reached 230% in July 2019 following the adoption of a new Zimbabwe dollar and a ban on the use of foreign currency, thereby sparking fresh concerns that the country was entering a new period of hyperinflation (IMF, 2019). The year-on-year inflation rate was 521% in December 2019. The Zimbabwean Government temporarily stopped publishing official inflation figures on 13 July 2007. The same happened again in 2019 towards year-end when the Government, through the Ministry of Finance, stopped publishing inflation figures. Inflation remains high in 2020 due to the outbreak of the COVID-19 pandemic (IMF, 2020).

Most of the challenges emanated from policy inconsistencies, economic mismanagement, corruption and political instability (Woyo and Woyo, 2019:72). This affected taxpayers' perception of government and how it uses tax revenues, which ultimately shaped political willingness to organise for tax and tax compliance purposes (Sebele-Mpofu, 2020). The circumstances have been worse for Zimbabwe because,

due to the economic meltdown, companies are generally struggling economically, and the general tendency in an economic slump is to evade taxation (Dube and Casale, 2017:63).

2.3 Revenue collection in Zimbabwe

Taxation revenue collection has remained an essential element of fiscal policy, fuelling the operations of governments as the major instrument through which government funding is guaranteed (Zhou and Madhikeni, 2013:49). Therefore, the capacity of a government to collect and manage revenue properly influences the level of economic performance in a country (Kwaramba and Mudzingiri, 2016:2). In most countries, the responsibility of revenue collection has been given off to semi-autonomous revenue authorities, which have been mandated with direct control over the administration of customs, excise and taxes legislation (Bräutigam D.A et al. 2008:1).

2.3.1 History of revenue collection in Zimbabwe

Revenue collection through taxation is one of the most basic functions of government, as it is a central process through which government funding is ensured (Zhou, 2012:153). Taxation in Zimbabwe started as early as the pre-colonial era with the Zunde Ramambo scheme, which was a collective scheme aimed at collecting produce revenue to develop self-sustenance (Musarandega et al. 2018:3; Ringson, 2017:53). The Zunde Ramambo was, in principle, a tax levied on villagers in the form of agricultural produce and minerals which were kept in the chiefs' granary for distribution to the poor. Several other taxes were introduced by the colonisers which included hut, cattle, head, dip tank and dog tax (Maposa et al. 2010:195).

In recent years, the Constitution of Zimbabwe, through Section 101 as read with section 18(a) of the Public Finance Management Act, provides for the establishment of the Consolidated Revenue Fund into which all revenues including taxes are paid. Revenue comes in the form of taxes, profits from government entities, proceeds from the sale of minerals, and dividends from investments in various companies. However, due to the prevailing harsh economic environment and mismanagement of the parastatals, the Consolidated Revenue Fund is being fed mainly by tax revenue.

2.3.2 Revenue collection agency in Zimbabwe

Governments engage and empower agents to collect revenue to uphold public governance, and these agents are entrusted with enforcing the revenue laws and ensure that citizens are held responsible for taxes, laws and regulations (Wynter and Oats, 2018:56). In Zimbabwe, taxes are collected by the Zimbabwe Revenue Authority (ZIMRA, 2014), which was established in 2001 in terms of the Revenue Authority Act (Chapter 23:11). The revenue authority outlines integrity, transparency and fairness as its values with an aim to fulfil the mandate stated above (ZIMRA 2015). Researchers have tested the values against which the revenue authority is practising. Bemani (2014:08) concluded that the administration of tax laws by ZIMRA is viewed as autocratic. ZIMRA was established with the main thrust of enhancing ethics in revenue collection and bringing in a culture of specialisation. The revenue authority is regarded as one of the important players in the economic turnaround of Zimbabwe (Manyani et al. 2014:199).

The revenue authority is a fusion of the former department of taxes and the department of customs and excise. The two government departments were vulnerable to political interference, thereby limiting their efficiency and effectiveness in service delivery. Dube (2014:116) penned that ZIMRA is a semi-autonomous entity with an independent board of directors even though it still reports to the Ministry of Finance and Economic Planning. ZIMRA derives its mandate from Section 4 of the Revenue Authority Act, which provides for the collection of revenue, facilitation of trade and travel, provision of advice to government on fiscal and economic matters, and protection of civil society (Revenue Authority Act). ZIMRA (2015) explained that it protects civil society by banning the importation of dangerous products such as cannabis and pornographic material to preserve the national culture.

Matunhu and Matunhu (2014:68) noted that the revenue authority should work towards the improvement of its taxpayer image to encourage voluntary compliance. Manatsire (2012:77) also concluded that service delivery at ZIMRA was good according to its staff but poorly rated by its business partners. Taxpayers have criticised ZIMRA for not communicating changes in legislation and tax compliance procedures by updating its website (Chikuruwo, 2015:59). Advertising, conducting workshops, creating a website, indulging in social responsibility are some of the tactics that ZIMRA is

executing to appeal to the populace to pay tax (ZIMRA, 2015). ZIMRA should include the taxpayers in making decisions that relate to the changes in legislation to encourage buy-in (Zivanai et al. 2014:19). Zimbabwe is currently facing an array of economic challenges with a liquidity crunch as the main one, and strategies to mitigate these problems are being propounded. Effective and efficient reform of systems and capacity building is crucial in the revenue authority for the achievement of the desired goals.

A training school was established as well as partnering with the National University of Science and Technology in the provision of academic degrees that relate to ZIMRA operations intending, to improve capacity building. Implementing a performance monitoring tool (Balanced Score Card) at all levels is one of the strategies that ZIMRA has adopted to increase accountability for each staff member.

Large companies such as Econet, Delta and parastatals contribute immensely to the fiscus in terms of the taxes they pay. ZIMRA established a Large Client Office in April 2009 to provide one-stop-shop services to the large taxpayers. The office was also formed to provide increased interaction, consultancy and professional advice. ZIMRA also in 2009, in conjunction with the Zambia Revenue Authority, created a one-stop border post at Chirundu to reduce congestion and clearance time at the busy border post.

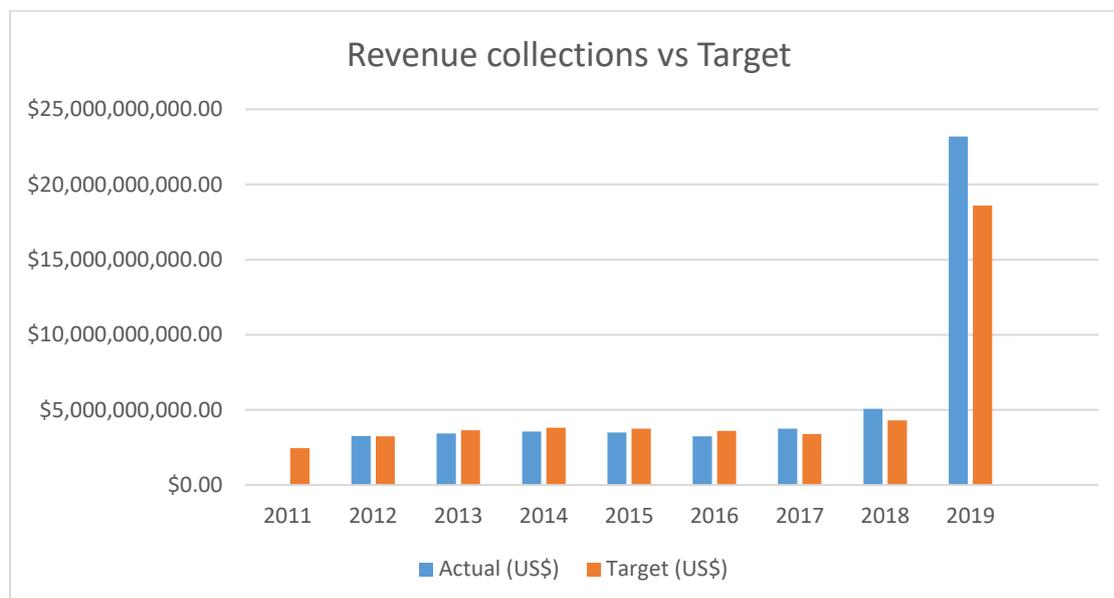
ZIMRA introduced the concept of an advance tax ruling in order to promote consistency, clarity and certainty in the interpretation and application of the tax law (Revenue Authority Act). Advance rulings also assist clients in confirming the tax consequences of proposed transactions and promote voluntary compliance by assisting them to comply with tax laws. ZIMRA (2015) defines an advance tax ruling as a written statement issued by ZIMRA regarding the interpretation or application of the various legislation instruments it administers.

Despite the effort put in place by the revenue authority to improve efficiency, there are numerous deficiencies in the tax system and its administration. Section 27 of the Revenue Authority Act requires ZIMRA to retain a percentage of the funds collected to cover the cost of operations. In practice, however, the tax authority relies on grants from the central government (ZIMRA, 2015:35). Furthermore, lack of decentralisation

of certain services, differences in the interpretation of the tax laws by revenue authority and the business community, the absence of fully integrated working electronic systems, and the time taken to complete tax audits as well as the time taken for VAT refunds to be paid out are some of ZIMRA's shortcomings (Vingirayi et al. 2020).

ZIMRA missed its revenue target in 2013, 2014, 2015 and 2016 as shown in Fig 2.1 below. The revenue authority attributed the shrinking of the tax base to the liquidity crunch coupled with low industrial capacity utilisation, company closures and scaling down of operations. Positive variances were noted in 2017 and 2018. The revenue authority noted that the positive performance was secured on the correction of the Intermediated Money Transfer Tax (IMTT), revenue enhancement measures, a firm stance against corruption, and automation, which improved compliance by taxpayers (ZIMRA, 2017; ZIMRA, 2018).

Figure 2. 1: ZIMRA revenue collection performance for the period 2011 to 2018



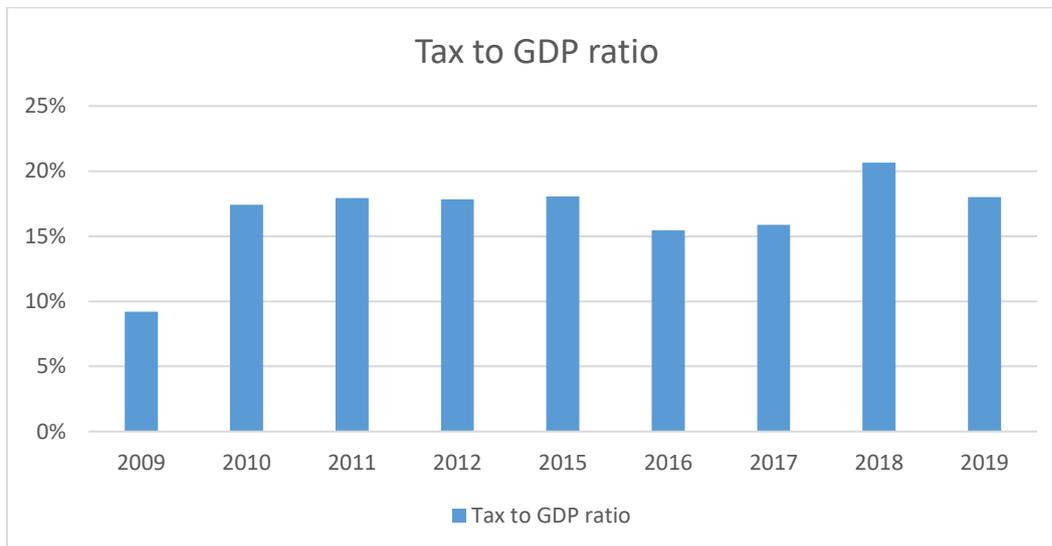
Source: ZIMRA (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019)

2.3.3 Tax revenue to GDP ratio

The amount of revenue collected by ZIMRA is a function of the nation's GDP. ZIMRA (2015:02) highlighted that there is a strong positive relationship between the GDP and revenue collected in any year. Therefore, every year government procedurally projects the GDP for the respective year and from that derives a revenue target. Fig 2.2 shows tax revenue as a percentage of GDP. This ratio is in line with other low-income

countries as classified by the World Bank (2020). However, base-broadening remains a major objective of ZIMRA.

Figure 2. 2: Tax revenue to GDP ratio



Source: World Bank (2020)

Zimbabwe performed poorly in terms of corruption and tax performance as compared to other SADC countries as shown in Table 2.2 below. More so, Zimbabwe has the largest informal economy of 69% while Mauritius has the least size of the shadow economy in the regional grouping. For the countries under study, South Africa is better than Zimbabwe in all factors such as corruption rank, tax revenue as a percentage of GDP and has a smaller shadow economy.

Table 2.2: SADC countries corruption rank, tax revenue and size of the shadow economy

Country	Rank	Tax revenue (% of GDP) 2017	% Size of Shadow Economy (2015)
Angola	146	9.22	52.47
Botswana	34	22.15	35.8
Comoros	153	12.60	43.22
Democratic Republic of Congo	168	7.50	48
Eswatini	113	17.20	43.7
Lesotho	85	31.65	30.58
Madagascar	158	10.03	47.41
Malawi	123	17.29	43.66
Mauritius	56	18.55	26.19
Mozambique	146	22.19	46.87
Namibia	56	32.08	32.09
Seychelles	27	32.07	32.4
South Africa	70	26.23	29.84
Tanzania	96	11.83	52.4
Zambia	113	15.18	52.41
Zimbabwe	158	15.87	69.08

Source: World Bank (2020)

2.3.4 Tax debt in Zimbabwe

Brondolo (2009:04) noted that the increase in tax arrears/debt is inter alia one of the major challenges faced by both developed and developing countries. Tax debt is the delinquent payment of taxes and deferred payments. Tax arrears also include the penalties and interest thereon. Tax debts should not be confused with the tax gap (explained in Chapter 1) as they are related but distinct. The United States Government Accountability Office (2012:03) differentiates between tax debt and the tax gap as the former includes taxes and penalty interest while the latter comprises of and includes tax only. There are two main types of tax debts, disputed and undisputed. Undisputed tax debt is defined as the debt figure agreed upon by the taxpayer and the

tax authority while disputed tax debts are those claims which are subject to objection, dispute and/or litigation (OECD, 2013).

ZIMRA faces formidable challenges in collecting millions of dollars in delinquent taxes which includes the closure of companies with tax debts, lack of resources to follow up the debt, and ineffective debt management strategies. Like total tax revenue collected, outstanding tax amounts are affected by the economic outlook of a country where they tend to increase in an economic slump. In order to get a sense of the scale of the tax debt issue, it is prudent to understand the current trend in tax debt in Zimbabwe. ZIMRA (2015) noted that the rise of tax arrears was a result of viability problems, liquidity and the closure of many companies.

A report by the Auditor General (2014:62) shows that state enterprises' tax debts constitute the largest percentage of total arrears. These arrears were a result of intensive tax audits as well as mismanagement of the parastatals which led to continual accrual of the tax arrears. In order to caution the largest tax debtors, the treasury commenced a project of off-setting the tax owed by local authorities against amounts owed to the local authorities by government departments. Given the alarming increase of tax debt, ZIMRA has also intensified debt management strategies which are crucial in ensuring that all taxes and duties legally owed are paid. ZIMRA notes that as the debt recovery measures are affected, caution is taken to avoid the closure of companies.

ZIMRA has garnished tax debtors' bank accounts and other third parties to collect outstanding taxes as empowered by Sections 58 to 60 of the Income Tax Act and section 48 of the VAT Act. The tax authority ensures that a tax clearance is required before the granting of government contracts, and if the company awarded the contract accrues a tax debt, ZIMRA withholds government payments due to the tax debtors. In order for companies' directorship to take full responsibility for the tax affairs of the company, ZIMRA also imposes tax debts on company directors. The arraignment of uncooperative tax debtors for prosecution is another strategy that ZIMRA has adopted to collect outstanding taxes. Section 33D of the Revenue Authority Act gives the Commissioner General authority to attach any moveable property of the taxpayer in satisfaction of the tax so estimated.

The table below shows the movement of tax debt in Zimbabwe for the period 2015 to 2018. From the table, there is an increase in total tax debt as a percentage of total revenue collections.

Table 2. 3: Movement of tax debt

Year	Closing Debt as at 31 December	Gross Revenue Collections	Tax debt as a percentage of Gross collections
2015	US\$1.97 Billion	US\$3.88 billion	48.97%
2016	US\$2.67 Billion	US\$3.46 billion	77.12%
2017	US\$3.96 Billion	US\$3.98 billion	99.50%
2018	US\$5.04 Billion	US\$5.36 billion	94.03%
2019	US\$4.79 Billion	US\$23.19 Billion	20.66%

Source: ZIMRA (2015; 2016; 2017; 2018; 2019)

2.3.5 Cost of collection

The cost of collection ratio compares the annual costs of administration incurred by ZIMRA with the total revenue collected over the course of a tax year. The cost of collection ratio is a frequently used indicator to measure the efficiency of revenue administration. Thus, reduction in the ratio, holding other things constant, indicate improvements in the efficiency of the revenue authority. ZIMRA (2017) identified cost containment as well as cost reduction as one of its strategic goals. More so, the revenue authority reported that it had been given additional functions, some in line with ease of doing business reforms, which have a bearing on increasing costs. Despite this, the total costs have slightly declined or remained largely unchanged as shown by the table below:

Table 2. 4: Cost of collection versus the targeted cost of collection

	Actual	Target
2015	3.10%	3.10%
2016	3.19%	3.00%
2017	2.61%	2.70%
2018	2.49%	2.50%
2019	2.46%	3.00%

Source: ZIMRA (2015; 2016; 2017; 2018; 2019)

2.3.6 Revenue collection legislative framework

There are various acts of Parliament that ZIMRA oversees which are based on the objectives of the Ministry of Finance. These include the Income Tax Act (Chapter 23:06), the Value Added Tax Act (Chapter 23:12), the Capital Gains Act (Chapter 23:01), the Finance Act (Chapter 23:04), the Estate Duties Act (Chapter 23:03) and the Customs and Excise Act (Chapter 23:02). The acts spell out how the various tax heads are collected. Due to the complexity of the tax laws, ZIMRA has devised procedures and guidelines to help its officers in executing their duties and interpretation of tax laws with fewer hurdles. The tax acts are periodically amended to be in line with contemporary trends, government policies as well as the tightening of loopholes being taken advantage of by taxpayers to evade/avoid paying tax.

With the complexity of the Zimbabwean tax system, there are incongruities in the interpretation of the tax laws. A client who is not satisfied with an assessment or a decision made by the Commissioner-General may lodge an objection in terms of provisions of the laws administered by ZIMRA within 30 days after the date of the assessment or written notification of the decision. Objections are lodged in accordance with section 62 of the Income Tax Act [Chapter 23:06] as read with the 11th Schedule, section 25 of the Capital Gains Tax Act [Chapter 23:01] and section 32 of the Value Added Tax Act [Chapter 23:12]. If the client is not satisfied with the Commissioner General's decision, he/she may appeal to the High Court or Special Court in terms of Section 65 of the Income Tax Act (for Income Tax and Capital Gains Tax matters) and/or to the Fiscal Appeals Court in terms of Section 33 of the VAT Act in respect of VAT issues. Lodgement of the objection does not suspend the payment of tax due unless the Commissioner-General so directs, according to Fiscal Appeal Court, Section 14.

2.4 Tax categories in Zimbabwe

Throughout contemporary economies, taxation has taken many different forms to include capital gains tax, interest income tax, dividend tax, and corporate income tax (Erosa and González, 2019:114). In most countries, property taxes are also a major component of the tax system, and a significant contributor to the total tax revenues, especially for local governments (Norregaard, 2013:100). Zimbabwe has a cocktail of

both indirect and direct taxes. Revenue is collected in Zimbabwe under various tax categories discussed below;

2.4.1 Value Added Tax (VAT)

Value Added Tax (VAT) is defined as a consumption tax charged on the value of goods and services sold or consumed within a country. It constitutes an indirect tax collected by tax authorities on behalf of the government and is paid by the final consumer (Kleanthous and Chatzis, 2019:01). Van Oordt (2015:33) defines VAT as a tax of a certain percentage, levied upon the sale of every commodity or service. VAT was first collected in France in 1954 and it has been introduced in many countries, both developing and developed. Currently, VAT is charged in over 130 countries, where it commonly raises 20% or more of all tax revenue.

Compared to other tax heads like personal income tax and withholding tax, VAT has managed to stand out as one of the most significant tax policy innovations, generally regarded as one of the main sources of governments revenue (Alavuotunki et al. 2019:490). Widely adopted in sub-Saharan Africa and elsewhere, VAT has been the centrepiece of tax reform in many developing countries. By any standard, the rise of VAT has been the most significant development in tax policy and administration of recent decades (Keen and Lockwood, 2009:138). VAT has been commended for managing to avoid the cascading of indirect taxes, being harder to evade than other forms of taxation and for the fact that it has been compatible with international trade (Alavuotunki et al. 2019:490).

Before the introduction of VAT, Zimbabwe was on a single-stage sales tax, which had been operational since 1976. The sales tax was applied on all goods sold locally, including services, and the rate was 15%, 25% for motor vehicles, and 10% for specified commercial vehicles and the supply of electricity (Madzivanyika, 2017:17). VAT was introduced in Zimbabwe in 2004 to replace sales tax and is administered through the VAT Act (Chapter 23:12) in conjunction with VAT regulations. In terms of the VAT Act, VAT is levied on the supply of goods and services as well as on the importation and exportation of goods and/or services. Taxable supplies attract VAT at specified rates of 0% and 14.5% or any other rate as may be specified by the minister responsible for finance.

With effect from 1 January 2020, the VAT registration threshold was increased from ZWL\$60 000 to ZWL\$ 1 000 000. VAT-registered operators are supposed to complete a return (VAT 7) and submit it to ZIMRA. Currently, the due date of VAT 7 and payment thereof is the 25th of the following month of which sales were made. However, Section 12A of the VAT Act [Chapter 23:12] as read with Section 23A of the VAT (General) Regulations, in SI 273 of 2003 provides for the postponement of payment of VAT on the importation of capital goods upon application to the commissioner.

2.4.2 Employees tax – Pay As You Earn (PAYE)

Pay As You Earn (PAYE) is paid in terms of Section 8(1) (b) of the Income Tax Act as read with the 13th Schedule to the Act. PAYE is a method of paying income tax on remuneration that was introduced in 1966 (ZIMRA, 2020). Remuneration includes salary, cash in lieu of leave, leave pay, commission, fees, emoluments and pension, to mention but a few. The revenue authority later adopted the Final Deduction System (FDS) in 2000 to overcome the problems associated with the PAYE system. ZIMRA defined FDS as:

‘A system whereby the employer is directed to withhold Employees Tax (PAYE) from the employee`s remuneration in such a way as to ensure that the amount so withheld in any year of assessment is as nearly the same as the income tax liability that is expected from the employee concerned.’

An employer must register with ZIMRA with fourteen (14) days of becoming an employer as specified by the Thirteenth Schedule of the Income Tax Act. There is an annual return (ITF 16) that contains details on annual earnings, deductions, credits and PAYE for each employee which must be submitted 30 days after the end of the year. PAYE is calculated by deducting allowable expenses from the gross remuneration resulting in taxable income which is then determined by the tax chargeable after the application of tax tables. Payment and submission of returns (P2) of PAYE to ZIMRA must be done within 10 days after the end of the month during which the amount was withheld. PAYE has been one of the top revenue contributors to the fiscus.

Due to the economic melt that has been experienced in Zimbabwe, job losses in the form of retrenchments and pay cuts, the tax weighed down heavily on collections of PAYE. More importantly, PAYE collections vary from one month to another due to various seasons in various sectors of the economy and are at the peak in December when most companies pay a bonus. Despite the contribution of PAYE to the consolidated revenue fund, leakages in its collection are inherent in Zimbabwe. PAYE is evaded in the following ways: non-disclosure of income and taxable benefits, non-submission of returns, claiming non-deductible expenses and abuse of credits enshrined in the Finance Act. The other tax revenue collected by ZIMRA is the AIDS levy (paid by the employee and employer, each paying three per cent of the income tax payable).

2.4.3 Income Tax

The income tax also known as corporate tax was introduced in Zimbabwe (then Southern Rhodesia) in 1918, but the current legislation was enacted on the 1st of April 1967. The assessment and collection of this income tax is regulated by the Income Tax Act (Chapter 23:06) with the tax rates prescribed in the Finance Act (Chapter 23:04). Income in Zimbabwe is currently taxed at source according to Section 8(1) of the Income Tax Act (Chapter 23:06). However, there is a proposal made by the Government to change from the source-based tax system to a resident-based tax system which is yet to be passed as law (Parliament of Zimbabwe, 2013).

Company tax is levied on the profit generated by both companies and individuals engaged in trade and investments. ZIMRA introduced a self-assessment system in 2007 with the aim of improving collections from the Income Tax well as improving efficiency in the tax system. According to the ZIMRA (2015), self-assessment refers to the system where specified taxpayers are required to calculate the tax due or refundable and furnish a self-assessment return in respect of each tax year not later than four months after the end of the respective tax year. Presently, the self-assessment system applies solely to taxpayers who are registered for VAT. Nyahangare (2011:51) studied the self-assessment system in Zimbabwe and found that it impacted positively on ZIMRA's operations and revenue collections.

Currently, the income tax rate stands at 24.5% of the profit earned, and the tax year runs from 1 January to 31 December, though any accounting year may be used

instead if so approved by the tax authority. The tax head is paid to ZIMRA in four quarterly payments dates known as QPD's on 25 March, 25 June, 25 September and 20 December, and final payment is settled upon the completion of annual financial statements. The annual return is in the form of ITF12c for companies on self-assessment and ITF 12 for other companies.

Collections for this tax category are greatly affected by industrial capacity utilisation, the general performance of the economy and the cost of production. The economic slump in Zimbabwe characterised by exorbitant tariffs, lack of credit lines and erratic power supplies reduced the collection of income tax in Zimbabwe. Furthermore, income tax is vulnerable to evasion and avoidance in the following ways: inflating expenses, not declaring all the sales, claiming non-deductible expenses especially those of a capital nature, and inflating losses, which has a bearing on reducing tax liability in the succeeding year as well.

2.4.4 Customs and excise duty

Trade facilitation is one of the crucial mandates legislated by the Zimbabwean government, which is fulfilled by enforcing the Customs and Excise Act (Chapter 23:02). Customs duty levied on imported goods is used to protect civil society, and promote strategic and infant industries. ZIMRA uses an internationally recognised harmonised tariff handbook that shows tariff codes and applicable rates to collect the customs and excise duties. Generally, rates of customs duty for basic products and capital goods are lower than for luxury goods.

There are three types of customs duties that ZIMRA has adopted. Firstly, specific duty is imposed on each unit of a commodity imported. Secondly, ZIMRA applies ad valorem customs duty on certain goods such as motor vehicles which are imposed on the total value of a commodity imported. The value for duty purposes is based on cost, insurance and freight. Lastly, Zimbabwe embraced compound customs duty which is a combination of specific and ad valorem customs duties, for example, footwear and clothing have tariff codes that attract a combination of specific and ad valorem rates of duties.

ZIMRA is faced with challenges as far as customs duty collection is concerned. Importers evade customs duty by under-declaration of values and quantities of the goods imported. Due to poor infrastructural development and lack of resources such

as all-terrain patrol vehicles, goods are brought to the country through known and unknown illegal points of entry. The wrong classification of goods being imported is also prevalent in Zimbabwe, in which agents deliberately use the wrong tariff which suppresses duty to, pay less duty. The Customs Act also allows for the free importation of certain goods under prescribed conditions. However, importers with or without the connivance of revenue officers abuse the rebates and remission. An example is the acceptance of false declaration on the country of origin for preferential treatment. Moreover, goods in transit end up being consumed in Zimbabwe without payment of duty.

In order to curb revenue leakages in the collection of customs duties, ZIMRA has introduced a department called Post-Clearance Audits where audit cases are opened for companies that have imported products. The selection for audit cases is similar to that in tax administration which makes use of risk-based approaches. Physical inspection of goods imported is also conducted before a bill of entry is assessed to verify the quantities and nature of the goods. The government amended Section 234 of the Customs and Excise Act, banning the driving of motor vehicles, in transit to other countries, on Zimbabwean roads to reduce transit fraud.

More so, ZIMRA introduced an electronic cargo tracking system that uses electronic seals and transmitters to prevent transit fraud. In line with recommendations from the World Customs Organisation and the International Monetary Fund, Zimbabwe is shifting the focus from customs duties to excise duties. This development is evidenced by a decrease in revenue collections from customs duties and a steady increase of contributions by excise duties to the national coffers.

In addition, a separate excise department was created within ZIMRA to concentrate on the world trending tax category. Excise duty is an indirect tax that is levied on both local and imported specified products. A subset of excise duty is a special excise duty charged on the change of ownership of locally registered second-hand motor vehicles and the sale of airtime at a rate of 5%. The tax head is levied primarily to raise revenue and discourage consumption of certain commodities as well as to internalise external social costs. Excise duty is paid on importation for imports and on the 20th of the following month for the locally produced goods (Customs and Excise Act).

2.4.5 Presumptive tax

The Government of Zimbabwe mulled the introduction of the presumptive tax in 2004 in the 2005 budget statement (2005 Budget statement paragraph 9.41). ZIMRA (2005) defines presumptive tax as a tax based on the notional or estimated business income. The tax authority added to the list two types of presumptive taxes which are rebuttable and non-rebuttable presumptive taxes. The two types are differentiated in terms of the ability of a taxpayer to challenge the tax assessed. The main reasons for the inclusion of presumptive tax in the tax system include broadening the revenue base, promoting equity in taxation by including informal traders in the tax net and promoting a tax-paying culture in Zimbabwe (ZIMRA, 2011). The presumptive tax was also meant to cater for those who cannot keep proper records as required by the Income Tax Act.

Sectors of the economy such as restaurants, bottle stores, cottage industries, hair salons and commuter operators were targeted to ensure their participation in the payment of taxes. As the targeted groups for the presumptive tax are hard-to-tax, various statutory instruments were crafted and led to licensing authorities being required to withhold presumptive tax whenever a licence is issued to a trader who does not have a tax clearance. However, Utaumire et al. (2013:118) ascertained that the implementation of the presumptive tax was not effective in Zimbabwe. Their study concluded that presumptive tax had not been fully implemented and administered by the tax authority. The presumed gains from presumptive tax are not visible because there is corruption in the tax administration, small staff complement, unavailability of information relating to the tax head, and lack of educational campaigns and awareness (Dube, 2014:51). Zivanai et al. (2014:18) also concluded that taxpayers are not willing to pay presumptive tax because they feel it is on the high side and reduces their business viability.

2.4.6 Capital Gains Tax (CGT)

ZIMRA (2015) defines capital gains tax as a tax levied on the capital gain arising from the disposal of a specified asset. It is remitted by seller or depositary (includes conveyancer, legal practitioner, estate agent, building society) and agent. Specified asset means immovable property (e.g. land and buildings) and any marketable security (e.g. debentures, shares, unit trusts, bonds and stock) as specified under the CGT Act (Chapter 23:01). The tax category is calculated at a rate of 20% of the capital gain determined in accordance with the CGT Act. A CGT clearance certificate is given

after all the necessary documents such as an agreement of sale have been submitted to ZIMRA. There are instances where CGT is not payable, for example, transfers of specified assets between spouses, transfers in a scheme of reconstruction/merger, or the like that is approved by the Commissioner-General of ZIMRA, where a person aged 55 years or above sold his or her PPR.

2.4.7 Withholding tax on tenders

Withholding tax of 10% is paid when a business operator including the government, quasi-government and statutory corporations enters into any contracts with a person/company without a valid tax clearance, which results in an obligation to pay any amounts totalling or aggregating a specified amount or more. The payment should be accompanied by a schedule showing the names of all the persons from whom the 10% was deducted, and attached to the prescribed form (Rev 5 Form) and submitted to ZIMRA. The tax is remitted to ZIMRA on or before the 10th day of the following month and the person from whom the amount has been withheld (payee) is furnished with a certificate showing full details of the payee including the amount withheld. The registered business operator is liable for the amount that he/she has failed to withhold and is liable for a penalty equal to the amount that was not withheld. Interest at 10% is also payable on the outstanding amount as long it remains unpaid.

2.5 Background to tax culture in Zimbabwe

Tax systems serve mechanisms to influence market outcomes while incorporating the principles of fairness, and the community must perceive fairness and deservingness (Sheffrin, 2018:221). The interactive response of taxpayers to tax systems is a reflection of their perceptions of the systems, and this could lead to attempts to evade and avoid taxes.

2.5.1 Understanding the evolution of a tax culture

In general, culture remains a vague concept, despite extensive research having been conducted across various disciplines (Wynter and Oats, 2018:56). According to Hofstede (1980:25), culture is the collective indoctrination of the mind which differentiates members of one human group from another. It is believed to run deeper than just a common code or ideological systems which generally lack a sense of communion, and operates as a hands-on means for members to get along in the social sphere (Swartz, 1997:150). In this context, tax culture, therefore, is related to the

principled dimensions of calculated and deliberate actions by societies in relation to tax obligations. These ethical behaviours inherent in taxpayers are believed to be a product of several socio-demographic factors, such as age, gender, level of education and employment status (Young et al. 2016:563). Since a culture represents an integral component in any environment, it has a significant impact on taxation and accounting practices (Khaled and Khlif, 2016:547). As noted by Nerré (2006:189), each country has its own notable national tax culture, and as such all the formal and informal institutions within a tax system exhibit certain trends and practical execution that is traditionally entrenched within that country.

Empirical research has proved that culture influences tax compliance in each country, and as such, it is a significant factor warranting consideration (Bird and Davis-Nozemack, 2018:1021; Bejakovic and Bezeredi, 2019:45; Abdixhiku et al. 2018:33). Similarly, earlier studies by Torgler (2005:525) and Lago-Peñas and Lago-Peñas (2010:441) have established positive and significant correlations between culture, national pride and religiosity with the level of tax morale in a country. The study of tax culture is fundamental in the understanding tax morale of a country.

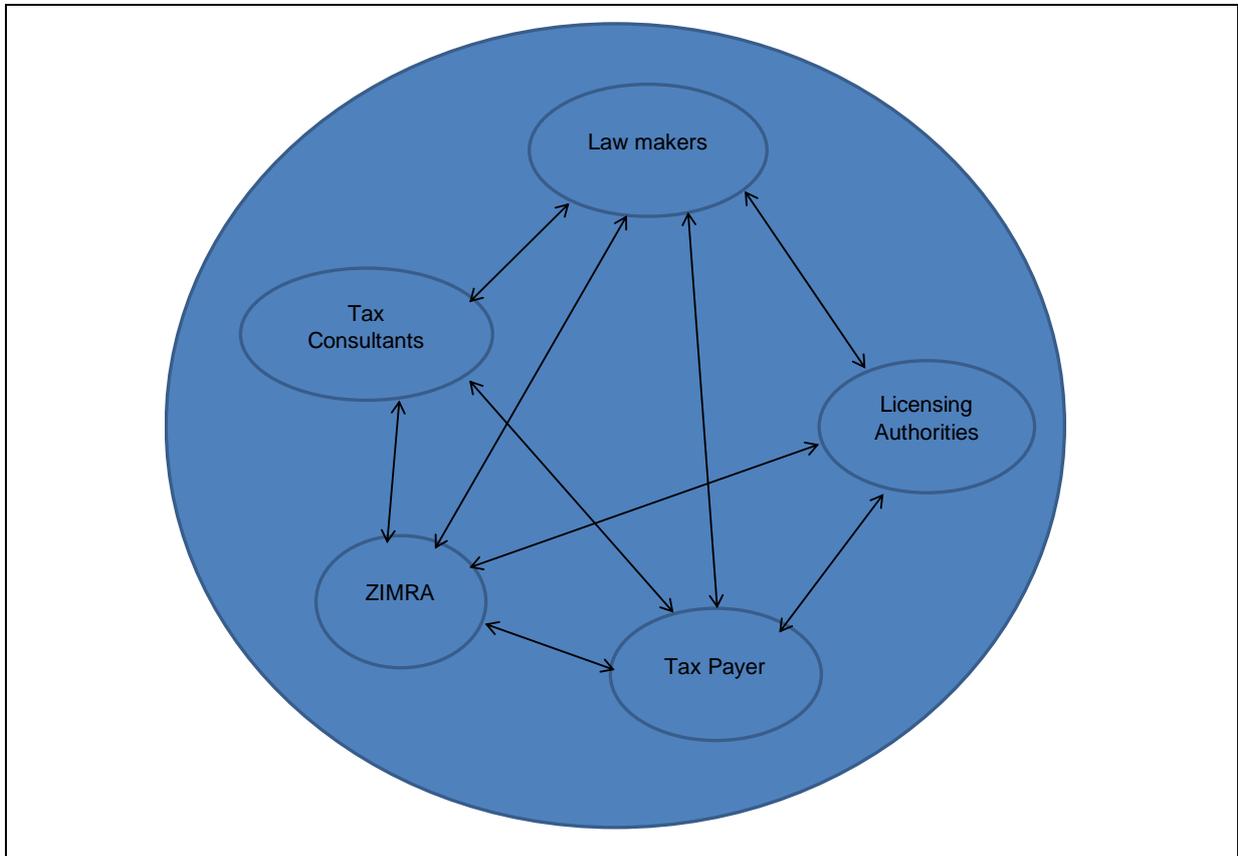
Nerré (2001:01) noted that many governments are failing to meet their goals partly because of tax-cultural incompatibility. Nerré (2008:155) defines tax culture as “the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution which are historically embedded within the country’s culture, including the dependencies and ties caused by their ongoing interaction”. Tax culture is characterised by tax behaviour and norms in a particular country. The attitude and behaviour of both taxpayers and tax collectors form the fundamental base for the tax culture (Malik, 2015).

2.5.2 Tax Culture in Zimbabwe

Zimbabwe, like all of the developing economies, has implemented several taxes as a way of improving its revenue, especially from the informal sector (Dube, 2018:724). The interaction of each player in the tax culture-set with another is of paramount importance in determining the tax morale of a country as well as improvement in revenue collections. Tax culture in the Zimbabwean context is defined by the interactions of formal and informal institutions, including tax consultants, clearing

agents, government arms in the confinements of the national culture, as shown by Fig 2.3.

Figure 2. 3: Tax culture in Zimbabwe



Source: Researcher's formulation

A crucial interaction in the tax culture of Zimbabwe is that of ZIMRA and the taxpayers. This interaction takes the form of educative workshops, on the submission of returns, during the audit process, and consultative meetings, to mention but a few. A study by Ngwenya et al. (2014:04) showed that the Zimbabwean tax system is complex, which leads to taxpayers exhibiting non-paying tax behaviour. The relationship between taxpayers and the tax agencies needs to be mutual and respectful to promote a culture of paying tax. Feld and Frey (2002:97) cemented this proposition in a study that concluded that the willingness of taxpayers to pay tax is centred on how the tax authority treats them.

ZIMRA launched its first Taxpayer Appreciation Day on 30 September 2011 in Harare to recognise clients who pay their duties and taxes on time and in full with no

intervention from ZIMRA. It has been empirically proven that the willingness of individual taxpayers to follow tax regulations is positively related to the signals and efforts of political leaders and institutions, coupled with the existence of norms that encourage good behaviour (Young et al. 2016:566). In addition, the existence of higher tax rates has been found to discourage a positive attitude towards the payment of tax, and this has proved to be detrimental to economic growth (Chen et al. 2017:207). On the other hand, it has been found that capital gains tax has been found to encourage newly established firms to issue more equity to lessen the tax charged on accumulated internal capital over the life cycle of the business (Dyrda, 2019:131).

It is against this background that this research intends to examine tax morale and its indicators in Zimbabwe for the government to step up its strategies of increasing tax compliance. Important also is the relationship between the taxpayers and the tax legislation. It is imperative for the government to craft legislation that is understandable to the taxpayers. Tax avoidance and tax evasion are the most common problems of taxation which can be overcome by ensuring an efficient tax regime and a healthy tax culture. A proper tax culture can develop only when taxpayers and tax collectors discharge their obligations equally well. In order to pay tax, taxpayers need to understand what is expected of them and agree with tax authorities. It is therefore important to understand the revenue collection process as well as the different categories of taxation as explained in the next few sections.

2.5.3 Tax compliance in Zimbabwe

ZIMRA seems to be applying both persuasion and coercion strategies for tax compliance, relying more heavily on semi-military operations which give results in the short run, but proving to be difficult to sustain in the prevention of tax evasion. The level of tax compliance in Zimbabwe is among the lowest in Africa, as many potential taxpayers are outside the tax net (Dlamini, 2017). In its 2017 annual report, ZIMRA acknowledges the low level of tax compliance.

2.5.4 Factors affecting tax compliance in Zimbabwe

An analysis of factors that affect tax compliance is important as it assists the government in prescribing suitable and lasting solutions to tax evasion and avoidance that are inherent in the country. The following are the determinants of tax compliance in Zimbabwe;

2.5.4.1 Corruption

Besley and Persson (2014) found a strong negative correlation between corruption and the tax revenue-to-GDP ratio, which they attributed to corrupt systems of government that face resistance to increasing taxes. Bertinelli et al. (2019) studied the effects of corruption in Mali and concluded that the payment of bribes reduces tax compliance by 10 percentage points. Zimbabwe is ranked amongst the most corrupt countries in the world, with the latest ranking being 158 out of 180 countries (See Table 2.2). ZIMRA (2017:34) noted that the most dominant areas of corruption in ZIMRA are the undervaluation of goods, especially motor vehicles; false removal in transit acquittals; facilitation of smuggling; tax evasion and fraud; bribery; and collusion. Hove et al. (2012) noted corruption as one of the causes of smuggling, a form of tax evasion in Zimbabwe. In addition, corruption within the ranks of the revenue authority is tainting its image thereby reducing tax confidence in both taxpayers and potential taxpayers (AFRODAD 2011:24; ZIMRA, 2014:24).

2.5.4.2 Demographic factors

Demographic factors also play a crucial role in the determination of citizens' attitude towards taxation. Nyamwanza et al. (2014:04) found that older respondents were generally more compliant than young people in Zimbabwe. The level of education received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements (Maseko, 2013:07).

2.5.4.3 Level of tax rates

Developing countries generally have high rates of tax in a bid to increase revenue mobilization capacity. Most research in Africa has shown that higher tax rates result in increasing cases of tax evasion. Van Dunem and Arndt's (2009) reported that in Mozambique a 1% increase in tax rates leads to a 1.4% increase in tax evasion. A study by Levin and Widell (2014) in Tanzania, Kenya and the UK found similar results.

Zivanai et al. (2016:1554) concluded that non-compliance of taxpayers in Zimbabwe is driven by high tax rates, perceived low risk of detection, the perception that fellow informal traders are not paying taxes, and corruption in the government. Kwaramba and Mudzingiri (2016:12) and Nyakuenda (2014:50) found that in Zimbabwe, a decrease in tariff rates is associated with a reduction in tax evasion, which is in concurrence with other studies undertaken in African countries.

2.5.4.4 Deterrence factors

The standard model of tax evasion (which is discussed in full in chapter four) assumes that the penalty will be charged on the evaded amount, which is a different case in Zimbabwe. According to the Income Tax Act (Chapter 23:02), Section 45, the penalty is charged on tax that would have been unearthed by ZIMRA. The tax evader will thus pay additional tax calculated on the evaded amount plus a penalty at 100% of the additional tax. Furthermore, the A-S model predicted that high penalties would encourage a high level of compliance, but this is counter to the prevailing environment in Zimbabwe.

Penalties are charged at 100% as stipulated by the Income Tax Act, but there is still a prolific number of tax evasion cases in Zimbabwe. Nyakuenda (2014:50) found that Zimbabweans generally view the penalty associated with tax as small, such that it is cheaper to evade tax than to comply with the tax laws. More so, the standard models of tax evasion predict that tax evasion will decrease when the tax rates are increased. This prediction is not true in Zimbabwe, as pointed out by Kwaramba and Mudzingiri (2016:10), who studied the effect of tax rates/ tariff on tax evasion on importers and found that a decrease on a tariff of a product results in less smuggling of that product. Nyakuenda (2014:50) found that Zimbabwean taxpayers evade tax mainly because the government imposed high rates.

2.5.4.5 Tax knowledge

Palil and Mustapha (2010), Prince and Anayduba (2014), and Witt and Woodbury (2013) explained that tax knowledge has a direct relationship with tax compliance. Their research further acknowledged that knowledge of offences, rebates, penalties, rights and fines correlates positively with the taxpayers' tax compliance behaviour. Kassim (2013) also posited that the provision of pertinent information to taxpayers would bring about them meeting their tax commitments as and when due. More so,

tax knowledge is a critical element in a SAS (self-assessment system) environment as it assists in achieving voluntary compliance, specifically in determining the liability due (Kasipillai, 2010). Kirchler (2013) concluded that the tax compliance rate is low in Africa due to the lack of adequate tax education.

For Zimbabwe, Dalu et al. (2013) noted that taxpayers would pay tax only if they were aware of the tax laws. The research also argued that the importance of paying tax plays an important role in the tax compliance concept. There is thus a need for ZIMRA to intensify cascading information on the importance of taxation to the economy to increase tax compliance. Mugabe (2015:50) also had results that showed that the majority of the respondents alluded to the fact that lack of tax knowledge has a bearing on tax evasion in Zimbabwe.

2.5.4.6 Trust

Trust in the legal system, tax administration and government is also regarded as a critical factor in shaping tax compliance behaviour. Hove and Hove (2016:522) found that there are low levels of trust in all arms of the government, that is, the executive, parliament and the judiciary system. Consequently, Zimbabweans engage in tax evasion and tax avoidance because their attitude towards the governmental system is affected by a lack of trust. Importantly also, the fairness of the tax administration in carrying out its duties greatly affects tax compliance in Zimbabwe. Hove and Hove (2016:523) observed that 100% of the respondents pointed that they are unfavourable to the fairness of tax officials.

2.5.4.7 Record keeping

As highlighted earlier, SMEs contribute more than 80% to the tax registers of developing countries, Zimbabwe included. Alabede et al. (2011) posit that most SMEs do not keep proper books of accounting for their trading activities, thereby making it impossible for tax authorities to collect or estimate the actual tax revenue from them. Maseko and Manyani (2011) confirmed that most of the small entities do not have accounting skills and therefore they would have to outsource services, and this, in turn, increases the costs of administration leading to most SMEs choosing not to formalize their businesses, thereby evading tax. Poor record-keeping translates to higher costs of tax compliance for SMEs, in terms of time and financial resources that are considered to be scarce, thereby encouraging SMEs to remain informal and

thereby not comply with tax legislature (Evans et al. 2011). Nyamwanza et al. (2014) also hinted that some SMEs would even keep two sets of books of accounts, that is, the actual books and the other set to be produced for ZIMRA, to evade paying tax.

2.5.4.8 Tax compliance costs

According to Stern and Barbour (2007), most business persons in developing countries remain outside the tax net because the perceived costs of compliance with the tax laws outweigh the perceived benefits. A compliance cost is a cost associated with regulatory compliance that does not contribute to the core activities of a business. A business may be able to claim an exception from regulation if it can establish that the compliance cost would be irrational, and in this situation, it will receive a special exemption.

According to Evans et al. (2001), tax compliance costs include monetary costs, time costs, psychological costs and opportunity costs to taxpayers. The researchers explained the costs as follows:

- ❖ Administrative costs are costs other than compliance costs that are borne by the taxpayers. The compliance cost and administrative cost combined are defined as the operating cost of taxation.
- ❖ Efficiency costs, also known as social costs, refer to the cost of how a taxpayer would conduct oneself, the behaviour which will not be optimal and results from the system of tax available. A good example would be a taxpayer changing their decisions in investment as a result of complete or partial exemptions from tax to certain activities that are given preferential treatment.
- ❖ Opportunity costs refer to the opportunities foregone by a taxpayer for other benefits, with the money and time spent on being compliant with tax matters.
- ❖ Monetary costs are the funds and expenses that are incurred by the taxpayers in respect of professional services sourced to assist in understanding and being able to fully comply with the tax laws. The costs also include the money paid by the taxpayers to the tax authorities.
- ❖ Psychological costs include the depression, discomfort of the mind, and frustration experienced by taxpayers when they are trying to comply with their tax obligations.

A number of SMEs in Zimbabwe face challenges such as the inability to keep sufficient books of accounting for both management purposes and taxation purposes and the inability to hire suitable bookkeepers and tax administrators. Resultantly, tax compliance becomes associated with heavy costs that burden operations.

2.5.5 Strategies taken by ZIMRA to increase tax compliance

Notwithstanding the challenges facing the economy, ZIMRA introduced a mix of processes to boost revenue collection, tax compliance and operational efficiency. In the process, convenience to the taxpayers is ensured, broadening the tax base is enhanced, winning the fight against the corruption scourge, and managing the tax debt. The following are the strategies implemented by ZIMRA to increase tax compliance:

2.5.5.1. Tax amnesty in Zimbabwe

Wilde and Durbin (2013) indicated that when governments introduce a tax amnesty for raising monetary revenue, a positive relationship with compliance levels of the citizens exists because of fruitful government gathering income from both the shadow domestic economy and capital held abroad. In Zimbabwe, a tax amnesty was first promulgated for six months running from October 2014 to March 2015. The main aim of the relief was to assist taxpayers in regularizing their business affairs, thereby increasing tax compliance levels in the country. Despite the enticing aspects of the tax amnesty, the deadline for submitting the tax amnesty forms was extended a number of times due to poor response. ZIMRA reported that 7,580 amnesty applications were made from companies and individuals, some of which were turned down. The targeted delinquent taxpayers did not trust the revenue authority as they thought that they were being tricked so that the heavy hand of the authority would descend on them at a closer range.

After the failure of the first amnesty, ZIMRA announced a new tax amnesty programme on 15 March 2018 under Finance (No. 1) Act, 2018. The amnesty waived interest and penalties on undeclared taxes and other non-compliance relating to taxes that became due and payable before 1 December 2017, excluding the principal. The taxes covered under the tax amnesty included any tax or duty administered by ZIMRA such as Income Tax, Capital Gains Tax, Customs and Excise Duties, Value Added Tax and Stamp Duties. The amnesty covered the period 1 January 2018 to 30 June 2018.

Also important, ZIMRA proclaimed a tax amnesty whereby penalties and interest on VAT calculated in retrospect for those who would voluntarily register for a period up to October 31 2015 were waived in full. The amnesty aimed to increase the number of new registrants for VAT with the expectation of a lateral increase in revenue collection and to enable ZIMRA to track transactions on fiscalised devices.

2.5.5.2 Voluntary disclosure

One strategy that has been adopted by ZIMRA to improve tax compliance is the introduction of the Voluntary Disclosure Programme. In terms of taxes, the revenue authority is granting full remission of penalties in order to encourage taxpayers to come forward and volunteer disclosure of omitted income and other tax compliance obligations. A Voluntary Disclosure Programme which ran between July 2018 and December 2018 was presented, which supported people who had either intentionally or fortuitously dedicated or excluded acts that were against the provisions of the Customs and Excise Act to voluntarily disclose such acts as to avoid penalties and seizure of the goods.

2.5.5.3 Investment in information technology and infrastructural development

Introduction of e-filing

Muita (2011) highlighted that manual processes in both administration of taxation and compliance with the tax laws are tiresome, time-consuming and prone to error. Tax authorities around the world have thus introduced various online systems that enable, for example, online electronic submission of returns, online payments and online viewing of returns. Electronic tax filing was first mooted in the United States in 1986, enabling the Internal Revenue Services (IRS) to offer tax return e-filing for tax refunds only (Muita, 2011).

ZIMRA launched an e-services solution which was developed in conjunction with Microsoft and SAP, an important step towards the creation of a virtual tax office, in June 2015. The ZIMRA e-services platform seeks to make it convenient, simple, safe and quick for Zimbabwean citizens and businesses to file their tax returns, make online payments and keep track of their tax transactions online and from anywhere in the world. ZIMRA offices are located in cities and large towns only, thereby disadvantaging taxpayers operating from remote areas. Obert et al. (2018:341) noted that the

introduction of e-services by ZIMRA improved the ease of doing business with ZIMRA and taxpayers now comply with tax requirements without necessarily going to the revenue authority's offices.

Introduction of fiscalisation

In order to facilitate VAT compliance, tax authorities have in recent years relied on automation, moving away from the rules-based systems which were easily evaded (Wu et al. 2012:8769). Bird (2003) propounds that Fiscalised Electronic Devices (FEDs) were first introduced in Italy by the Italian Ministry of Economics in the 1980s to keep key financial data such as total VAT, income and taxpayer details for the tax authorities. FEDs are small devices or mini-computers used to determine the amount of VAT remitted to the government (Niosi, 1994:139). The devices are designed so that they record every exchange made by a taxpayer to calculate the exact VAT which is supposed to be remitted to the fiscus. Rathus and Nevid (1987) identified four types of FEDs, namely Electronic Cash Registers (ECRs), Electronic Tax Registers (ETRs), Fiscal Printers (FPs) and Electronic Signature Devices (ESDs). Fiscalisation according to the ZIMRA website refers to the installation of fiscal devices to enable them to record turnover and other tax information on the read-only fiscal memory at the time of sale for use by the tax authorities in Value Added Tax administration.

It is important to note that in Zimbabwe, fiscalisation has led to a reduction in the loss of revenue as the devices are not to be tampered with. Also, the use of fiscalised tax registers has assisted in ensuring the simplicity and convenience of the tax system. In order to minimise the cost of acquiring Fiscalised Electronic Tax Registers and Fiscal Memory Devices, the government enacted a rebate of duty on machines imported by approved suppliers with effect from 1 August 2010. Also, 50% of the cost of acquiring the machines was added on allowable deductions on claiming input VAT.

Introduction of scanners

ZIMRA first introduced scanners in 2003, while mobile baggage scanners were first introduced at the Beitbridge Border Post in 2016 and later to other border posts like Plumtree and Chirundu. The main purpose of the scanners is to reduce cases of smuggling and intrusive leakages, through strengthened identification of smuggled goods and dangerous substances. However, Munyanyi (2015:105) noted that the scanners are usually malfunctioning and there is little effort to repair them.

Introduction of the Automated Systems for Customs Data World (ASYCUDA World)

ZIMRA introduced the Automated Systems for Customs Data World (ASYCUDA World) as a means of improving efficiency in the processing of customs entries and to upgrade from ASYCUDA++. The system enables the government to increase national budget revenue by spontaneously applying the Customs Tariff (with automatic calculation of duties and taxes) and sound payment schemes. More so, the introduction of ASYCUDA has led to the production and availability of reliable and timely trade and fiscal statistical data to assist the government in its economic planning (United Nations Conference on Trade and Development, 2011:01). Corruption has also been reduced as ASYCUDA world curtails the chances of the interface between employees and taxpayers (ZIMRA, 2020). Kamajugo (2014) also noted that ASYCUDA world enables transactions to be done online, thereby reducing costs to the taxpayer such as travelling costs and costs associated with idle time spent queuing at border posts. Also, in 2017, ZIMRA further upgraded ASYCUDA World by integrating it with the RBZ Exchange Control System.

Introduction of cargo tracking

ZIMRA introduced the Electronic Cargo Tracking System (ECTS), a system that tracks and monitors transit cargo from the point of entry into Zimbabwe to the point of exit using electronic seals that are armed on the cargo, in January 2017. ECTS is an effective counter-smuggling and transit fraud curbing system which increases revenue to the government. The ECTS system has also brought efficient clearance processes at the border posts and decongested the points of entry and exit, thus making Zimbabwe a preferred trade and travel corridor in the region (ZIMRA, 2019). The system is also a corruption-fighting mechanism through embracing modern automation processes, which reduce opportunities for corruption.

Decentralization of offices

In an attempt to increase the revenue inflows, ZIMRA opened many offices around the country, resulting in increased accessibility to taxpayers. The decentralization of tax

collection points saw the establishment of offices such as Marondera, Kariba and Chipinge, to mention but a few.

2.5.5.4 Tax education awareness

Lack of tax knowledge can be a huge deterrent to efficient tax administration, even though ignorance of the law cannot be used as an excuse (AFRODAD, 2011). ZIMRA educates taxpayers through holding forums, workshops and seminars, with an aim to improve tax compliance (ZIMRA 2016). ZIMRA has also carried out awareness campaigns through distributing tax educative pamphlets at border posts, inland offices and various other government departments as well as mounting billboards in major streets of various towns. Recently, the authority has been broadcasting messages on tax issues on a number of radio and television programmes. In addition, ZIMRA introduced Taxpayer Appreciation Day to recognise and appreciate tax compliant corporates and individuals, thereby cultivating a culture of voluntary tax compliance.

In this day and age of technological advancement and where an inability to access the internet is a thing of the past, ZIMRA has also moved with the times. ZIMRA has modernized and has a fully functional and interactive website (www.zimra.co.zw) on which clients can access information like statutory instruments, tax rates, calculation of duties, post queries and get access to forms for the remittance of taxes. The authority also has its presence on social media platforms such as Twitter, Facebook and WhatsApp, where taxpayers can interact with the revenue authority.

2.5.5.5 Reduction of tax rates

As mentioned earlier, tax rates have an effect on the tax compliance behaviour of individuals in Zimbabwe. Thus, to encourage compliance with the tax laws, the government reduced the VAT rate from 15% to 14.5% and the income tax rate from 25% to 24% with effect from 1 January 2020.

2.5.5.6 Zero tolerance to corruption

ZIMRA has adopted a zero-tolerance approach to corruption as it tries to improve the public image as well as plugging revenue leakages. The following are the strategies employed by ZIMRA to eradicate corruption:

- ❖ Educating clients on corruption and its ills through roadshows and workshops
- ❖ Installation of closed-circuit television,

- ❖ Prosecution of both ZIMRA officials and taxpayers implicated in corruption activities
- ❖ Dismissal of ZIMRA officials caught engaging in underhand dealings
- ❖ Staff members are required to periodically declare their assets
- ❖ Conducting lifestyle audits on the Authority's employees
- ❖ Forfeiting ill-gotten wealth to the state
- ❖ Engaging in awareness campaigns on the negative effects of corruption on the society
- ❖ Introduction of a hotline, run by an independent body, to report all corrupt activities by both ZIMRA officials and taxpayers

2.5.5.7 Deterrence measures

Governments institute a number of measures in enforcing tax compliance, such as garnishing orders, closure of business premises, confiscation and levying of penalties. Tax penalties are referred to as an extra charge on noncompliance with tax laws (Denise, 2014). Nhavira (2016) propounded that the decision to evade tax is influenced by tax penalties in Zimbabwe. ZIMRA charges penalties and interest as a control aimed to reduce or discourage taxpayers from evading tax. The penalties range from 20% to 200% of the amount due and 10% interest as prescribed by the Income Tax Act, the VAT Act and Capital Gains Tax. Further, Hore (2006) states that ZIMRA is empowered by section 45 of the Income Tax Act to estimate any taxpayer's taxable income if one fails to submit a return and also to impose penalties for any evasion and avoidance of tax.

ZIMRA has also introduced tax audits in a bid to enforce tax compliance regulations. Tax audits have also been used to identify and ensure that all businesses are brought into the tax net. A tax audit can be defined as a thorough examination of a taxpayer's tax affairs to identify and verify the correct treatment of the taxpayer's business transactions for tax purposes (Bergman and Nervarez, 2006). ZIMRA (2017) concurred that the main purpose of tax audits is to review inaccuracies in tax transactions treatment which may result in upward or downward adjustments of tax due to the taxpayer. ZIMRA (2018) has highlighted that they carry out the following tax audits:

- ❖ Inspection audits, which are an examination of records, documents and devices whether internal or external, paper or electronic of asset physical examination.
- ❖ Compliance audit that involves a close review of all tax heads to ensure adherence to ZIMRA statutory requirements.
- ❖ A Comprehensive audit, which covers one or more tax heads where there is a suspicion of non-compliance.
- ❖ Projects audit, which is a target-based audit in which the auditors target a specific industry/ sectors and audit their business activities to identify risk areas and select these areas for an in-depth review, thereby minimising tax avoidance.
- ❖ Spin-offs, which are related cases resulting from investigations in process of related entities doing business with the entity being audited. That is, a review of transactions between two or more entities can lead to the other firms being investigated.

ZIMRA has also intensified border patrols to reduce evaders along the border. According to the ZIMRA Newsletter (2011), border and highway patrols have been a fairly successful strategy, with reports of intercepting smuggled goods being reported. Naming and shaming are some of the important tools used by tax authorities to enforce tax compliance. ZIMRA mooted the idea of publishing the names of taxpayers convicted of tax offences and also telling the public that those offenders undermined ZIMRA's revenue collection efforts, thereby compromising service delivery by the government and also burdening compliant taxpayers. This idea was also to act as a deterrent measure against habitual tax offenders.

2.5.5.8 Use of tax clearances

Obtaining a tax clearance certificate is the highest motivation to comply with tax laws and regulations for most SME operators in Zimbabwe (Maseko, 2013:07). The Revenue Authority Act, Section 34D, stipulates that a tax clearance certificate is a document that is issued by ZIMRA to a person liable to pay tax under any of the Acts administered by the Zimbabwe Revenue Authority. The certificate is issued upon request to a person whose tax affairs are up-to-date or who has made satisfactory tax compliance arrangements with ZIMRA.

The following are the tax clearance certificates currently being issued by the Commissioner-General of ZIMRA: Income Tax Clearance Certificate (ITF 263), Capital Gains Tax Clearance Certificate (CGWT 4 A), tax clearance certificate for opening a Bank Account and foreign artist clearance. The revenue authority has since started issuing computerised tax clearances to curb the upsurge in the number of fraudulently issued certificates. Since the tax clearance shows that the business is up-to-date with tax affairs, the industry places high regard on tax clearance certificates and in many cases, the certificate is a prerequisite for one to place a bid for tenders. ZIMRA (2019) highlighted that the tax clearances are an important aid in enhancing tax compliance because the recipient enjoys the benefits:

- ❖ Withholding Tax is waived on payments for goods and services supplied,
- ❖ No Presumptive Tax will be charged on importations,
- ❖ Tax Clearance Certificate is a pre-requisite when applying for licences issued by local authorities.

2.5.5.9 Introducing reward on whistle-blowing

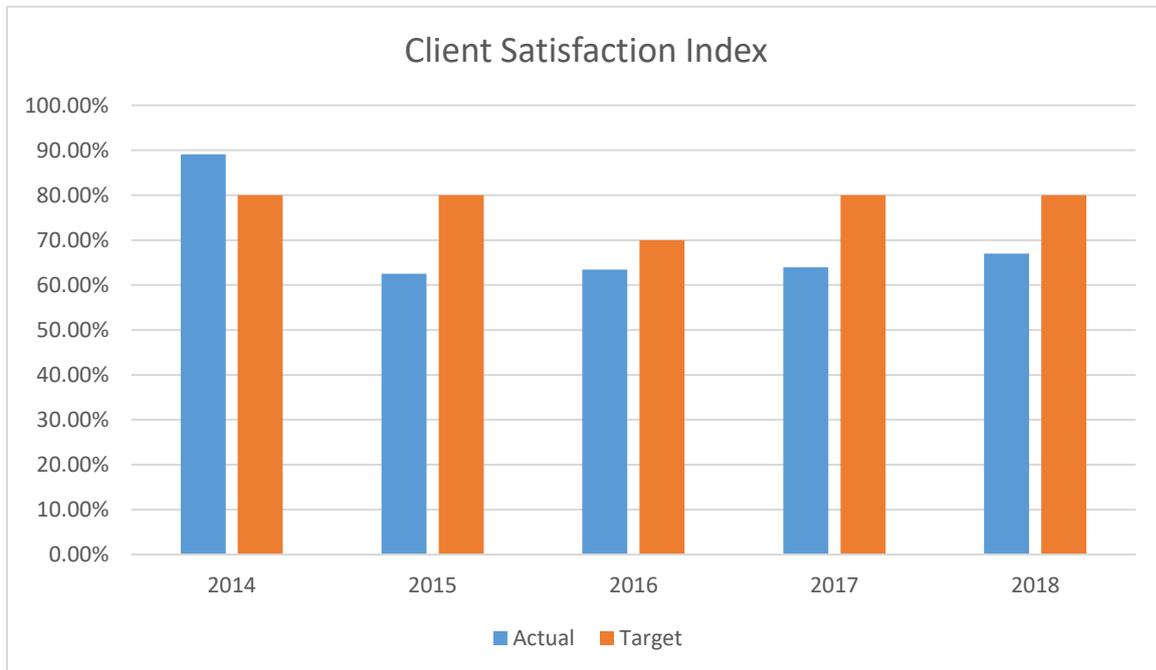
Whistle-blowers play a pivotal role in facilitating tax compliance enforcement (Matamande et al. 2012). ZIMRA implemented all-inclusive whistle-blower laws for tax purposes in 2001 as enshrined by Section 34B of the ZIMRA Act (Chapter 23:11). In a bid to gather much information on tax evasion and avoidance, ZIMRA introduced an incentive system whereby a whistle-blower is paid 10 per cent of the revenue recovered (ZIMRA, 2018). Kleven (2012) emphasized that witness protection and the use of whistle-blowers is a constructive strategy to give citizens the upper hand in the fight against corruption. In order to protect whistle-blowers, ZIMRA guarantees confidentiality guided by Section 5 of the Income Tax Act, which deals with the preservation of secrecy.

2.5.5.10 Conducting customer satisfaction survey

Taxpayer satisfaction is vital in improving tax compliance in any country. ZIMRA conducts yearly client satisfaction surveys in a bid to measure the level of taxpayers' fulfilment with the authority's service provision and solicit for challenges and areas that need improvement. ZIMRA (2018) notes that surveys have established issues affecting service quality as system challenges, staff attitudes, corruption, operational

inefficiency, high rates of duty and taxes. Fig 2.4 below shows how the revenue authority performed in terms of client satisfaction;

Figure 2. 4: Client satisfaction index vs target



Source: ZIMRA (2014; 2015; 2016; 2017; 2018)

2.6 Tax Incentives in Zimbabwe

In the same way as other non-industrial nations, Zimbabwe offers a number of tax and customs inducements in the form of tax holidays, reduced tax rates and accelerated depreciation. ZIMRA (2015) defines tax incentives as fiscal actions that are used to lure local or foreign investment capital to certain economic activities or certain areas in a country. Tax incentives in Zimbabwe relate equally to both domestic and foreign investors and the major goals of incentives in place are revenue generation, export promotion, employment creation and skills transfer, informal sector development and industrial development (ZIMRA, 2015). Below is a discussion of some of the tax incentives.

Section 10(2)(q) of the VAT Act entails that tourist facility operators conducting business in approved tourism development zones or an operator of a hunting safari are required to charge VAT at 0% for services offered to persons who are not residents of Zimbabwe. More so, farming inputs and equipment such as animal feed, seed and fertiliser are subject to VAT at 0% (Section 10 a.r.w 2nd schedule of the VAT Regulations). The incentive part for zero-rating sales of tourism and farming players

comes in the following ways: prices will be generally lower since there will be no VAT on sales and they get VAT refunds which boost their liquidity. VAT can be deferred on some capital equipment for exclusive use in mining, manufacturing, agricultural and aviation industries whose investment generally relies on imported capital (Section 12A of the VAT Act). The whole amount becomes due within 90 days from the date of deferment.

The Customs and Excise Act stipulates some of the tax incentives in the form of rebates and suspension of duty. Examples of the rebates include a rebate of duty on goods for the mining industry, goods imported in terms of an agreement entered into under a special mining lease, goods imported temporarily for an approved project and inward processing rebate. Furthermore, SI 74 of 2009 allows granting to an approved importer or agent wishing to remove imported goods under a 7-day credit facility upon fulfilment of the prescribed conditions.

Capital expenditure for mining companies on exploration, development and operating incurred wholly and exclusively for mining operations is allowed in full as expenses. Furthermore, tax losses accrued to a mining entity can be carried forward for an indefinite period. Farmers are also allowed special deductions over and above the normal deductions. Depreciation is not allowable as an expense for tax purposes and is replaced by a special initial allowance (SIA). SIA is allowed at the rate of 25% of the cost from year one for four years on articles, implements, machinery and utensils purchased for purposes of trade. Zimbabwe has signed several Double Taxation Agreements. These are meant to avoid or mitigate double taxation of the same income in the two countries to the agreement, that is, where a business entity operates in the two territories.

2.7 Conclusion

The Zimbabwean economy has been through a meltdown for over two decades and most of these challenges have stemmed from policy inconsistencies, economic mismanagement, corruption and political instability. The meltdown has led to the loss of industrial capacity utilisation as both manufacturing and agricultural productivity fell to unprecedented levels. This fall in capacity utilisation, coupled with the withdrawal of support from Bretton Woods institutions, the Zimbabwean government has generally relied on taxes as a means of financing government expenditure. As such, revenue

collection through taxation has become one of the central processes through which government funding is ensured. Through a cocktail of both indirect and direct taxes, the government has managed to collect revenue for the fiscus, and as a way of fostering compliance and promoting critical activities, the government introduced a number of tax and customs incentives in the form of tax holidays, reduced tax rates and accelerated depreciation.

CHAPTER THREE

THE DYNAMICS OF THE TAX SYSTEMS IN SOUTH AFRICA

3.1 Introduction

Taxes have been levied in South Africa since 1914 (SARB, 2015). A big part of South Africa's national budget is financed by tax revenues, mainly in the form of income tax, which comprises over 30% of the total tax revenue (SARS, 2019). Taxation is of paramount importance in income redistribution and opportunities as well as making South Africa a conducive destination for investment and job creation (SARS, 2013). Income inequality in South Africa is extreme, hence there is a need to continuously improve the tax system performance. Aaron and Slemrod (1999:01) highlighted that the standard index of inequality (Gini coefficient) for South Africa is 0.58, which is higher than that of any other country.

The South African Revenue Service (SARS) observed that the public finances have experienced a substantial turnaround, which is attributed to significant revenue performance. Over recent decades, the South African central government tax revenues as a share of gross domestic product (GDP) have risen steadily and particularly since 2000. According to SARS (2018), the central government tax yield rose from about 15% of GDP in 1960 to 29% in 2010. According to the SARS (2001), tax reforms played a pivotal role in the performance of revenue collection in South Africa. The reforms had two comprehensive thrusts, namely: lower rates of tax on income and a broadening of the tax base to safeguard the integrity of the tax structure. This chapter will review the tax system in South Africa and the trends in revenue collection. Factors affecting tax compliance as well as measures taken by SARS to improve tax compliance will also be discussed in this chapter.

3.2 An overview of the tax system in South Africa

Bird (2008) posits that the institutional and legal systems are crucial in assessing the effectiveness of a tax system to get meaningful recommendations that can improve a national tax process. Three factors are key in determining the success of a tax system, namely political will in tax administration, a clear strategy of achieving results, and enough resources to administer the tax process (Bird, 2008).

South Africa used to tax income based on the source before 2001. SARS (2015:01) described a source-based tax system as a system in which revenue is taxed in the country where it originates, that is, any person who derives income in a country should contribute to the cost of rendering government services in that country. South Africa now has a residence-based tax system where residents, subject to certain exclusions, are taxed on their worldwide income irrespective of where it was earned. Non-residents are taxed only on their income from a South African source, subject to the relief provided under Double Taxation Agreements (DTAs). Foreign taxes proved to be payable are allowed as a deduction from South African tax payable on foreign income. The paragraphs below seek to give an insight into the tax system in South Africa, including the tax laws governing tax revenue collections.

3.2.1 Tax Administration

In South Africa, tax policy is set by the National Treasury (Department of Finance) and collection and tax administration is done by the South African Revenue Service (SARS) in terms of the South African Revenue Service Act (No. 34 of 1997). SARS is led by the Commissioner, Deputy Commissioner, Chief Operations Officer, Chief Finance Officer, Chief Customs and Border Management Officer, Chief Legal and Policy Officer and Human Resources Officer. The Commissioner may delegate powers or duties to SARS employees, but not the responsibility attaching to those powers or duties. The South African Government effected the Tax Administration Act 28 of 2011 (TAA) which extended the powers of the South African Revenue Service (SARS), at the same time indirectly emphasising taxpayers' rights (African Tax Administration Forum, 2012).

SARS collects more than 90% of the government's revenue, thereby supporting the National Development Plan. The South African Government uses the tax collected to promote stable and sustainable economic growth (SARS, 2020:01). SARS administers a number of tax Acts, in terms of which taxes, duties and levies are collected and paid into the National Revenue Fund. The primary legislation that SARS governs includes the Income Tax Act, 1962, Customs and Excise Act, 1964, Value-Added Tax Act, 1991, Tax Administration Act, 2011 and Employment Tax Incentives Act, 2013. SARS also collects money on behalf of other departments under their legislation, which is then paid into the National Revenue Fund.

The revenue heads under which SARS collects include Income Tax, Capital Gains Tax, Value-Added Tax (VAT), Customs Duty, Excise Duty, Environmental Levy, Fuel and Road Accident Levy, Trade Remedies, International Oil Pollution Compensation Fund, Transfer Duty, Estate Duty, Stamp Duty, Securities Transfer Tax, Skills Development Levy, Unemployment Insurance Fund, Air Passenger Tax, Donations Tax, Pay-As-You-Earn (PAYE), Dividends Tax, Mineral and Petroleum Resource Royalty and other taxes including provincial gaming taxes. In order to improve data integrity, reduce human intervention, and increase effectiveness and productivity, SARS implemented a modern computerized tax collections and administration monitoring system in 1997 (SARS, 2010).

3.2.2 Cost of revenue collection for SARS

The cost of collection ratio commonly acts as a standard measure of administrative costs, or more particularly, a measure of the efficiency with which revenue authorities collect tax (Evans, 2003). The ratio compares the annual costs of administration with the total revenue collected for a particular fiscal year. The modernisation initiatives employed by SARS in the form of the e-filing payment facility assisted in reducing the cost of collecting tax revenue from 1.10% in 2010/11 to 0.84% in 2018/19, a ratio within the 1% internationally recommended benchmark. Table 3.11 shows the percentage of the cost of collection versus the tax revenue collected. Analysis from Table 3.11 shows that SARS has contained the cost of collection while increasing the amount of revenue it collected.

Table 3.11: Cost of collection for the period 2010 to 2019

R million	Tax revenue collected	Operating cost	Cost of collection
2010/11	674 183	7 426	1.10%
2012/13	813 826	8 696	1.07%
2013/14	900 015	8 702	0.97%
2014/15	986 295	9 523	0.97%
2015/16	1 069 983	10 245	0.96%
2016/17	1 144 081	10 696	0.93%
2017/18	1 216 464	10 795	0.89%
2018/19	1 287 690	10 764	0.84%

Source: SARS (2020)

3.2.3 Tax structure in South Africa

The South African tax structure is generally made up of direct and indirect taxes. Direct taxes are paid by the factors that produce the incomes. On the other hand, indirect taxes are levied on the households or firms that consume the taxed items (Obwona and Muwonge, 2002). Direct taxes often include corporation tax, personal income tax, for example, Pay-as-you-earn (PAYE), withholding tax, rental income tax, tax on interest in banks, and presumptive income tax. Indirect taxes include taxes on domestic goods and services such as Value Added Tax (VAT), international trade transactions such as import duty, VAT on imported goods and services, and excise duties on specific imported de-merit goods such as beer and cigarettes.

3.2.3.1 Value Added Tax

The principal source of indirect taxation revenue in South Africa is Value Added Tax, commonly known as VAT, which replaced Sales Tax in 1992/93. Revenue is raised for the government by requiring certain entities to register and to charge VAT on the taxable supplies of goods and services. VAT is charged at each stage of the production and distribution process and it is proportional to the price charged for the goods and services. Also, VAT is charged on the importation of goods or services. The standard rate of VAT in South Africa is 15%, which increased from 14% to 15% from 1 April 2018.

A person who is obliged to register for VAT is referred to as a vendor (Vogel, 1988). Anyone who carries on a business that generates taxable (standard or zero-rated) supplies over ZAR 1 million annually or estimates to make a total value of taxable supplies exceeding ZAR 1 million in the 12 months beginning from that month, is required to register as a vendor for VAT purposes. A person may also choose to voluntarily register if the taxable supplies made in the past period of twelve months exceeded R50,000. As of the 1st of March 2012, qualifying micro-businesses that are registered for Turnover Tax may also choose to register for VAT provided that all the conditions for voluntary registration for VAT are met.

A vendor is required to submit VAT returns and make payments of the VAT liabilities (or claim a VAT refund) in accordance with the tax period allocated to the vendor. The VAT returns and payments are normally submitted/made every two months, but those companies which earn over ZAR 30 million annual turnover must submit monthly

returns. Returns must be submitted on or before the 25th day, or the last business day of the month after the end of the tax period. Late payments of VAT attract a penalty and interest.

3.2.3.2 Transfer Duty

Transfer duty is also an indirect form of tax that is payable by a purchaser when he buys real estate property situated in South Africa. Transfer duty is governed by the transfer duty Act of 1949. Transfer duty payable is based on a sliding scale between 0% (for first ZAR 750,000) and 11% (for excess over ZAR 2,250,000). It is important to note that if VAT has been imposed, one will not be subject to transfer duties and vice versa. The concept is to avoid double-taxing a taxpayer (SARS, 2017).

3.2.3.3 Securities Transfer Tax

Securities Transfer Tax (STT), a fairly new tax, is an indirect tax payable at a rate of 0.25% on every transfer of securities issued by a close corporation or company incorporated, established or formed in South Africa, and by foreign incorporated companies listed on a licensed exchange. STT is paid on both listed and unlisted shares and is governed by the Securities Transfer Tax Act of 2007.

3.2.3.4 Customs duties and taxes for importers

SARS collects three kinds of duties that are levied on the importation of goods or services. The first type of duty is customs duty, which can take the following forms:

- ❖ Ad valorem duties: expressed as a percentage of the free-on-board (FOB) value of the imported goods.
- ❖ Specific duties: mostly expressed in Rand per kilogram or per unit. (International Trade Administration Commission, 2015:05)

Secondly, anti-dumping and countervailing duty is another revenue head collected under the customs division. Anti-dumping and countervailing duties are levied on goods considered to be "dumped" in South Africa and on subsidised imported goods. These goods are the subject of investigations into pricing and export incentives in the country of origin; the rate imposed will depend on the result of the investigations. Lastly, VAT is also collected on goods imported and cleared for home consumption. The tenants of the VAT mechanism applies on VAT on the importation of goods and services into South Africa. The amount and type of duty imposed on a product are determined by the following main criteria: The value of the goods (the customs value),

the volume or quantity of the goods, and the tariff classification of the goods (the tariff heading).

Thirdly, the SARS customs division also collects excise duties and levies which are imposed mostly on high-volume daily consumable products, for example, petroleum, alcohol and tobacco products as well as certain non-essential or luxury items such as electronic equipment and cosmetics. The principal function of these duties and levies is to ensure a constant stream of revenue for the state, with a secondary function of discouraging the consumption of certain products which are harmful to both human health and the environment. The revenue generated from excise duties and levies amount to approximately 10 per cent of the total revenue received by SARS. In addition to duties and levies, SARS also has the Diesel Refund System for qualifying entities (SARS, 2020).

3.2.3.5 Corporate income tax

Corporate income tax is a direct tax imposed on companies resident in the Republic of South Africa. Corporate income tax is payable at a rate of 28%. The following are the conditions that apply for a company's income to be taxed in South Africa. Firstly, the company should be incorporated under South African laws. Secondly, corporate income tax also applies to a company that is effectively managed in South Africa. Lastly, any corporate which derives its income from within or outside the country is liable for corporate income tax.

3.2.3.6 Pay As You Earn

Employees' tax, commonly referred to as PAYE, refers to the tax required to be withheld by an employer from an employee's salary or wage paid or payable. An employer who is registered or required to register with SARS for PAYE and/or Skills Development Levy (SDL) purposes is also required to register with SARS for the payment of Unemployment Insurance Fund (UIF) contributions to SARS. One can register different tax types once and for all using the client information system.

PAYE is due to SARS on a monthly basis and the monthly employer Declaration (EMP201) is submitted on the prescribed dates. In addition, PAYE must be paid within seven days after the end of the month during which the amount was deducted. The Act provides that if the last day for payment falls on a public holiday or weekend, the

amount due must be paid on the last business day before the public holiday or weekend.

3.2.3.7 Capital Gains Tax

Capital gains tax (CGT) was introduced in 2001, whereby income tax is levied on a fraction of the gains realised from the disposal of certain assets by corporate and individual taxpayers. CGT applies to all assets disposed of on or after 1 October 2001 (valuation date), regardless of whether the asset was acquired before, on, or after that date. A capital gain arises when the proceeds of the disposal of an asset exceed the base cost of the asset. CGT is therefore not a separate tax but forms part of income tax. All capital gains and capital losses made on the disposal of assets are subject to CGT unless excluded by specific provisions. The Eighth Schedule to the Income Tax Act, 1962 (the Act) contains most of the CGT provisions which determine a taxable capital gain or an assessed capital loss.

SARS introduced CGT because the absence of it created distortions in the economy, by encouraging taxpayers to convert otherwise taxable income into tax-free capital gains. Before the enactment of the CGT Act, sophisticated taxpayers engaged in tax evasion transactions, thereby reducing the efficiency and equity of the overall tax system. CGT is thus a critical element of any income tax system as it protects the integrity of the personal and corporate income tax bases and can materially assist in improving tax morality (SARS, 2001:04).

3.2.3.8 Personal income tax

Personal income tax is the normal tax that is paid on an individual's taxable income. Steenekamp (2012) listed the amounts that an individual receives which are taxable as income from employment, profits or losses from a business or trade income, or profits arising from an individual is a beneficiary of a trust, Director's fees, investment income such as interest and foreign dividends, Rental income or losses, Income from royalties, Annuities, Pension income, and certain capital gains.

In South Africa, a person is liable to pay income tax if he/she earns more than: For the 2021 year of assessment (1 March 2020 - 28 February 2021) R83,100 if he/she is younger than 65 years. If one is 65 years of age or older, the tax threshold (i.e. the amount above which income tax becomes payable) increases to R128,650. For taxpayers aged 75 years and older, this threshold is R143,850. For the 2020 year of

assessment (1 March 2019 - 29 February 2020) R79,000 if one is younger than 65 years. If a person is 65 years of age or older, the tax threshold (i.e. the amount above which income tax becomes payable) increases to R122,300. For taxpayers aged 75 years and older, this threshold is R136,750 (SARS, 2020).

3.2.4 Tax mix in South Africa

As mentioned earlier, the current South African tax mix involves both direct and indirect taxes. Table 3.2 shows each tax head and its contribution to the Gross Domestic Product (GDP). Direct taxes, with special mention of Personal Income Tax, contributed significantly to the GDP of South Africa for the period 2013 to 2018. For Indirect taxes, VAT is the major contributor, followed by the fuel levy. The total tax revenue as a percentage of GDP is in line with other upper-middle-income and even high-income countries as classified by the World Bank (2020).

Table 3. 2 : Revenue collection per tax head

R million	Direct				Indirect					Total tax revenue
	PIT	CIT	DT/STC	Other	VAT	Fuel levy	Customs duties	Specific excise dut	Other	
% of total										
2013/14	34.50%	19.90%	1.90%	1.50%	26.40%	4.90%	4.90%	3.20%	2.70%	100.00%
2014/15	35.90%	18.90%	2.20%	1.60%	26.50%	4.90%	4.10%	3.30%	2.60%	100.00%
2015/16	36.40%	18.10%	2.20%	1.60%	26.30%	5.20%	4.30%	3.30%	2.60%	100.00%
2016/17	37.20%	18.10%	2.70%	1.50%	25.30%	5.50%	4.00%	3.10%	2.50%	100.00%
2017/18	38.10%	18.10%	2.30%	1.60%	24.50%	5.80%	4.00%	3.10%	2.50%	100.00%
% of GDP										
2013/14	8.60%	5.00%	0.50%	0.40%	6.60%	1.20%	1.20%	0.80%	0.70%	24.90%
2014/15	9.20%	4.80%	0.50%	0.40%	6.80%	1.30%	1.10%	0.80%	0.70%	25.50%
2015/16	9.40%	4.70%	0.60%	0.40%	6.80%	1.30%	1.10%	0.80%	0.70%	25.90%
2016/17	9.70%	4.70%	0.70%	0.40%	6.60%	1.40%	1.00%	0.80%	0.70%	25.90%
2017/18	9.80%	4.70%	0.60%	0.40%	6.30%	1.50%	1.00%	0.80%	0.60%	25.80%

Source: SARS (2013; 2014; 2015; 2016; 2017; 2018)

3.2.5 Tax effort in South Africa

The tax performance of South Africa can be measured using the tax effort index (Glenday, 2008:07). Generally, tax effort is defined as an index of the ratio between the share of actual collection to GDP and taxable capacity. Consequently, a high tax effort is defined as the case when a tax effort index is above one, inferring that the country utilises its tax base well to increase tax income (Stotsky et al. 1997). Le et al. (2012) describe tax effort as the actual tax revenues of a country (as measured by the

share of taxes in GDP) to its tax capacity. According to Le et al. (2012:19), South Africa is included in a group with high tax collection and high tax effort.

3.2.6 Tax revenue

The tax revenue of any country is defined by the tax-to-GDP ratio. There has been a steady increase in tax revenue as a percentage of GDP in South Africa as depicted by Table 3.3. The increase has been attributed to modernisation initiatives undertaken by SARS.

Table 3. 3 : Revenue collection as a percentage of GDP

R million	Tax revenue collected	Nominal GDP	Tax revenue as a % of GDP
2010/11	674 183	2825042.00	23.9%
2011/12	742 650	3078417.00	24.1%
2012/13	813 826	3320754.00	24.5%
2013/14	900 015	3614459.00	24.9%
2014/15	986 295	3865119.00	25.5%
2015/16	1 069 983	4124704.00	25.9%
2016/17	1 144 081	4419437.00	25.9%
2017/18	1 216 464	4698724.00	25.9%
2018/19	1 287 690	4921494.00	26.2%

Source: SARS (2010; 2011; 2012; 2013; 2014; 2015; 2016; 2017; 2018)

3.2.7 Tax buoyancy

One of the most important measures of the efficiency of tax systems in public finance is tax buoyancy. Tax buoyancy is an indicator used to measure efficiency in revenue generation in response to an increase in GDP. In simple terms, tax buoyancy is the relationship between tax revenue growth and economic growth. The indicator is computed by dividing the percentage change in tax revenue by the percentage change in GDP over the period. A buoyancy of one (1) means the pace of revenue growth matches that of GDP growth. More so, a tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in national income or output. A tax is buoyant when revenues increase by more than, say, 1 per cent for a 1 per cent increase in GDP.

Khumbuzile and Hlalefang (2018:13) studied the impact of taxes on economic growth in South Africa and concluded that the impact of taxes on economic growth is negative and significant in the short and long run. However, Riba (2016:38) had contrasting results which showed a positive relationship between taxes and economic growth. In recent years, South Africa has experienced a decline in tax buoyancy as shown Table 3.4.

Table 3. 4: Tax buoyancy rate

Period	Tax Buoyancy rate	Average Tax Buoyancy rate
2010/11	1.18	1.07
2011/12	1.13	1.07
2012/13	1.22	1.07
2013/14	1.20	1.07
2014/15	1.37	1.07
2015/16	1.26	1.07
2016/17	1.07	1.00
2017/18	1.07	0.91

Source: SARS (2010; 2011; 2012; 2013; 2014; 2015; 2016; 2017; 2018)

3.3 Tax incentives in South Africa

Klemm and Parys S (2012: 394) define tax incentives as provisions in tax codes that give comparatively favourable tax treatment to some sectors, industries or activities. Tax incentives are often used as instruments by state governments across the world in a bid to lure investors into investing in particular regions, sectors or certain enterprises in the economy. Governments often introduce tax reprieves to overcome three sets of hurdles to investment: tax-related constraints, non-tax-related economic constraints and non-economic constraints (Zee et al. 2002:1499).

South Africa is one of the countries that have applied different categories of tax incentives to direct investment in different sectors, regions, or categories of business in which development is expected to occur faster. The South African Government has implemented several tax incentives for both small and large businesses to promote their growth. These tax incentives range from progressive tax rates to accelerated capital allowances for small business corporations, turnover and others including those related to CGT, SDL and VAT (Jordaan, 2012: 01).

3.3.1 Tax incentives for large corporations

The following is an explanation of the tax incentives that large corporations enjoy in South Africa.

3.3.1.1 Economic Processing Zones (EPZs)

EPZs were amongst the first initiatives pioneered in developing countries to promote export growth and diversification. The East African Community (2020) defined an export processing zone (EPZ) as a customs area in which a company is permitted to import capital equipment and raw materials for the manufacture of export goods under security, without payment of customs-related duties. However, the goods imported are subject to customs control from importation, through the manufacturing process, to the time of export or duty payment for home consumption.

In South Africa, industries under EPZ classification are exempted from VAT on inputs of Industrial Development Zone (IDZ) companies sourced from the domestic economy and for export processing purposes. They are also exempted from property tax and have unrestricted duty free inputs (SADC, 2014). More so, companies under EPZ benefit from free trade conditions and streamlined government red tape, allowing for one-stop registration and licensing.

3.3.1.2 The Research and Development incentive

Research and Development incentives benefit both the taxpayer and the government. For the taxpayer, research and development reduces entrepreneurial risk and encourages innovation and growth for the country as a whole. A company undertaking research and development in the Republic of South Africa qualifies for a 150% tax deduction of its operational research and development expenditure (Section 11D of the Income Tax Act). The research and development incentive is available to businesses of all sizes in all sectors of the economy registered in South Africa. Research and development expenditure that satisfies the provisions of the above-mentioned section will qualify for an automatic 100% tax deduction.

An additional 50% uplift applies to expenditures on research and development activities that have been approved by the Minister of Science and Technology, based on the provisions of Section 11D of the Income Tax Act. The incentive is aimed at encouraging businesses to undertake and invest in Research and Development in

South Africa. However, according to OECD (2019:02), the importance of the incentive declined marginally in South Africa for the period up to 2016.

3.3.1.3 Accelerated depreciation allowance

The cost of capital is one of the most important determinants of firms' capital investment decisions. Depreciation is not allowable as a deduction when calculating taxable income. However, as one of the incentives for taxpayers, wear and tear allowance may be deducted on specific capital equipment such as machinery, utensils and articles used to produce taxable income if those assets have diminished in value. An accelerated depreciation allowance allows firms to deduct depreciation faster than the economic depreciation of any particular asset; this constitutes a tax benefit and a loss to the treasury.

Goode (1955:195) acknowledged three conduits through which systems of accelerated depreciation allowances may motivate investment. The first is time discount gain, hedging against longer-term risk and uncertainty by expecting assets to pay for themselves within periods distinctly shorter than their normal economic lives, and enhancement in the revenue flows of businesses. More so, the tax incentive is set to encourage investment in capital assets. Lastly, from the government's point of view, accelerated depreciation allowances are less costly in terms of revenue foregone than are tax holidays (Morisset and Pirnia, 2000:14).

3.3.1.4 Infrastructure development allowance

Section 12D of the Income Tax Act allows for a deduction to taxpayers who have constructed the following: pipelines used for the transportation of natural oil, lines or cables used for the transmission of electricity, telephone lines or cables used for the transmission of any signal for telecommunication, and railway lines used for the transportation of persons or goods. The deduction is a maximum of 10 per cent of the cost per annum for pipelines used to transport natural oil and 5 per cent for transmission and railway lines.

3.3.1.5 Public-Private Partnership allowances

Public-Private Partnerships are crucial in the development of a country as the concept allows public administrators to concentrate on planning, policy and regulation, while the private sector concentrates on improving efficiency and quality of service. In order to improve state-owned properties, the government of South Africa gives grants to

private players and allows tax deductions in relation to the actual improvements made by the taxpayer.

3.3.1.6 Energy-efficiency savings allowance

The energy-efficiency savings tax incentive, which was instituted in December 2013, is provided for in legislation by Section 12L of the Income Tax Act. The incentive, which was extended for three more years in the 2019 budget statement, enables small and large businesses to save as much as 30% on their energy bills. The tax incentive is also aimed at reducing companies' carbon footprint and assisting in reducing the demand for South Africa's scarce energy resources.

This incentive offers a tax deduction for taxpayers who implement energy-saving measures. For years of assessment commencing on or after 1 March 2015, the allowance is calculated at R0.95 per kilowatt-hour of energy efficiency savings. The energy efficiency savings must be measured and confirmed Department of Energy or the South African National Energy Development Institute (SANEDI).

3.3.1.7 The Industrial Development Zone

The South African Government established the Industrial Development Zone Programme (IDZ) in 2000, which offers what is called Customs Secured Areas (Department of Trade and Industry, 2012:09). The Manufacturing Development Act (MDA) establishes the Industrial Development Zone (IDZ). Currently, the government is operating the following IDZs: Coega IDZ, Richard's Bay IDZ, East London IDZ, Saldanha IDZ and Dube Trade Port. Companies that are in the IDZ enjoy exemption from excise duties, VAT and import duty on assets and inputs used in the production of exports. In addition, corporate income tax is reduced to 15%. The IDZs also provide dedicated customs officials to help speed up the administration surrounding importing/exporting.

Section 12I of the Income Tax Act allows for the deduction of expenditure incurred on industrial policy projects classified as Greenfield projects and Brownfield projects. Greenfield projects are new industrial projects utilising wholly new assets for manufacturing, while Brownfield projects are projects that are already in existence. The main objective of IDZs is to attract foreign direct investment and export of value-added merchandises. The incentive is implemented by the Department of Trade and Industry.

3.3.1.8 Special Economic Zones (SEZ)

The Special Economic Zones Act, promulgated in 2014, commenced in February 2016 and provides for the designation, promotion, development, operation and management of SEZs. The South African Department of Trade and Industry defines SEZs as, *'geographically designated areas of a country set aside for specifically targeted economic activities, which are then supported through special arrangements (which may include laws) and support systems that are often different from those that apply in the rest of the country.* The SEZ programme is an important government instrument to propel industrialisation, regional development, export promotion and job creation, as well as to enhance South Africa's attractiveness as a potential destination for FDI (Davies, 2014). Currently, qualifying companies operate in the following six approved SEZs: Coega, Dube Tradeport, East London, Maluti-A-Phofung, Richards Bay and Saldanha Bay.

The term identifies the three key features of the policy instrument called the Special Economic Zone. Special refers to the differential regulatory regime that separates the zone from those prevailing in the domestic economy. More so, economic refers to the fact that SEZs are about economic growth, employment, export earnings and tax revenues. Lastly, zone refers either to the physically or legally bounded "economic space" within the national territory in which the SEZ regime applies.

3.4 Tax incentives for Small and Medium Enterprises

Small, medium and micro enterprises (SMMEs) are important mechanisms for addressing the challenges of job creation, economic growth and equity in South Africa (Department of Trade and Industry (DTI), 2005:7). In South Africa, around ninety-one per cent (91%) of formal business entities are small and medium-sized entities. SMEs are estimated to contribute between fifty-two per cent (52%) and fifty-seven per cent (57%) to gross domestic product (GDP) and provide about sixty-one per cent (61%) to employment (Abor and Quartey, 2010:210). In order to encourage the growth of SMEs, the South African Government has put in place the following tax incentives.

3.4.1 Accelerated capital allowance

Section 12E (1) allows a deduction equal to the cost of plant and machinery, either brought into use for the first time by the SME for that taxpayer's trade or used by that taxpayer directly in the process of manufacture carried on by that taxpayer. The SME

must be the owner of the asset. The total amount of the allowance available under Section 12E(1) may be limited to less than 100 per cent of the cost of the plant or machinery if funding was received from a small business funding entity or in the form of a government grant.

3.4.2 Exemption of capital gains tax on disposal of assets

Paragraph 57 of the Eighth Schedule of the Income Tax Act exempts capital gain on the disposal of the assets of a small business after satisfying one of the following conditions:

- ❖ The disposal should be done by a natural person trading as a sole proprietor or a partner in a partnership on withdrawal from the partnership, or a shareholder of a company or close corporation, of the entire direct interest in a company, comprising at least 10% of the equity of the company;
- ❖ The asset, interest in the partnership or interest in the company should have been held for a continuous period of five years prior to the disposal:
- ❖ The natural person has attained the age of 55 years or the disposal is a consequence of ill health, other infirmities, superannuation or death:
- ❖ All of the capital gains should be realised within 24 months after the date of the first disposal; and
- ❖ The total capital gain that is exempted may not exceed R750,000 over the lifetime of the natural person. Also, if a natural person operates more than one small business, he is obliged to include all qualifying disposals for each such small business when determining the capital gain that is to be disregarded. In that regard, the assets of a small business are limited to a cumulative total of R5 000,000 in terms of the market value of the assets.

3.4.3 Employment tax incentive

The high rate of unemployment in South Africa, in particular, unemployment in the youth, led to the introduction of the employment tax incentive established by the Employment Tax Incentive Act (2013). The tax incentive benefits the employer as Pay-As-You-Earn (PAYE) is significantly reduced by the ETI amount claimed by the employer. Subsequently, a reduction in PAYE remittances has the effect of reducing the cost of hiring young job seekers who are less skilled and lack experience. SARS (2014b:1) explained that the Employment Tax Incentive (ETI) is a cost-sharing

mechanism between employers and the government aimed at reducing the liability of employers for PAYE. The employment incentive scheme allows employers to claim relief for a 24 qualifying month period for all employees who qualify.

Due to the COVID-19 pandemic, the ETI for qualifying employees was increased from R1,000 to R1,500 for the first 12 qualifying months and from R500 to R1 000 for the second 12 qualifying months. Furthermore, relief was granted in terms of the age restriction on ETIs for qualifying employees, in that an ETI of R500 is granted per qualifying employee per month, where the employees are between the ages of 30 – 65 years (SARS 2020).

A monthly calculation has to be done by the employer to determine how much must be claimed for each qualifying employee. The calculation provides for the remuneration paid, the period for which the employee is employed in a particular month, and the percentage that may be claimed. Furthermore, the employer may also add amounts rolled over from previous months.

3.4.4 Turnover tax

Turnover tax is a streamlined system aimed at improvement in convenience for micro businesses to meet their tax commitments. The turnover tax system substitutes for Income Tax, VAT, Provisional Tax, Capital Gains Tax and Dividends Tax for small businesses with a qualifying annual turnover of R1 million or less. A micro business that is registered for turnover tax can, however, elect to remain in the VAT system (from 1 March 2012). Turnover tax is calculated by applying a tax rate to the taxable income of a micro business.

This relief is only available to SBCs that meet the definition of a Small Business Corporation as contained in section 12E(4)(a) of the Income Tax Act. If the enterprise can be classified as an SBC, then the tax rates for financial years ending on any date between 1 April 2020 and 31 March 2021, are reduced as indicated in the table below.

Table 3. 5 : Turnover tax rates

Taxable Income (R)	Rate of Tax (R)
1 – 83 100	0% of taxable income
83 101 – 365 000	7% of taxable income above 83 100
365 001 – 550 000	19 733 + 21% of taxable income above 365 000
550 001 and above	58 583 + 28% of the amount above 550 000

Source: SARS (2020)

3.4.5 Relief on applying for advance tax rulings

SARS (2020) expounded that the Advance Tax Ruling (ATR) system strives to stimulate simplicity, consistency and certainty about the understanding and application of the applicable tax laws. Transparency and certainty on the commissioner's interpretation and application of the tax laws relating to proposed transactions can be acquired through a binding private ruling (BPR) or a binding class ruling (BCR).

The service is rendered to taxpayers on a cost-recovery basis but SBCs qualify for a reduced application fee of R2, 500 per application, and no fee is charged for the first 15 hours of work (SARS, 2020). The application fee for all applications is R14, 000 except for small businesses. SBCs thus make a saving when applying for binding rulings. Furthermore, SBCs benefit from the ease of access to the advance tax ruling system, thereby increasing tax compliance as clarity and certainty on the interpretation of tax is sought.

3.4.6 Value Added Tax incentives for small business corporations

Section 15 of the VAT Act requires that vendors must account for VAT on the earlier of invoice or payment; that is, the VAT system is invoice-based, unless otherwise approved by the Commissioner. This system may pose challenges to often less-liquid small businesses, as some of their clients take time to settle their accounts after an invoice has been issued. As a relief to SBCs, if their supplies do not exceed R2.5 million per annum, they may account for VAT on payment (SARS, 2020). More so, SBCs with an annual turnover of less than R50,000 need not register for Value Added Tax.

3.4.7 Venture Capital Tax incentive

The Venture Capital Tax incentive was implemented in 2009 to promote venture capital equity investments in SMEs to provide incentives for equity financing, a venture capital regime. Section 12J of the Income Tax Act provides for the venture capital tax incentive. The objective of the tax incentive was to create and maintain employment and to grow the economy and ultimately the tax base through encouraging investors to invest in approved Venture Capital Companies (VCCs). The VCCs are supposed to invest in small and medium-sized businesses and junior mining companies. Consequently, the incentive assists small and medium-sized businesses in raising capital to finance businesses.

A deduction is allowed from the income of a taxpayer in respect of expenditures incurred by that person in respect of shares issued to that person by a venture capital company. Tax deductions for individuals are a minimum of R750,000 pa up to R2,25 million over a lifetime. For listed companies, the deduction is up to 40% of the equity in a VCC.

3.4.8 Relief on Skills Development Levy

SARS (2020) described the Skills Development Levy as a tariff imposed to embolden learning and development in South Africa, and is determined by an employer's salary bill. The revenue collected is to be used to develop and improve the skills of employees. The levy becomes liable if any employer has or expects the total salaries bill to be more than R500,000 over the next 12 months. The relief for SBCs is embedded on the threshold one is supposed to surpass in order to be liable to pay the Skills Development Levy.

3.5 Tax compliance in South Africa

Revenue mobilisation is one of the objectives especially of African governments to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence (Drummond et al. 2012). Nevertheless, governments' abilities to collect taxes depend on people's willingness to comply with the statutes of tax laws. Non-compliance with tax dictates is inherent in developing countries, South Africa included.

Despite the sterling performance of SARS in terms of revenue collection, the tax gap still exists. A tax gap is defined as the difference between the expected and actual

revenue generated by tax authorities. Tax evasion through businesses understating their incomes; overstating deductions, credits or exemptions; or making calculation errors on their returns has widened the tax gap in South Africa. Tax amnesty and awareness campaigns have been launched by SARS, including informal sector participants (thus improving the so-called second economy's contribution). Dare et al. (2019:07) estimated that SARS had the potential of collecting R276.4 billion worth of PIT revenue in 2005/06 and 316.6% in 2010/2011 if everyone complied with the legislation. However, R216.3 billion was collected in 2005/06 and R290.4 billion was collected in 2010/2011, resulting in tax gaps of R60.1 billion and R26.2 billion. There is thus a need for this study to determine the factors which have led to the tax gap in South Africa, based on the effect of tax morale.

The findings of Lewis (1982:172) showed that 53.08% of respondents were registered as taxpayers with SARS. Nevertheless, only 39.23% had consulted with SARS officials in the past. Dare et al. (2019:07) noted that the tax compliance rates were 78.3% and 91.7% for the 2005/06 and 2010/11 tax years respectively.

SARS continues to broaden the tax base and expand the taxpayer register. The authority's major goal is to develop a tax and customs system of voluntary compliance, and, in rare circumstances, use enforcement tools responsibly and decisively. In an effort to increase the levels of voluntary compliance, SARS aims at providing clarity and certainty of taxpayers' obligations (SARS, 2019:02). The table below shows that the tax register improved for the period 2015 to 2019 owing to the introduction of bulk registration at places of employment and the strengthening of its information technology systems.

Table 3. 6 : Tax register for the period 2015 to 2019

Numberas at	Individuals	Companies (CIT)	Trusts	Employers	VAT Vendors	Importers	Exporters
31 Mar 2015	18,185,538	2,935,385	331,584	429,691	679,274	280,953	254,108
31 Mar 2016	19,075,270	3,278,708	340,000	458,048	706,874	289,922	262,162
31 Mar 2017	19,980,110	3,732,416	345,048	489,445	742,388	301,746	272,951
31 Mar 2018	21,104,375	3,202,007	351,564	520,918	773,783	312,241	282,243
31 Mar 2019	22,170,513	2,020,759	357,859	552,611	802,957	319,949	288,604
Percentage year-on-year growth							
31 Mar 2016	4.9%	11.7%	2.5%	6.6%	4.1%	3.2%	3.2%
31 Mar 2017	4.7%	13.8%	1.5%	6.9%	5.0%	4.1%	4.1%
31 Mar 2018	5.6%	-14.2%	1.9%	6.4%	4.2%	3.5%	3.4%
31 Mar 2019	5.1%	-36.9%	1.8%	6.1%	3.8%	2.5%	2.3%

Source: SARS (2019:02)

SARS (2019:64) computed two indices, which are the tax compliance index and the attitude to tax compliance index. The Tax Compliance Index is calculated from internal data and the results were 67.24% for the 2018/19 tax year, an increase from 65.64% reported in 2017/18. The Attitude to Tax Compliance Index calculated from data collected in the public opinion survey resulted in a score of 66% for 2018/19, a decrease as compared to 72% reported in 2017/18.

3.5.1 Factors affecting tax compliance in South Africa

Drummond et al. (2012) argued that raising more home-generated income is a need for most Sub-Saharan African countries. However, the domestic tax bases in most African countries are weakened by the prevalence of tax avoidance and tax evasion (IMF 2011). Understanding the factors that influence the individual taxpayer's decision whether to pay or evade taxes is crucial in dealing with the problem of tax evasion. This research will review the literature on factors affecting tax compliance in South Africa according to economic deterrence, fiscal exchange, social influences, comparative treatment and political accountability.

3.5.1.2 Economic deterrence factors

The economic deterrence factors proffered by Becker in 1968 and Allingham and Sandmo in 1972, include penalties and audit probabilities. The theoretical tenets of economic deterrence have been considered by SARS in the development of effective and efficient strategies that seek to improve tax compliance. Section 104 of the Income Tax Act deals with offences relating to tax evasion. If a taxpayer is convicted, a fine or

imprisonment sentence for a period not exceeding five years is imposed. In addition, his/her taxable income may be estimated and three times the amount of tax charged thereon. Cummings et al. (2009) noted that compliance levels increase as the audit probability and the penalty rate increase in both South Africa and Botswana. In line with this trend, SARS recently raised the severity of punishment by imposing heavy penalties for outstanding corporate income tax (CIT) from December 2018. This study intends to determine how these economic deterrence factors have affected the tax morale behaviour between South Africa and Zimbabwe.

3.5.1.3 Perception of government expenditure

Tax compliance is also affected by the perception of the citizens on how the government spends the collected taxes. Alm et al. (1992) noted that tax compliance increases with the availability of public goods and services. Therefore, the main apprehension of taxpayers is what they get directly in return for their tax payments in the form of public services. If the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes and tax evasion and avoidance will be the consequence (Pashev, 2005; Everest-Phillips, 2008; Lieberman, 2002; Bräutigam et al. 2008). Andreoni et al. (1998) explained that embezzlement of taxes by government officials, which is common in developing countries, also influences taxpayers not to comply with the tax laws. Consequently, taxpayers would be prepared to avoid paying the tax if the revenue collected is not being utilized for the advantage and government assistance of the general public.

Moore (2004) expounded that taxation and the provision of public goods and services are regarded as a contractual connection between taxpayers and the government. In a study done by Oberholzer and Stack (2014), they observed that over half of the respondents (58.46%) are of the opinion that the government uses a large proportion of taxes for meaningless purposes, which greatly affects tax compliance. More so, a study by Ali et al. (2013:20) found that in South Africa, people who are effortlessly happy about receiving various services from the government, for example, issuance of national identity cards, health and police services are bound to have a tax-compliant attitude. Thus the current study intends to determine how the perception of South African and Zimbabwean government expenditure affects tax morale and tax compliance.

3.5.1.4 Demographic factors

McGee (2012) found that demographic factors such as gender, age, education level, religion, marital status and income level influence a person's tax compliance behaviour. Torgler (2011) concluded that age and sex are the significant factors that affect tax compliance. The researchers Feinstein (1991) and Richardson (2006) further explained that that older people and women are more tax compliant than men and young ones. According to Feinstein (1991), it is more likely that wedded people won't dodge taxes, than unmarried people; married people would be more conscious about how they would be seen in society.

McGee (2012:475) conducted a survey in which he found that widows were the group that is most tax compliant, followed by those who were married, separated, living together as married, single or never married and lastly, divorced. In a similar study on South African attitudes on tax evasion, McGee and Ross (2014) found that divorced people are most opposed to tax evasion, followed by married people and widowed people. Nevertheless, notwithstanding several studies investigating this demographic variable, it seems that there is no conclusive answer to the question of whether men or women are more tax compliant (McGee, 2012:415). Therefore it is from the inconclusive results of the previous studies that the current study intends to determine the extent to which the demographic profile of participants in South Africa and Zimbabwe explains tax compliance and morale. The study will contribute to knowledge by providing the Zimbabwean extent on how the demographic profile of the respondents will explain the tax morale and compliance, as there are inconclusive results from previous studies.

3.5.1.4 Political legitimacy

Fjeldstad and Heggstad (2012:12) defines legitimacy as conviction or trust in the authorities, foundations and social game plan to be fitting, legitimate, just and work for the benefit of everyone. According to the political legitimacy theory, tax compliance is directly linked to perceptions about the tax authority's trustworthiness (Tayler, 2006; Kirchler et al. 2008; Fauvelle-Aymar, 1999). Torgler and Schneider (2007) added that higher legitimacy for political institutions leads to higher tax compliance. Political legitimacy can also be linked to national pride. Consequently, group identification deriving from national pride promotes cooperative behaviour and willingness to pay taxes (Torgler and Schneider, 2007).

Corruption in tax administration in Africa remains a fundamental barrier to effective and fair taxation and to building trust between government and citizens. In addition, corruption which is linked to political legitimacy, which is rife in developing countries, affects tax compliance. Significant levels of corruption can prompt taxpayers uncertain of whether their paid levies are utilized to fund public goods and services, to be more likely to sidestep the payment of tax liabilities. Moreover, a taxpayer might consider evading taxes if the cost of bribing a tax auditor is lower than the potential benefit from tax evasion. Kirchler et al. (2007) highlighted that lack of transparency and accountability in the use of public funds negatively affects trust in the tax system as well as in the government. Resultantly, there would be increases in the willingness to evade taxes.

Naidoo (2005:13) further argues that those who diligently pay their taxes and comply to their best ability with the tax laws want to be treated with respect by the revenue authorities. Unfortunately, this is not always the case. Taxpayers often believe that they are being treated as criminals and do not appreciate a heavy-handed approach from SARS with threats for non-compliance, which is often based on technicalities.

3.5.1.5 Complexity of the tax system

The complexity of the tax system is another important factor that affects tax compliance in South Africa. Tax legislation in South Africa is so complex that the ordinary person has challenges in understanding it. Feddersen (2018) noted that complex tax processes can overwhelm taxpayers, making it cumbersome and difficult for them to pay their taxes. Importantly, Feddersen (2018) suggested that SARS can reduce the complexity of tax compliance processes by using plain language in communications and simplifying forms and tax laws where possible.

McKerchar (2007) simply explained the complex tax system as an excessive burden of record-keeping, tax form completion or other compliance requirements placed on the taxpayer. Tax complexity can also be caused by increased intricacy in the tax law (Richardson and Sawyer, 2001). Hanefah (1996) and McKerchar (2001) also noted that tax complexity can take the form of complex tax computation while Cox and Eger (2006) identified the procedural complexity of tax administration as another form of tax complexity.

Evans and Tran-Nam (2013) highlighted three different definitions of tax complexity from the perspective of tax accountants, tax lawyers and taxpayers. Tax complexity is referred to as the time it takes to prepare income tax returns, including tax planning, or the time it takes to give tax advice and consultancies in the view of a tax accountant. In as far as tax lawyers are concerned, reading, understanding and interpreting tax laws defines tax complexity. To a taxpayer, tax complexity is viewed from the point of the time taken and the cost incurred in complying with the provisions of the tax legislation.

Webley et al. (1991:68-77) had results that people evade tax because of the unfairness of the tax system. It has been established that a more complex tax system leads to noncompliant behaviour among taxpayers. Likewise, a less complex tax system would also encourage tax compliance (Cox and Eger, 2006; Richardson, 2006). A complex tax system also acts as an inducement for taxpayers and tax officials to indulge in corrupt activities such as reducing the tax burden or speeding up procedures. Tax officials may also manipulate and extort taxpayers who do not know tax legislation.

3.5.1.6 Tax compliance cost

Another factor that influences taxpayers to evade tax is the high compliance cost. Sandford et al. (1989:10) define tax compliance costs as expenses incurred by taxpayers in meeting the requirements laid upon them in complying with a given structure and level of tax. Govender (2008) simply explained tax compliance costs as all the costs incurred in ensuring proper compliance with relevant tax regulations. The researcher listed the costs including the following:

- ❖ Expenses related to record retention, filing and sorting records, invoices and receipts;
- ❖ Costs incurred in the preparation and submission of all relevant tax returns;
- ❖ Opportunity cost in respect of time utilized by SMEs in ensuring tax compliance;
- ❖ Costs of external advisors that are required for tax compliance and/ or to address disputes with the tax authorities;
- ❖ Any costs to ensure compliance as well as any incidental costs and travel expenditure.

Further, the ease of paying tax affects citizens' willingness to pay tax. The easier it is to pay tax, the higher the edge to pay tax. A high ease of doing business ranking means that the regulatory environment is more conducive to the starting and operation of a local firm. South Africa is rated fifth best in Sub-Saharan Africa in terms of ease of paying tax, and fourth in terms of ease of doing business. It is also estimated that it takes 210 hours per annum as the time required to comply with three major taxes in South Africa (World Bank, 2020:39). The table below shows the ease of doing business and paying tax.

Table 3. 7: Worldwide rank on the ease of doing business and ease of paying taxes in selected African countries (ranking within Sub-Saharan Africa in brackets)

Economy	Global Rank	Rank within group	Starting a Business	Paying Taxes
Mauritius	13	1	2	1
South Africa	84	4	26	5
Zambia	85	5	20	2
Botswana	87	6	34	6
Namibia	104	9	37	11
Malawi	109	10	30	21
Lesotho	122	15	14	16
Mozambique	138	20	42	18
Zimbabwe	140	21	38	24

Source: World Bank (2020)

Small and medium-sized enterprises (SME), particularly, suffer from high compliance costs. A survey among South African firms on the regulatory costs of doing business revealed that taxes, in particular VAT, are perceived as the most problematic set of regulations, followed by labour regulation (SBP, 2004).

There is a direct relationship between tax compliance costs and tax evasion, that is, an increase in tax compliance costs results in fewer people complying with the tax statutes. Naicker and Rajaram (2018:108) noted that tax compliance cost is one of the main factors that affect tax compliance in South Africa, with the most excessive cost to ensure tax compliance being the time spent by the owner.

3.6 Strategies employed by South Africa to increase tax compliance

Prichard et al. (2019) emphasized that the central challenge facing developing and transitional government lies in identifying innovative strategies to strengthen revenue mobilization, trust and fiscal contracts.

3.6.1 Simplification of the tax system

SMMEs contribute the majority percentage of taxpayers in the South African tax system. Tax laws are generally too complex to be understood by non-professionals; the greater proportion of SMME owners do not have formal qualifications, while the disciplines of those who do have formal qualifications might not be in tax law. The following are some of the measures taken by SARS to simplify the tax system for SMMEs to increase their compliance levels:

- ❖ A simplified registration process by combining the Skills Development Levy, Unemployment Insurance Fund and Pay-As-You-Earn registration forms into one form was introduced.
- ❖ A simplified turnover-based tax system for micro-businesses was introduced from 1 March 2009. The turnover tax is a simplified and optional tax system meant to assist SMMEs with an annual qualifying turnover of less than ZAR 1 million, as it is an easier way for these enterprises to comply with their tax obligations.
- ❖ Only one form will be required to register for all taxes, including income tax and VAT.

SARS has activated the function of advance rulings to simplify the tax laws. More so, SARS provides interpretation notes aimed at providing guidelines to both internal and external stakeholders on the interpretation and application of the provisions of the tax legislation.

3.6.2 Maintain high levels of public trust and credibility

SARS (2019:63) noted that there has been a serious erosion of trust in SARS as a fair tax administrator, due to public admissions at various commissions. However, the Acting Commissioner agreed to attend various sector gatherings to explain SARS' position and to reassure taxpayer groupings that there is a continuation in the campaign to fulfil its mandate geared towards maintaining high levels of public trust. The Acting Commissioner made presentations on platforms such as the Johannesburg

Chamber of Commerce, the Institute of Internal Auditors South Africa and the South African Institute of Business Associations, to mention but a few.

As mentioned earlier, trust in the tax authorities affects, to a great extent, tax compliance. In order to improve cooperation and trust between SARS and large business taxpayers, SARS launched the Large Business Forum, which includes the top 30 companies in South Africa. The Forum also aims at self-regulation of their tax affairs (SARS, 2019:64). SARS is of the view that this will reduce compliance costs and result in improved relationships with large businesses.

SARS (2019:55) also improved the efficiency and effectiveness of taxpayer complaints through engagements with the Office of the Tax Ombud (OTO). SARS has conducted four strategic and four operational engagement sessions with the OTO. This improved the Complaint Monitoring Office's performance to 63.5% of complaints finalised within the turnaround time, and 82% of complaints brought forward from 2017/18 being resolved.

A new service charter, launched on 2 July 2018, describes the rights and obligations of taxpayers and service timeframes that SARS commits to in terms of engagements with SARS' contact centres, branches, the e-filing channel and correspondence. The reinvented service charter aims at improving the image of the tax authority from the perspective of taxpayer-tax authority relationships (SARS, 2019:54).

3.6.3 Launch of re-established Large Business Centre

In October 2019, SARS launched the re-established Large Business Centre with the main purpose of bringing about voluntary compliance amongst corporate South Africa. SARS also noted that the revamped Large Business Centre would bring about effective and efficient revenue collection as well as improved SARS' relationship with large businesses. The corporates are rated as the third-largest revenue contributor to the fiscus; corporate income tax comprised 16.6% of the total revenue in the 2018/2019 tax year. Moreover, through the reinvigorated Large Business Centre, both administration and tax compliance costs are minimised.

3.6.4 Taxpayer education and service

Eriksen and Fallan (1996), in Engida and Baisa (2014:437), describe education as the individual's level of understanding about taxation, especially the laws and regulations. Peter (2009:20) says that attitudes towards tax compliance can be improved by

enhancing taxpayers' knowledge. By methods for taxpayer education and taxpayer services, residents can be educated and taught about the tax framework and be aided in their endeavours to conform to the tax system.

Tax knowledge is an important component in a voluntary compliance tax system (Kasippilai, 2000), particularly in determining an accurate tax liability (Palil, 2005; Saad et al. 2003). This is empirically established by several other studies (for example, Kasipillai and Jabbar, 2003; Kirchler et al. 2006), which documented that possessing tax knowledge would lead to higher compliance rates.

SARS (2019:53) reported that the tax authority interacted with 465 365 taxpayers during the 2018/19 tax year through outreach and education activities. Also, SARS embarked on education programmes focussing on tertiary institutions, students and schoolchildren, with the notion to "catch them young". Workshops were also conducted at various SARS branches through collaboration with external stakeholders, and 114,392 individuals attended.

3.6.5 Zero-tolerance approach to fight fraud and corruption

Mechanisms that allow a reduction in corruption in the tax administration are crucial in compacting tax evasion through enhanced trust in the tax system by citizens, as well as an increase in revenue mobilisation. In South Africa, SARS established an Anti-Corruption and Security Unit in 2008 to deal with internal investigations and prosecutions on tax and customs corruption. In addition, SARS established a corruption hotline that allows individuals wishing to report corruption involving tax officials to call a toll free number or file a report on the SARS website.

Also, to reduce corruption, SARS refers corruption cases for prosecution and internal disciplinary committees. During the 2018/19 tax year, 33 cases of corruption were referred for investigation. Three SARS employees were convicted on counts of fraud, corruption and contravention of the Electronic Communications and Transactions regulations. The trio was sentenced to a range of 15 to 25 years imprisonment (SARS, 2019:66). Moreover, to discourage corruption amongst taxpayers and tax officials, SARS handed over taxpayer induced corruption cases to the National Prosecution Authority. A taxpayer received a sentence of a R20,000 fine or four years for offering a customs official a R40,000 bribe to release a detained container of counterfeit goods.

3.6.6 Use of technology

Recently, African governments have turned towards increasing the use of technology in the administration of taxes. Information technology systems play a significant role in tax administration modernisation. Enhanced technology also helps in increasing the efficiency of the tax administration and demystifying complex tax systems by providing online information on taxpayer rights and obligations through call centres or virtual helpdesks. Principally, Tambun and Kopong (2017: 49) showed that investment in e-filing motivated taxpayers to increase their tax compliance levels.

SARS has embarked on a journey that embraced technological advancement. SARS introduced a transformative programme termed Siyakha, meaning We Are Building, which was aimed at improving the efficiency and effectiveness in fulfilling its mandate (AfDBG, 2010:17). The table below shows some of the advancement in technology that has been adopted by SARS in respect to the customs department.

Table 3. 8 : Advancement in technology measures taken by SARS on customs systems

Integrated clearance declaration electronic message, and Customs procedure codes	SARS rationalized and normalized the data of three disparate declaration systems. All data was mapped to version 3.2 of the WCO Data Model, allowing for improved database management as well as trade and economic reporting.
Automated Cargo Management (ACM)	<ul style="list-style-type: none"> SARS re-designed and further developed its older Cargo Reporting requirements (MAS) on a new technology platform, known as Automated Cargo Management (ACM). Emphasis on reporting of road manifests was of particular importance due to the envisaged 'expedited' benefits of road hauled cargo at land borders.
Automated Customs workflow	<ul style="list-style-type: none"> A dynamic secure workflow system – known as Service Manager – which manages not only operational connectivity between the Customs hub and the port of entry, but more importantly administers job profiles for each and every Customs officer. The principle of segregation of roles and duties is rigorously maintained throughout the workflow to mitigate against possible collusion between an officer and an external party. Some of the key benefits attained through the implementation of the automated Customs workflow include: <ul style="list-style-type: none"> the ability to monitor staff performance and activities; the ability to monitor workloads and re-distribute work if required. Distribution of work is risk-based, so staff cannot choose which transaction or case they wish to work on.
Electronic supporting documents capability	<ul style="list-style-type: none"> Enormous cost-savings in both time and material were derived from trade. It also drastically reduced the Customs clearance processing turnaround time from days to hours.
Introduction of a two-step cross-border declaration and cargo reporting process	<ul style="list-style-type: none"> A brand new innovation to ensure that cargo declared for import, transit or export – at a land border – actually arrived and was processed through that border. This proved to be a significant benefit for SARS in ensuring that cargo declared actually arrived or departed from South Africa. It is an innovation which will be augmented for sea, air and rail borne traffic under the new Customs Control Act. External stakeholders also lauded this solution, as it provides increased visibility and assurance for them with regards to cargo.
Mobile application tool to support Customs inspections at ports of entry	<ul style="list-style-type: none"> An in-house SARS-developed application was produced for use on tablet devices. The application links to the core Customs system via Wi-Fi to allow the Customs inspector access to the Customs declaration and supporting documents. The application provides for the capture of inspection results, as well as photographs of the cargo. Due to its integration with the Customs core system, the application further enables expedited case finalization of 'stopped' cargo once the inspection report is filed. It drastically reduced Customs clearance processing turnaround time from days to hours.
New Customs management solution and e-payment, and Customs account management system	<ul style="list-style-type: none"> A new web-based platform for the end-to-end processing of Customs clearances. A fully automated accounting facility, which allows stakeholders to manage their own account with SARS.

Source: SARS (2020)

According to SARS (2015), historically, in South Africa tax returns were filled in manually and mailed to the then Receiver of Revenue (RoR) office through the Post Office or hand-delivered to the nearest RoR office. Subsequently, the Siyakha program led to the modernisation of SARS, whereby the authority's operational processes were expansively automated to enhance administrative and compliance efficiency. The modernisation programme gave birth to an e-filing system in 2008 (SARS, 2016). Consequently, e-filing reduced tax filing encumbrance for both taxpayers and the revenue authority. Also, the rate of tax returns submissions increased as shown by Tables 3.9 and 3.10 below, wherein in 2001 return submission was purely manual and in 2019 strictly through e-filing.

Table 3. 9: SARS statistics of tax returns return submission for the period 2019

	PAYE	VAT	Corporate Income Tax	Individual Income Tax
Achievement	58.82%	52.09%	24.67%	60.94%
Target	63.00%	58.50%	46.00%	92.50%
Variance	-4.18	-6.41	-21.33	-31.56
Baseline (2017/18 achievement)	59.19%	52.23%	38.26%	94.00%

Source: SARS (2019:20)

Table 3. 10 : SARS statistics of outstanding tax returns for the period 2001, based on the 2000/2001 annual report

Type of return	31/3/2002	31/03/2001	Financial Year % change	Prior Year % change
Individual	1,821,945.00	1,745,801.00	4.0%	12.4%
Corporate income tax	994,539.00	871,703.00	14.0%	4.3%
PAYE	860,443.00	509,187.00	69.0%	29.7%
VAT	552,022.00	301,807.00	83.0%	99.3%

Source: SARS (2001:26)

Owing to the increased use of mobile phones, SARS saw it prudent to introduce a mobile application by the name of SARS MobiApp, which can be installed from the App Store (for Apple devices) or Google Play Store (for Android devices). A taxpayer may register for e-filing, file returns, submit supporting documents, make a payment

to SARS and set up a call back from the SARS contact centre, to mention but a few uses of the application.

3.6.7 Tax amnesties

OECD (2015:14) described a typical amnesty as a reprieve in which delinquent taxpayers who voluntarily disclose their unpaid taxes are allowed to enter the tax net without paying both the tax owed and the penalties that are associated with non-compliance.

The first tax amnesty after independence in South Africa was introduced in 1995. The tax amnesty allowed persons who were not registered as taxpayers an opportunity to comply with the tax laws with no penalties charged. In 1996, the Final Relief on Tax, Interest, Penalty and Additional Tax Act was enacted, which meant to give taxpayers additional time to register for tax purposes (SARS, 2016:417). Moreover, an Act called the Exchange Control Amnesty and Amendment of Taxation Laws Act of 2003 was passed to allow citizens with undisclosed offshore income to regularise their tax affairs. Observing the growth and importance of small, micro and medium enterprises, a tax amnesty was availed to SMEs to voluntarily declare their undeclared income and comply with the provisions of tax legislation (SARS, 2016:417).

3.6.8 Voluntary Disclosure Programme (VDP)

A VDP regime is different from the tax amnesty mentioned above, in that taxpayers are still liable to settle their undeclared taxes at no or reduced penalties and interest that come with tax non-compliance (Baer and Borgne, 2008; OECD, 2015). Governments are shifting towards VDPs as they provide an opportunity to raise immediate revenue as taxpayers are required to pay the tax owed, in some instances including paltry penalty and interest.

SARS first introduced VDP in 2010 in which people who voluntarily disclosed their undeclared income were not charged any penalties of criminal prosecution associated with non-compliance. SARS later introduced a permanent Voluntary Disclosure Programme (VDP) with effect from 1 October 2012 through the Tax Administration Act, 2011 (SARS, 2016:418). The magnitude of the relief is dependent on whether the disclosure is undertaken prior to or after the issuance of an audit notice by the tax authority. SARS (2019:65) reported that an amount of R3.2 billion was collected for

the period 1 April 2018 to 31 March 2019 under the VDP programme, and continues to encourage any taxpayer that may have unreported income to apply for the programme.

A Special Voluntary Disclosure Programme (SVDP), which ran for the period 1 October 2016 to 31 August 2017, was introduced with the aim to give non-compliant taxpayers an opportunity to voluntarily declare their unauthorised foreign assets and income. Taxpayers who missed the deadline are given a chance to make use of the normal VDP process to disclose offshore income. SARS highlighted that the purpose of introducing VDP is to enhance voluntary compliance in the interest of good management of the tax system and the best use of its resources. SARS (2019) disclosed that the introduction of the SVDP witnessed a total of 2,023 tax relief applications by the close of the above-mentioned window period. The reprieve has yielded a total collection of R4.432 billion and the value of foreign assets disclosed through the SVDP amounts to R27,670 billion. Importantly, these are assets that were previously hidden offshore and will continue to contribute towards the fiscus into the future. Dare et al. (2018:14) studied the effectiveness of VDPs in South Africa and they discovered that both once-off and permanent VDPs are only effective in increasing compliance for the short term. The researchers also noted that VDPs must be accompanied by increased enforcement measures for the government to increase tax compliance.

3.6.9 Deterrence measures

SARS has recruited competent personnel and increased capacity to audit and prosecute non-compliant taxpayers in a bid to deter taxpayers from evading tax. Also, a penalty loading model as shown by the table below was mooted to punish habitual tax offenders, at the same time encouraging voluntary disclosure of unreported income.

Table 3. 11: Penalty loading model

Behaviour	Standard case	If obstructive or if it is a repeat case	Voluntary disclosure after notification of an audit	Voluntary disclosure before notification of an audit
Substantial understatement	10%	20%	5%	0%
Reasonable care not taken in completing a return	25%	50%	15%	0%
No reasonable grounds for tax position taken	50%	75%	25%	0%
Impermissible avoidance arrangement	75%	100%	35%	0%
Gross negligence	100%	125%	50%	5%
Intentional tax evasion	150%	200%	75%	10%

Source: SARS (2019).

SARS has also intensified prosecution of non-compliant individuals as witnessed by the conviction of a tax offender who was sentenced to 20 years effective imprisonment on counts of fraud, money laundering and corruption of a public officer. The convicted person prejudiced the fiscus by an amount of R32,942,133 through submitting significant fraudulent refund claims on behalf of several VAT vendors and was assisted by a SARS employee who released the refunds. More so, to create awareness and to send a message to compliant taxpayers that there is a fair application of the law, SARS publishes successful prosecutions since 2018.

SARS (2019:48) intensified compliance audits to increase tax compliance, through an increase in the visibility of SARS among taxpayers. Important also, SARS improved the use of third party data to improve the risk of detection and increase in audit success rate. Due to the nature of compliance audits, SARS uses automated risk engines to identify and evaluate specific risks associated with tax compliance. SARS stated that 1.9 million compliance audits were finalised in the 2018/19 tax year, with a total

financial impact of approximately R30 billion, including the reduction of refunds. Also, the tax authority recorded a success rate of 35%, which is in line with international trends.

3.7 Comparison of tax systems of South Africa and Zimbabwe

Both South Africa and Zimbabwe have autonomous revenue authorities which collect tax on behalf of the government. South Africa's tax regime is set by the National Treasury and is managed by SARS. ZIMRA derives its mandate from the Revenue Authority Act, passed by the Parliament of Zimbabwe in 2002.

3.7.1 Tax rates

South Africa and Zimbabwe have different rates for Income tax, PAYE and VAT and the same tariffs for CGT as shown by the table below.

Table 3. 12: Tax rates

Country	South Africa	Zimbabwe
Value Added Tax	15%	14.5%
Capital gains tax	Max 20%	Max 20%
Income tax	28%	24%
PAYE	Max 45%	Max 40%

Source: ZIMRA (2020) and SARS (2020)

3.7.2 Introduction of taxes

Income tax in South Africa was first introduced in 1914 with the introduction of the Income Tax Act No 28, an Act with its origins in the New South Wales Act of 1895. The income tax also known as corporate tax was introduced in Zimbabwe (then Southern Rhodesia) in 1918 but the current legislation was enacted on 1 April 1967.

3.7.3 Source-based vs Resident-based

Residence taxation of income is based on the principle that people and firms should contribute towards the public services provided for them by the country where they live, on all their income, wherever it comes from. Source taxation is justified by the view that the country which provides the opportunity to generate income or profits should have the right to tax it. Economists tend to favour residence jurisdiction, both because they consider the source of income to be hard to pin down (income often has

more than one source) and because they think residence jurisdiction promotes economic efficiency since the decision where to invest should be unaffected by the tax rate. South Africa uses the resident based tax system while Zimbabwe uses the source-based tax system.

3.7.4 Taxation of the informal sector

South African has turnover tax, which is meant for small business, while small business is taxed like any other tax registered company. Taxes based on turnover require an informal enterprise to keep some basic books and records of transactions. A uniform tax rate as a (percentage of turnover) may then be applied to all enterprises under such a regime. Ghana levies a three per cent flat rate turnover tax as a replacement for VAT (Joshi et al. 2013). The Tanzania Revenue Authority (TRA) has implemented a system of progressively taxing turnover but with reduced rates for those enterprises with adequate records of transactions (TRA, 2011).

Overall, 70 per cent of South African micro-businesses are concentrated in the retail sector (Ligthelm, 2006). In South Africa, retail businesses are found mainly in rural and urban areas, throughout formal and informal settlements, and in all provinces. The same estimates of the informal sector's share of total South African employment are said to be in the range of 17-19 per cent (National Labour & Economic Development Institute, 2004). South Africa's informal employment as a proportion of non-agricultural employment was at 72 per cent, with 47 per cent of informal enterprise workers in the trade sector according to Devey and Valodia (2006).through the informal sector, SA is able to grow its turnover revenue through taxation since many of its income tax comes from the informal sector.

As alluded to in chapter two, Zimbabwe has adopted a presumptive tax, which is meant to bring informal traders into the tax net. Ahmad and Stern, (1991: 276) defines the tax head as; *"the term presumptive taxation covers a number of procedures under which the 'desired' base for taxation (direct or indirect) is not itself measured but is inferred from some simple indicators which are more easily measured than the base itself"*. Moreso, Bird and Wallace, (2003) noted that the main objectives of presumptive taxes are to simplify the tax administration process, to collect some revenue from these firms and to educate them on tax issues with the ultimate aim of incorporating them into the regular tax system

Presumptive tax rates in Zimbabwe are based on pointers of income capacity or business performance of a particular informal sector segment, for example, turnover estimates of minibus taxis. Different tax rates can then be applied based on estimated profits within the sub-sector, for example, based on the seating capacity of the minibus taxi. This method could potentially address many of the equity concerns of presumptive taxation as rates are based on ratios developed for a particular informal sector segment. However, this method of setting tax rates requires research on turnover and profit margins for all the informal sector segments that are targeted for taxation. Dube and Casale (2017) noted that for informal enterprises that can maintain basic records on turnover, the turnover-based tax, which is used by South Africa, is the best option.

3.8 Conclusion

The chapter analysed the tax system in South Africa. Generally, the South African Government is making efforts to increase tax compliance, which will ultimately increase revenue. There is a need for a comparative analysis between South Africa and Zimbabwe to derive feasible policy recommendations for policymakers and revenue administrations as pointed out in later chapters. As compared to Zimbabwe, South Africa enjoys more in terms of resource allocation to tax administration, huge revenue collection base and is more technologically advanced in terms of revenue collection. Moreover, both countries use similar strategies to increase compliance such as launching tax amnesty, zero tolerance to corruption and promoting voluntary disclosure programs. In the next chapter, the factors affecting the tax culture and compliance in both countries will be taken further and linked with theoretical and empirical expositions.

CHAPTER FOUR

DETERMINANTS OF TAX MORALE AND COMPLIANCE: THEORETICAL AND EMPIRICAL EXPOSITIONS

4.1 Introduction

The world today is experiencing abrupt technological changes which are blurring the line between the physical and the digital world, opening up new opportunities for market reforms and trade liberalization. However, this transition has brought about opportunities for illegal activities such as tax evasion, creative accounting and opportunistic managerial behaviour (Bruno, 2019:193). Of these activities, tax evasion is indisputably the main problem because it reduces tax revenue and undermines the principle of equity and social cohesion (Nemore and Morone, 2019:11). Since tax is a means for financing government expenditures, tax compliance and tax evasion remain a major concern for governments worldwide (Brink and Porcano, 2017:87; Tabandeh et al. 2013:101).

Identifying the major drivers of tax compliance is a principal objective for economic policy in all countries experiencing significant growth in parallel economies (Nemore and Morone, 2019:11). Researchers have summarised that the exploration of tax evasion and tax compliance is still in its infancy. An important concept that researchers of tax issues have recently been interested in is tax morale. Tax morale has received increased attention in light of the recent tax reforms that many countries in Sub-Saharan African countries are attempting to make to improve their fiscal capacity (Jahnke and Weisser, 2018:01).

Fjeldstad et al. (1998:02) stated that it is important to concentrate on "why do taxpayers comply" rather than on "why do taxpayers evade", of which the former is the basis of the tax morale phenomenon. There is a great difference between tax morale and tax compliance though they are often treated as the same, especially in German-speaking countries (Kirchgässner, 2010:02). Authors, for example, Verboon and van Dijke (2007:03) and Torgler (2004:239), defined tax compliance and tax morale as the willingness to pay tax. Cummings et al. (2009:457) conducted experiments in Botswana and South Africa and concluded that tax morale influences tax compliance,

confirming that they are two different concepts. Taschetti (2013:06) and Torgler and Schneider (2007:06) simply explained that tax compliance is behavioural while tax morale is based on attitudes. Tax morale research is important as it helps in understanding the behaviour and attitudes of taxpayers towards tax compliance. There are several factors that influence tax morale, and the existing empirical evidence cites dissimilar channels and substantial cross-country differences in these factors (Brink and Porcano, 2017:87; Belmonte et al. 2017:204). There is limited theoretical and empirical research that has been done on tax morale, especially in developing countries (Torgler and Schneider, 2005:01). Frey and Feld (2002:88) added that "*most studies treat 'tax morale' as a black box without discussing or even considering how it might arise or how it might be maintained. It is usually perceived as being part of the meta-preferences of taxpayers and used as the residuum in the analysis capturing unknown influences on tax evasion. The more interesting question then is which factors shape the emergence and maintenance of tax morale.*"

To explore tax morale, this chapter will first discuss the definitions of tax morale put across by researchers. Theories of tax compliance and tax morale will also be discussed as they form the foundation of this study. It is important also to look at the factors that influence tax morale in developing, transitional and developed countries. Research has shown that every theory or concept, tax morale not spared, has strengths and weaknesses; the importance of tax morale and limitations of this concept is thus also discussed in this chapter.

4.2 Definition of tax morale

Tax morale has been defined as the general inclination and motivation to comply with tax laws and regulations (Calvet and Alm, 2013:66). It is the inherent motivation to pay tax obligations that represents a taxpayer's readiness and moral belief in paying taxes and contributing fairly to the society (Luttmer and Singhal, 2014:149). Tax morale was first defined by Schmo"lders (1960:97) as the attitude of taxpayers towards the decision of whether to comply with tax requirements or to evade tax. He explained further that it is based on the population's tax mentality. Mohlmann (2013:02) described tax morale as a psychological explanation for voluntary tax compliance, while Bethencourt et al. (2013:04) explained it as "*an internalised social norm for tax compliance which expands the cost incurred by evaders to include not only the fines*

payable upon detection but also certain non-pecuniary considerations". Ortega and Pablo (2013:02) generalize tax morale as a concept that includes the moral rule of taxpayers which encourages them to comply with tax laws. Prinz (2002:02) concluded that tax morale is a kind of best response of the taxpayer to the insecurity they feel with respect to the complexity of the tax laws.

The term "tax morale" summarises a number of factors and motivations such as social norms, personal values and other cognitive processes that significantly influence an individual's intentional compliance with tax laws (Brink and Porcano, 2017:91). Moreover, Torgler (2003:04) regarded tax morale as the intrinsic motivation to pay taxes. The belief of contributing to the state through the payment of taxes is another definition of tax morale (Cummings et al. 2009:448). Tax morale can also be defined as the willingness to pay taxes by the individual (Torgler, 2004:239). Importantly, also, Schnellenbach (2002:118) described tax morale as a phenomenon that taxpayers evade less tax than predicted by the standard models of tax evasion. He added that tax evasion depends on how satisfied taxpayers are with public policies and the quality of their relationship with tax authorities.

Ultimately, tax evasion occurs when, for some reason, taxpayers do not comply with tax laws or do not pay the expected tax as determined using the existing tax rules and regulations (Brink and Porcano, 2017:89). More so, social norms characterise tax morale as they make the decision to evade tax unattractive. The authors also describe the concept as a return rendered to the government for its provision of public goods and services. Tax morale can be summed up as a moral obligation of paying taxes and an idea of contributing to the country by paying taxes (Bilgin, 2014:61). This study will adopt the definition a definition of tax morale which implies that it is an intrinsic motivational factor that explains the willingness or ability of a citizen to pay tax.

4.3 Theoretical evolution of tax morale

Perceptions and attitudes of taxpayers towards tax evasion are not always motivated by rationality (Yee et al. 2017:414; Brink and Porcano, 2017:89). The following subheadings explain how tax morale evolved through the proliferation of authors estimating models of tax evasion and avoidance.

4.3.1 Standard models of tax evasion

The review of the standard model is important as it pioneered research on tax compliance and, subsequently, the study of tax morale. The standard model was first proffered by Allingham and Sandmo in 1972 based on the economic theory of crime as well as on the expected utility maximisation calculus. The model presents the decision to evade tax as an expected utility-maximization gamble (Myles and Naylor, 1996: 50).

The main parameters of the model are personal income, the rates of tax and penalty, and the probability of a tax audit. According to Allingham and Sandmo (1972:324) under the tax declaration decision lies the uncertainty and the choice between declaring actual income and declaring less. Allingham and Sandmo (1972) narrated that taxpayers pay tax, based on weighing the benefits of evading tax and the cost associated with tax evasion. The benefit of evading tax comes in the form of lower tax liability while the cost of tax evasion includes being charged high penalties on the unreported income. More so, the model predicts that taxpayers will always declare their income correctly if the probability of detection is high. The standard model adopts that taxpayers are mindful of the costs and benefits of their tax behaviour and that these individuals are usually unaware or at least distracted from the incentives available (Alm, 2019:358).

The standard model, also known as the classical tax evasion model, proposed that deterrent policies are important in increasing tax compliance because tax evasion is negatively correlated with the audit probability and degree of punishment (Allingham and Sandmo, 1972:324). However, the level of understanding and availability of information might influence how the taxpayers behave (Olowookere and Fasina, 2013:147). A simple illustration of the Allingham and Sandmo (A-S) model can be done by assuming that a taxpayer receives a fixed amount of income, I , and must decide on how much of the income to declare on tax returns and how much to underreport. The rate of tax in the declared income is t while no tax is paid on undeclared income.

Tax authorities do carry out tax audits now and then. There is a probability p that the taxpayer might be audited and if he/she is audited, the tax will be charged a penalty

at a rate of b on the undeclared income. Thus, the taxpayer's income Y , if charged a penalty, is denoted by $Y = I - tR - b[t(IR)]$ and income Z is $Z = I - tR$ if underreporting is not unearthed by the audit. The taxpayer is the assumed taxpayer to choose declared income to maximize expected utility, or $EU(I) = pU(Y) + (1 - p)U(Z)$, where E is the expectation operator and utility $U(I)$ is a function only of income. Gahramanov (2009:38) concluded that despite the wide criticism of the standard models, they are rational and still useful in explaining compliance behaviour. Also, Mas'ud et al. (2015:408) highlighted that the classical models of tax evasion are still important in tax compliance research as some of their predictions are true in some countries.

The standard models predicted a high level of tax evasion, yet the opposite is being exhibited by countries especially the developed ones (Alm et al. 2005:05). The A-S model is weaker compared to other models as it assumes that the probability of an audit is constant. In reality, tax audits are not purely random since the probability of being audited is likely to depend on the volume of revenue declared. Frey (2002:03) observed that the standard model of tax evasion based on the subjective expected utility maximization does not perform particularly well in econometric analysis. In support of the model, Lastly and more important is that the standard models neglect tax morale, which is an important factor in determining tax compliance behaviour. The game theory is regarded as an alternative to the A-S model and the game theory is going to be reviewed in the next sub-section.

4.3.2 Game theory and tax compliance

Tax evasion is an important notion, and its reality is fundamental to most public economics issues (Alm, 2019:354). Due to the growing criticism of standard taxation models, scores of researchers explored alternatives, which include game theory, to explain tax compliance behaviour. In tax games, equilibrium of the tax compliance game implies that the strategy choices must be mutually optimal, i.e. the audit strategy must maximise the revenue collected, and the declaration must maximise utility given the audit strategy.

The first paper to analyse tax evasion using a game-theoretical setup was done by Joseph Greenberg in 1982. The model shows that tax authorities should not adopt a

constant rate of auditing taxpayers as it generates less revenue than if it adopts a differential set of tax inspections. CorchónIn (1992:09) modelled strategic interaction between taxpayers and the government, focusing on a case where a taxpayer has to decide either to join or not to join the informal economy. The model predicted that a high penalty for evaders is socially desirable and that tax evasion is due to imperfect, rather than incomplete, information.

Erard and Feinstein (1994:17) incorporated honest taxpayers into a game-theoretical set-up which has a tax agency and tax evaders. Their model showed that tax compliance is affected by the fairness of the tax system and taxpayers' reactions to government activities, policies and personnel. Bosco and Mittone (1997) used the game theory to examine the effect of announcing tax audit results on tax evasion, and a positive relationship was found between tax audit publicity and tax evasion. Frey and Holler (1998) used a mixed-strategy Nash equilibrium to explain that deterrence factors are not as important as tax morale in analysing tax compliance behaviour. Calvet and Alm (2013:21) ran tax compliance games to add that tax compliance is influenced by non-economic factors such as sympathy and empathy. However, Satpathi et al. (2013:1230) also used the game theory to determine the influence of tax morale on tax compliance and they found that there was no change in the rate of tax compliance when tax morale was introduced.

Also, Alm and McKee (2003:310) used the game theory to show that tax compliance is increased when the tax authorities engage in more random audits. However, Kamijo (2014:13) showed that under genuine penalty rate conditions, the lowest-reporter-audited (LIRA) rule is better than a random selection rule. Moreover, Sánchez-Villalba (2010:05) made use of game theoretical setup to predict that tax evasion is reduced when the tax authorities use a contingent audit rule than a cut-off rule. He explained that a cut-off rule is a method for tax authorities' audit declarations that are below a certain fixed cut-off income level, while the contingent rule consists of the tax authority auditing every firm with a probability that is a non-decreasing function of every other taxpayer's declarations.

In contrast with the standard models of tax evasion, Anson et al. (2006:20) developed a game-theoretical set to analyse the effect of tax rates on customs duty fraud, and they found that there is less tax evasion on imported products with high tax rates.

Breuer (2012:36) also used game theory to investigate the effect of whistleblowing of tax evaders on tax compliance, and they discovered that whistleblowing is useful in compacting tax evasion. Blaufus et al. (2014:20) designed a tax game to determine the effect of tax privacy on tax compliance and found that public disclosure of tax evaders increases tax evasion.

Additionally, Neumärker and Pech (2010:14) used game theory to show that governments do receive more revenue if they grant penalty relief. In the same vein, Mendoza and Wielhouwer (2015:15) modelled a game with two players, that is. a taxpayer and a tax authority, and predicted that increasing deterrence undermines trust. Voluntary disclosure is an important concept in the study of tax compliance. Langenmayr et al. (2015:31) studied the effects of voluntary disclosure using game theory and confirmed that voluntary disclosure mechanisms increase tax evasion. Torgler (2003:284) noted that the strength of the game theory is that it makes explicit strategic aspects of social interactions. Furthermore, the logic of game theory helps to simplify the complexity of tax compliance. However, Hyun (2005:02) noted that the game-theoretical approach could not completely explain the behaviour of tax compliance, hence the need to explore other realistic models to explain the behaviour. Torgler (2003:284) added that tax compliance is a more complex topic that cannot be explained only by analysing a game with two taxpayers.

4.3.3 Prospect theory and tax compliance

Alm et al. (1992) noted that the prospect theory can be used to explain 'why people pay taxes' despite evidence of low levels of probability to be audited and low levels of penalties on additional tax. The prospect theory, initiated by Kahneman and Tversky in 1979, centred mainly on criticizing the expected utility theory as a descriptive model of decision making under risk. With the use of prospect theory in explaining tax compliance behaviour, the utility function used in standard models of tax evasion is replaced by a value function. The theory, which explains how people evaluate risk, holds that people are risk-averse in regard to gains but risk-seeking regarding loss. Simply, the prospect theory predicts that tax compliance proliferates if paying tax is seen as a gain.

The expected utility theory predicts that high tax rates increase tax compliance. However, empirical studies have shown that there is a positive relationship between

tax rates and tax evasion. This paradox is known as the tax evasion puzzle or Yitzhak puzzle. Dhimi and al-Nowai (2005), in their model, predicted that prospect theory does explain the tax evasion puzzle as they found that tax evasion increases with the tax rate. Troitin (2012:02) used the same notion of reference point coined by Dhimi and al-Nowai to show that an increase in the tax rate is followed by a decrease in the evaded amount of tax. Piolatto and Rablen (2013:14) supported the argument that prospect theory reverses the Yitzhaki puzzle in some situations.

In countries such as the United States, taxpayers are obliged to pay taxes through a system in which they use either a common method of withholding or estimated tax payment. Developing countries such as Zimbabwe use quarterly payment dates and the PAYE system for taxpayers to remit tax (ZIMRA, 2015). These systems involve taxpayers estimating their taxable income at the beginning of the year and paying tax using applicable rates in quarters. At the end of the year, the taxpayers are supposed to file a return that shows the actual income accrued to them, and tax is calculated thereon. A comparison of tax paid through the QPDs will be made versus tax calculated on the annual return. Resultantly, if the taxpayers have paid more QPDs than the actual tax, then they will be in a refund position and conversely, if the QPDs are less than the actual tax then the taxpayers pay the balance. In the prospect theory context, taxpayers perceive the latter scenario as a loss, thus they are more willing to take risky strategies when declaring income (Kahneman and Tversky, 1981 and Bloomquist, 2003:15).

A plethora of researchers have investigated tax compliance in the context of the prospect theory and concluded that tax evasion is more pronounced in taxpayers whose withheld tax is less than the actual tax assessed at the of the year (see Robben et al. 1990:342; White et al. 1993:74; Engström et al. 2011:27). Moreover, Schmidt (2001:168) used different subjects in his experiments to support the tenets of the prospect theory. His findings were that taxpayers in a payable position at the end of the year are most likely to take heed of aggressive advice from tax consultancy than those in a refundable position. In addition, other researchers (Lien and Smith, 2010:337, Elffers and Hessig, 1997:304) used the prospect theory to show that taxpayers pay excessive QPDs to get refunds come year-end.

Surprisingly, Schisler (1994:135) had results that did not support the prospect theory when it comes to tax consultants' behaviour in relation to the position of their clients at the end of the year. More so, Kirchler and Maciejovsky (2002) found that the self-employed are not affected by their tax position at the end of the year, that is, whether they are in a refundable or payable position. Alm and Torgler, (2012:26) added that prospect theory is not enough to explain all tax compliance paradoxes. The prospect theory is overall viewed as insufficient to explain human behaviour because of the lack of standard reference point taxpayers set (Kirchler et al. 2008:17).

4.3.4 Agent-based theory and tax compliance

Superfluity models have been formulated in trying to explain taxpayers' behaviour concerning tax evasion, tax avoidance and tax compliance. Researchers as will be shown in this section have adopted an agent-based theory in trying to come with an explanation of tax compliance behaviour. The first model was developed by Mittone and Patelli (2000), who introduced an agent-based model to tax compliance by modelling taxpayers into three categories, namely honest taxpayers, imitative taxpayers and free-riders. They found that even if there are few enforcement programmes there is a possibility that most of the taxpayers will evade tax.

Davis et al. (2003:61) modelled an agent-based set-up in which the population is divided into two segments, namely compliant and non-compliant groups, and noted that tax evasion will increase if enforcement is lax in the compliant segment, and the compliance rate will increase if enforcement is upped in the non-compliant group. In addition, Korobow et al. (2007) set up a model where taxpayers compare expected payoffs from non-compliance, partial compliance and full compliance. These researchers found that a high rate of compliance can be sustained by a low level of enforcement.

Pickhardt and Seibo (2011:02) explored the difference between the analysis of tax evasion in standard models and agent-based models. They explained that in an agent-based model the agent's behaviour is influenced by the behaviour of a certain group with the model; the agents may not possess a utility function and tax evasion dynamics may be triggered either by parameter changes or by stochastic processes or a combination of both.

Hokamp (2013:188) investigated income tax evasion using an agent-based theory and found that tax evasion increases with marginal per capita returns. He also found that back-auditing helps in alleviating tax evasion challenges. These researchers concurred with Alm and McKee (2003:310) who narrated that tax authorities will increase their revenue inflows if they embark on random audits, especially if the taxpayers believe that the audits are targeting certain individuals. However, random audits were found to be a weaker enforcement strategy compared to cycle-based audits by Smojver (2016:291), who used the agent-based model of tax compliance.

In support of the 'deterrence models' of tax evasion, Zaklan et al. (2009:12) concluded that in as much as the tax compliance behaviour of an individual may be group influenced, higher levels of enforcement play a pivotal role in increasing the rate of tax compliance. Taxpayer's tax compliance behaviour may be influenced by the attitude and behaviour of fellow taxpayers who live in the same neighbourhood. Arslan and Ican (2013:342) showed that tax compliance increases with the rate of audit and that the neighbourhood has a negative influence on the behaviour of a taxpayer. Andrei et al. (2014:119) theorised an agent-based model with the agents being adaptive, bounded rationally, and embedded in social networks. Their findings were that social networks do influence tax compliance behaviour; for example, taxpayers are like to be more compliant in social networks with a high degree of centrality.

Moreover, Calimani and Pellizzari (2014) also used the agent-based theory to note that tax morale is an important factor that determines tax compliance. Pellizzari and Rizzio (2012:15) used the attitude of the agents to tax compliance as a proxy of tax morale in an agent-based model and noted that tax morale has a positive relationship with tax compliance. In support of these findings, Gulyás et al. (2015:04) used an agent-based model with employees, employers and the government as the agents. They found that the governments should devise tools that improve tax morale which in turn curb tax evasion. They also found that an adaptive strategy of auditing yields high revenue flows for the governments.

Though game theory and agent-based models have similar features, they are different in that game theory is structured, analytical and demanding in constructing and solving the models while the agent-based model allows great flexibility in devising models and setting their parameters (Smojver, 2016:282). Agent-based models have an

advantage over standard models of tax compliance as they provide more flexibility for analyzing complex systems and collective taxpaying behaviour arising from individual taxpayers' interactions (Andrei et al. 2014).

4.3.5 Slippery slope framework

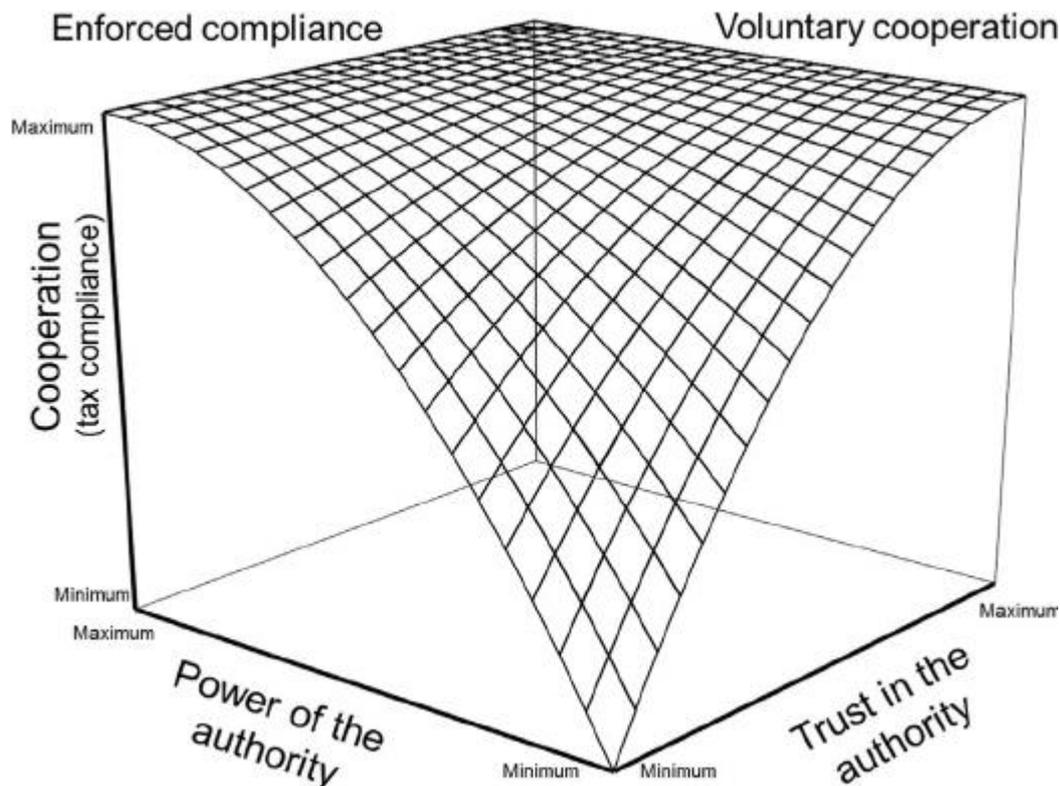
An important tax compliance theory that based its foundation on why there is 'high tax compliance' rather than why tax evasion is prevalent is the slippery slope framework. The framework, first developed by Kirchler in 2007, assumes that integration of economic and psychological determinants of tax behaviour leads to tax compliance. Economic factors include audit probability and fines are adopted from the standard theory of tax evasion, while the psychological factors include social norms and justice perceptions. Importantly also, the slippery slope framework observes that the tax environment can be either an antagonistic or a synergistic climate. A country that is characterised by an antagonistic climate involves a tax authority that does not believe in taxpayers' willingness to pay, and this leads to taxpayers believing that they are mistreated by the tax authority. In contrast, a synergistic climate is characterised by a cordial relationship in which taxpayers see the tax authorities' services as community-oriented.

Scholarly evidence has affirmed the significance and capacity of the slippery slope framework in explaining tax compliance (Muehlbacher and Kirchler, 2010:607 Kogler et al. 2015:126). The slippery slope framework also postulates that tax compliance is dependent on the power of the authorities and trust in the authorities to effect either enforced compliance or voluntary compliance (Kirchler et al. 2008; Kastlunger et al. 2013). Kirchler et al. (2008), in their experiment, then define trust as 'the general opinion that the tax authorities are benevolent and work for the common good, whereas the power of authorities refers to the perception of authorities' capacity to detect and punish evasion. Fig 4.1 simplifies the slippery slope framework, where the important tenets that include trust, power, voluntary compliance and enforced compliance are illustrated.

Trust in the authorities yields voluntary compliance and coercive power results in enforced compliance. Kastlunger et al. (2013:43) differentiated coercive power and legitimate power where the former centred on the ability to punishment and levy heavy fines while the latter involves the effectiveness of authorities in reducing tax crimes. In

order to substantiate the dynamic relationship between power and trust, the slippery slope framework was protracted by categorising both, the power of tax authorities into coercive and legitimate power, and trust into reason-based and implicit trust (Gangl et al. 2015:16).

Figure 4. 1 : Slippery slope framework of tax compliance



Source: The Slippery Slope Framework (Kirchler et al. 2008:212).

Lisi (2013:06) also developed a theoretical model which based its assumptions on the slippery theory and macroeconomic model of the labour market. The model predicted that the right blend of deterrence tools and trust increases tax compliance which will, in turn, reduce the unemployment rate. Prinz et al. (2013) modelled the slippery slope framework assuming that tax authorities have instruments of coercive power and persuasive power and that there are two groups of taxpayers, namely compliance-minded and evasion-minded taxpayers.

The model theorised that tax compliance depends on the number of people who are evasion-minded, i.e. the larger the number of evasion-minded taxpayers, the lower will be the probability of full tax compliance. Kogler et al. (2012) found evidence to support

the assumptions of the slippery slope framework and show that both trust and power are important determinants of tax compliance in different economic conditions and tax climates. The researchers encouraged the government to gain their citizens' trust by enhancing fair procedures and service-oriented behaviour.

Benk and Budak (2012:15) found that results of the statistical analysis revealed that data from Turkish taxpayers partly support the assumptions of the slippery slope framework. They further discovered that the perceived power of authorities is a significant predictor of enforced tax compliance, while trust in the authorities has no significant influence. Moreover, Lozza et al. (2013:51) used self-employed participants in an experiment and confirmed that the existence of trust and power leads to tax compliance. An important observation made by Lozza and others is the link between trust and evaluations of public expenditures.

Wilks and Pacheco (2014:03) tested the slippery slope framework in Portugal and the results allow the researcher to conclude that trust in authorities and their capacity to deter and punish tax evaders are interrelated and that both are essential in securing tax compliance. Gobena and Van Dijke (2015:31) empirically tested the slippery slope framework in Ethiopia and showed that procedural justice was associated with voluntary tax compliance only when legitimate power of the tax authority was low and when coercive power of the authority was high. Gobena and Van Dijke (2015:31) also showed that only coercive power predicts enforced tax compliance.

4.3.6 Principal-agent and tax compliance.

Tax evasion also occurs in corporate entities and is more complex than individual compliance behaviour. The principal-agent theory emerged in the 1970s and has its basis in economic research. The theory's basic model assumes two parties, the agent and the principal, and it is the problems in this relationship that make the need for audit and internal control (Reinganum and Wilde, 1985:17). The relationship can be described as the principal who delegates tasks to the agent to perform. The model states that the principal can control the agent through incentives and monitoring. It stipulates that the principal offers appropriate compensation to the agent as a way of inducing the desired outcome (Martini et al. 2016:27).

The principal-agent theory has been used to analyse the tax compliance behaviour of both companies and individuals. The theory was first used in the analysis of compliance behaviour by Reinganum and Wilde in 1985, who wanted to determine the optimal audit policy of the tax agency. The study shows that audit cut-off rules are imperceptibly better than random audit rules, and it also found that the former was the least-cost policy that encourages the correct declaration of income. In addition, Reinganum and Wilde (1985) found that the principal-agent theory in tax compliance produces higher levels of tax compliance than does the portfolio theory. Chen and Chu (2005:159) used the principal-agent model to predict that tax evasion decreased with the size of the firm. They explained that this is because there is much interaction between the manager and the owner of the firm. The model also predicted that tax evasion for firms tends to increase if there is a low rate of penalties and audit rates. Moreover, tax authorities can use a third party verification policy when carrying out their audit work. This policy works where an individual is being audited on his/her employment income and where there is a firm transaction with another firm. Kleven et al. (2009:21) found that third party reporting does reduce the occurrence of tax evasion and that it is more successful in large firms.

Rablen (2013:13) proposed a principal-agent setting where the tax authority (principal) commits to an audit strategy, then taxpayers (agents) maximize expected utility. The model differed from the standard model as it predicts that tax compliance decreases as the audit rate increases. More so, Meyer-Brauns (2013) modelled a principal-agent setting with a principal hiring an agent to reduce the tax payable. There is also a tax authority that chooses an enforcement policy to maximise the social welfare criterion.

The principal-agent model has its weakness. For example, Renvall and Spångberg (2014:37) assume risk-neutral taxpayers, which is a very strict assumption. Another weakness of the principal-agent model is that the tax authorities are assumed to be able to commit to their strategy and detect all tax evaders, which implies that all audited taxpayers are found to be tax compliant. Andreoni et al. (1998:831) simply criticised the principal-agent model as a poor description of real-world tax systems. Di Donato (2016:13) found in his study of compacting tax evasion and corruption in a principal-agent set-up that tax morale is an important factor that should be considered when trying to induce tax compliance. Hence the next section looks at the influence of tax morale on tax compliance.

4.3.7 Tax morale models and tax compliance

One of the key puzzles in the tax compliance literature is to understand why so many people pay their taxes despite a low probability of being detected. Researchers (see Alm et al. 1992 and Torgler, 2003) have concluded that tax morale is the reason why there is a high tax compliance rate in developed countries. In spite of the importance of tax morale, Feld and Frey (2002) argued that little research had been done on how it evolved and how best it can be cultivated. Given the weakness of the above-discussed models of tax compliance and their assertion that tax morale is the important factor that explains tax compliance behaviour, the main aim of this study is to explore the tenets of tax morale and its determinants in South Africa and Zimbabwe.

Richardson and Sawyer (2001) reported that individuals who have low tax ethics and low tax morale have a greater propensity to cheat on their tax declarations. Torgler (2003) added that nations with lower levels of tax morale have higher rates of evasion and avoidance. In addition, Torgler et al. (2008) regressed a model with over-deduction as the dependent variable and they found that the lower the tax morale, the more individuals overstate deductions or expenses, which reduces taxable income. They also analysed under-reporting (tax evasion) which showed that the lower the tax morale the higher the rate of tax evasion. It can be concluded that tax morale is an important factor that affects the level of tax compliance. Fakile (2011:118) discovered that in Nigeria there is a significant positive effect of tax morale on tax compliance. The perceived legitimacy of government policy influences both the magnitude of tax evasion and tax morale. Schnellenbach (2002) introduced a simple model of psychological costs that depend on the perceived legitimacy of public policies and predicted that a policy that is considered legitimate, which raises tax rates, will increase both costs associated with tax evasion and tax morale.

Interaction between the tax authorities and taxpayers is of paramount importance in the study of tax compliance behaviour, as shown in some of the models discussed above, for example, the game theory and principal-agent models of tax compliance. Frey and Feld (2002:23) used the crowding theory to analyse whether the interaction between the tax authority and the taxpayers affects tax morale. The models predict that tax morale is affected by the behaviour of the tax authority, where higher tax morale among taxpayers is experienced when tax officials show respect to them. Critiquing the standard models of tax evasion, their models also prove that deterrence

factors do actually 'crowd out' tax morale, hence low tax compliance. High levels of enforcement are likely to make taxpayers perceive the system as unjust and as such lead to violation of the law and legislation and cultivate an attitude of dishonesty, immorality and a general tendency to evade tax (Yee et al. 2017:414). Moreover, Dell'Anno (2009) extended the model of Gordon (1989) to examine the relationship between tax compliance and tax morale. Tax morale is separated into the effect of guilt and the effect of shame. The guilty conscience arises from the taxpayer anticipating guilt when under-reporting and escaping detection. The social stigma is caused by the taxpayer anticipating public shame when under-reporting. It is assumed that these attitudes are influenced by the taxpayer's perception of the extent of tax evasion in society and the behaviour of the tax authority.

Traxler (2010:101) expanded the standard model of tax compliance by incorporating tax morale. The model emphasized the importance of group influence on the individual taxpayer in regard to tax compliance behaviour. He explained that tax morale is a major contributor to high levels of tax compliance despite the weak tax enforcement exhibited in many nations. Thus for governments to increase tax compliance, tax morale should be extended to the moral leaders of that particular group. Also, the model predicted that austere deterrent policies increase the propensity to evade tax. Doerrenberg et al. (2012:04) established an optimal income tax model which includes tax morale, where it is assumed that tax morale varies amongst groups, and where the government can tax the groups differently. They predicted that groups with higher tax morale will be taxed more heavily, simply because taxing them is less onerous and their reported income reacts less elastically to tax rate changes than the reported income of groups with lower tax morale. The model is important for policymakers as it aids in cost-benefit analysis for taxation.

Similar to the study of Doerrenberg et al. (2012) is that of Simonovits (2011), whose model assumed that an individual taxpayer supplies labour and the tax declarations depend on tax morale. He also divided tax morale into categories, namely exogenous and endogenous, where the former is a given parameter of the utility function, and the latter depends on the exogenous tax morale as well as on the observed behaviour of the individual's neighbourhood. The model concluded that higher morale suggests a higher socially optimal tax rate. In addition, Doerrenberg and Peichl (2010) discussed the opposite causality and found that greater tax progressivity implies higher tax

morale. Lisi (2013:02) also developed a model that shows that tax morale affects the various policies that a government puts in place to stamp out tax evasion. The model separates taxpayers into honest and tax dodgers, wherein for honest taxpayers there should be minimum deterrence policies while for tax dodgers there should be an increase in both the number of deterrence policies and monitoring.

Furthermore, Bethencourt and Kunze (2013:17) proposed a theoretical model that incorporated tax morale into a dynamic overlapping generation's model of capital income tax evasion. In this model, tax morale is taken as a social norm for tax compliance and predicted a positive relationship between per capita GDP and tax morale as the number of evaders in society declines. Thus, the empirical facts support the finding that high-income countries exhibit high-quality institutions, high levels of tax morale and so, low levels of evasion. The prediction was proven to be true by Deyneli (2014:61), who used the Tobit regression model to find that the higher the GDP the higher the tax morale in that particular country. The problems of low tax compliance prevalent in most developing countries can be reduced if the tax morale is considered for policy-making since it has a direct relationship with tax compliance (Anyongyeire 2011:39; Halla, 2010:05; Marti et al. 2010:119; Torgler et al. 2007:17). The study of tax morale is thus of paramount importance in the less-developed countries such as South Africa and Zimbabwe where governments rely on tax revenue to finance their expenditure.

4.4 Determinants of tax morale in developed countries

The determinants of tax morale were first studied by Schmölders (1960), who analysed tax morale among self-employed workers in Europe. He concluded that self-employed taxpayers had lower levels of tax morale than taxpayers who worked for other people or organizations. Strümpel (1969) also analysed tax morale among European taxpayers. He found that tax morale in Germany was comparatively low, whereas in England it was comparatively high, because the German government used coercive tax enforcement techniques while the British system treated taxpayers with more respect and less control.

Research has shown that demographic factors such as age, religion, gender, employment status and educational attainment determine tax morale studies. However, Ristovskaa et al. (2013:177) revealed that demographic factors are less

significant than non-demographic factors in determining Macedonians' willingness to pay tax. Age has been identified by researchers as an important demographic factor that determines tax morale. Torgler (2007:12) and Bilgin (2014:67) found that age is positively correlated with tax morale. Torgler and Valev (2010:15) used the justifiability of cheating taxes as the proxy for tax morale and found that in Western Europe women do not vindicate cheating of taxes. Alm et al. (2005:17) found that gender does not significantly affect tax morale in Russia. More so, Deyneli (2014:61) found that countries with high manhood have a corresponding higher level of tax morale. In Spain, religious people have higher tax morale than those who do not attend religious gatherings (Bilgin, 2014:67). However, Kannianen and Pääkkönen (2007:20) found that there is no difference in terms of Catholic and Protestant beliefs on tax morale in Europe. Similarly, Torgler (2006:22) had results that show that in Spain, church attendance has no significant influence on tax morale.

Additionally, Russo (2013:113) found a positive relationship between tax morale and the self-employed in Italy. In Europe and the United States of America, compared to full-time employees, the share of self-employers reporting the highest tax morale is 6.5 percentage points lower. The results correspond to the standard argument that self-employed taxpayers exhibit lower tax compliance, based on the higher cost of being honest, a result that supports the findings of Schmolders (1960) more than 50 years ago (Alm and Torgler, 2006: 241). However, Lago-Peñas and Lago-Peñas (2008:22) found contrasting results which show that self-employment has a negative relationship with tax morale. Çevik (2014:110) estimated a logistics regression model from the World Value Survey data and found that individual reciprocal tendency is an important determinant of tax morale.

Additionally, Jahnke (2014:10) found that in Vietnam vertical reciprocity has a higher impact on tax morale than horizontal reciprocity. Torgler (2004) found that trust in the legal system, government, parliament and revenue authorities affects the tax morale of a country. However, Sá et al. (2014:114) used a linear regression model and found an inverse relationship between institutional trust and tax morale. Corruption is another important determinant of tax morale in a particular country. There is an inverse relationship between corruption and between tax morale (Torgler, 2004:17). Moreover, Barone and Mocetti (2011:725) found that public spending inefficiency negatively affects tax morale in Italy.

Additionally, Lubian and Zarri (2011:20) noted that the happiness of a taxpayer plays an important role in determining his/her tax morale. The study found that taxpayers who are happy have higher tax morale than the others. An individual taxpayer is influenced strongly by his perception of the behaviour of other taxpayers (Frey and Torgler, 2006:24; Hammar et al. 2009: 245). Research has shown that tax morale is affected by the question of whether an individual is proud to be a citizen of a particular country or not. Torgler (2003:295) and Sá et al. (2014:114) found that in Canada and Portugal, pride has a significant effect on tax morale. These results were also established by Yew et al. (2014:71) in Russia. The Opportunity to evade tax also affects tax morale. Blaufus et al. (2014:4) found that the more chances are there to evade tax, the lower the tax morale.

Verboon and van Dijke (2007:24) found significant positive correlations between personal tax morale and the perceived probability of detection. In Italy, Filippin et al. (2013:324) used ordinary least squares (OLS) and found out that tax morale has a direct relationship with tax enforcement. Alm et al. (1992) found in an experimental setting that tax morale is more significant if taxpayers believe that there is a direct relationship between the taxes paid and the utility gained from a public good. Baldry (1986) has shown in an experiment that some people never evade taxes, seemingly paying no regard to expected utility considerations whatsoever.

Torgler and Werner (2004) established an empirical correlation between local fiscal autonomy and tax morale in Germany. The authors define fiscal autonomy as the ratio between a municipality's tax revenues and the GDP of its federal state. Again, high fiscal autonomy makes it more likely that the residents of a municipality get back a good deal of what they have paid in taxes. This may in turn increase tax morale. GÜth et al. (2005) investigated the effect of centralization and decentralization of tax collection as well as the decisions on how to use the collected tax revenue. The researchers concurred with Torgler and Werner (2004) that tax morale is higher in a region where there is decentralization than in a region with centrality.

Risk attitude is also an important factor that has been identified in developed countries to have an influence on tax morale. Kouamé (2015:25) studied the effect of risk attitude on tax morale and concluded that risk aversion has a positive relationship with tax morale. Lastly, group influence also matters in determining the level of tax morale in

developed countries. People's tax morale increases if they believe that others are also willing to pay taxes. Also, voluntary tax compliance is dependent on the taxpaying behaviour of other group members (Frey and Torgler, 2007; Wenzel, 2005).

4.5 Determinants of tax morale in transition countries

Demographic factors are also crucial in transition countries in determining tax morale. In Latin America, Gerstenbluth et al. (2012:129) found that age is a significant factor of tax morale and more importantly they found that tax morale increases with age. They also noted that gender, marital status and being unemployed do not influence tax morale. However, Torgler (2004:253) observed that in India the oldest group of taxpayers exhibited the lowest tax morale. Religion has also been identified as a factor that affects tax morale by a plethora of researchers. In the context of Latin American countries, Gerstenbluth et al. (2012:129) found that attendance of religious services makes no differences in attitudes towards tax morale. Moreover, Setyonugroho and Sardjono (2013:85) used linear regression to test their hypotheses and found that in Indonesia tax knowledge does not affect willingness to pay tax.

Andriani (2012:09) used the bivariate Probit model to estimate determinants of tax morale in Palestine and found that there is a great relationship between tax morale and public spirit and a negative correlation between tax morale and associational activity. In Venezuela, reciprocity towards governments proved to be a significant influence on citizens' willingness to pay tax (Ortega and Pablo, 2013:11). Surprisingly, Aguirre and Rocha (2010:17) found that corruption is insignificant in explaining tax morale in Latin American countries. More so, studies have identified the role played by occupational status as important in understanding tax morale. Gerstenbluth et al. (2012:130) found that self-employed people have a high probability of having less tax morale in Latin America and the Caribbean. However, Piatti et al. (2014:16) found that the self-employed reported higher tax morale than other groups in Asia-Pacific countries and others.

4.6 Determinants of tax morale in developing countries

More so, Ali et al. (2013) used the logit model and Afrobarometer survey data to examine factors that determine citizens' tax compliance attitude in Kenya, Tanzania, Uganda and South Africa. The study found that the provision of public services, tax knowledge and awareness, and perceptions about the fairness of the government are

the major determinants of tax morale in these countries. However, these researchers noted that factors that affect tax compliant behaviour do differ from one country to another.

Fakile (2011:118) had empirical findings that showed social norms, attitudes towards government, tax evasion and tax avoidance have a significant effect on tax morale, while there is no significant effect of attitudes towards the legal system and traditional institutions on tax morale. In concurrence with Fakile, Kouamé (2015:22) found results that social norms are important in explaining tax morale in developing countries than in developed countries.

Trust is also an important factor that determines tax morale in developing countries. Kouamé (2019:11) noted that trust can be categorized into vertical trust and horizontal trust. Laksmana and Narsa (2016:16), defines vertical trust as the trust of the taxpayer to the tax authorities, while horizontal trust is the trust of the taxpayer to other taxpayers. He also concluded that quality and trust in public institutions do not have any bearing on tax morale in developing countries than in developed countries. In contrast with research findings in the developed countries, Bodea and LeBas (2013:22) used the ordered logit model to find that age does not affect tax morale in urban Nigeria. In the same vein, Ibrahim et al. (2015:409) studied tax morale in Ghana and found that tax morale decreases with age. Ibrahim (2015:409) also concluded that in Ghana the level of education, marital status, patriotism, sector of employment, and satisfaction with democracy do not influence morale.

In addition, Tusubira and Nkote (2013:6) studied the determinants of tax morale in Uganda and found that reciprocity is a significant determinant of tax morale as well as social norms. The researchers noted that tax morale does influence tax compliance positively. Corruption is rife in developing countries, especially in Africa, where according to the Transparency International (2021) organization, Sub-Saharan Africa is the lowermost performing region in terms of corruption index and there is little improvement from previous years. Jahnke (2015:08) concentrated on the effects of corruption on tax morale in developing countries and found that corruption has a negative effect on tax morale. However, Abdul-Razak and Adafula (2013:54) found that in Ghana, government accountability did not affect tax morale.

4.7 Literature review on tax morale in South Africa

Cummings et al. (2009:24) conducted research on tax morale in South Africa and Botswana. They found that tax morale is higher in Botswana than in South Africa. Also, they concurred with research in developed countries that the quality of political institutions has a significant influence on tax morale and tax compliance in those countries. Additionally, Oberholzer (2008:66) studied the attitudes of South Africans towards the payment of tax. His study explained that tax morale in South Africa is low because taxpayers feel there is high corruption in the government and the taxpayers' money is not put to good use.

4.8 Importance of tax morale in developing countries

Ramfol (2019) highlighted that the benefits of promoting tax morale hold immense potential for tax revenue generation as taxpayers' level of tax morale is a strong stimulus to comply with or resist tax laws. She added that countries demonstrating higher ratios of tax to Gross Domestic Product have higher tax morale. Bodea and LeBas (2013:02) noted that tax morale is important as it enhances voluntary tax compliance, which is desirable in developing countries. They added that tax authorities in the less-developed countries are still behind in terms of contemporary tax collection methods. Subsequently, the increase of tax enforcement and penalties for evasion leads to dwindling tax revenues. Luttmer and Singhal (2014:152) added that tax morale is important as it is the residual component that explains tax compliance behaviour in a heavily enforced environment. The researchers quoted research by Dwenger et al. (2014) who studied compliance with the local Protestant church tax in Bavaria to show that despite lack of enforcement an important role for tax-morale-driven compliance is noted.

Tax morale is also valuable to an economy because it reduces the cost of financing the public sector (Doerrenberg, 2012:01). Doerrenberg (2012:01) further explained that a high level of tax morale will imply that the tax base is large, and hence tax rates can be reduced. Important also, is that when tax morale is high, tax distortions of economic activity are smaller and tax enforcement and administration costs are lower than in cases where tax morale is low. Alm (2012) highlighted that tax evasion reduces both public revenue and the availability of public services and also discriminates against honest taxpayers.

As noted above, tax morale has a negative relationship with tax evasion. Thus, through improved tax morale, tax non-compliance will fall. Subsequently, there will be an increase in service provision and encouragement of paying tax to would-be tax dodgers. Personal circumstances and opposition to particular government policies, in contrast, are destabilizing influences, causing tax morale to fluctuate. Braithwaite and Ahmed (2005:537) posited that tax morale is not only an important factor for tax compliance but is also a useful measurement of judging how the tax system is performing. They added that the tax morale level could fluctuate, but it can withstand any unpopular policy as long as adjustments are made to restore morale to the level necessary for a well-functioning democracy.

The importance of tax morale is multi-faced as it can also be used to predict the election results of a particular country. García et al. (2015:84) posed a model where parties compete over the level of income redistribution in the first stage, and voters decide about their level of tax compliance in the second stage. They found that as voters become more confident about society's tax morale, there is an increase in the probability that the party more in favour of income redistribution will win, and also in the level of tax compliance. Both public-spending efficiency and tax morale affect tax evasion, and these coupled with ethical and social norms influence a taxpayer's beliefs and behaviours in relation to tax. Inefficient public spending is believed to lower the psychological and social cost of tax evasion measured in terms of the guilt and bad morality felt by the taxpayer (Brink and Porcano, 2017:89).

4.9 Limitations of tax morale

Important as it is, the concept of tax morale is not free from criticism. Bethencourt and Kunze (2013:17) had empirical evidence that tax morale may not only explain why some taxpayers never evade tax but even outweighs the benefits of being tax compliant. Also, Posner (2000) indicated that the differences in tax compliance rates among nations might mean that tax morale is a non-event. Leonardo (2011:13) also criticized tax morale as it fails to explain the relationship between taxpayers' attitudes and taxpayers' behaviour.

4.10 Conclusion

The chapter concentrated on the concept of tax morale and tax compliance. Theoretical and empirical research was done with an emphasis on how tax morale

evolved. Tax morale has been mentioned in a prior model as an important factor that influences tax compliance. It has been noted that tax morale does influence tax compliance positively, which makes it an important phenomenon to be thoroughly looked at, especially in developing countries where there is a low level of tax compliance. Important to note also is the heterogeneity of tax morale illustrated across countries and over time highlighted by Alm and Torgler (2006). From the description of determinants of tax morale in developing, transition and developed countries, it is worthwhile to highlight that the determinants vary from one country to another and the outcomes depend on the model used by the respective researcher. Also, little research has been done on tax morale and its determinants in developing countries, South Africa and Zimbabwe included. The next chapter will look at the research methodology employed to identify and analyse the factors that influence tax morale.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 Introduction

The study seeks to investigate the determinants of tax morale in South Africa and Zimbabwe. This chapter outlines the methods and procedures employed to identify and analyse the factors that influence tax morale. The model of estimation is discussed as well as the justification of the model. Diagnostic tests carried out in the study are discussed before the description of data collection procedures.

5.2 Model selection and variables selection

The selection of variables for the present investigation was determined primarily by the level of support they had received in the literature. The nature of the dependent variable helps to determine the model to be adopted by the study. The study dependant variable, tax morale, is qualitative and has more than two categories, hence calling for an ordered logistic model. Ordered logistic regression is employed when dependent variables involve three or more categories (Ari, 2016). In this model, the effects of the independent variables are allowed to differ for each outcome (Koprulu, 2011). Therefore, the ordered logit model having the response variable with three categories is chosen to be the most appropriate regression model to explain the relationship between the response variable and explanatory variables.

As highlighted above, the dependent variable (tax morale) is an ordered categorical variable, thus an ordered logit model is hereby applied in this study. The model was first coined by Peter McCullagh (1980) as an extension of a logit model. Furthermore, the logit model arises if a specified function is the cumulative density function of the logistic distribution. Grilli and Rampichini (2015:01) posited that the ordered logit model is a member of the wider class of cumulative ordinal models, where the logit function is replaced by a general link function, logit, probit and complementary log-odd being the most common ones.

More so, the dependent variable for an ordered logit model takes a number of finite and discrete values that contain ordinal information. One of the important features of the model is that it is based on the cumulative probabilities of the response variable.

Particularly, the logit of each cumulative probability is assumed to be a linear function of the covariates with regression coefficients constant across response categories.

The advancement of the ordered logit model has one strong assumption of the constant log odds ratio. McCullagh (1980) explained that the assumption of the constant log odds ratio is called the proportional odds assumption, which is the reason why ordered logit/probit models are also known as proportional odds models.

5.3 Justification of the model

Torgler (2004:240) acknowledged that analysing tax morale as a dependent variable is new in tax compliance research. The research has an option of using a Linear Probability Model (LPM) or ordered logit model or ordered probit. However, according to Gujarati (2004:593), the LPM model has the following disadvantages:

- ❖ Non-normality of u_i ,
- ❖ heteroscedasticity of u_i ,
- ❖ possibility of \hat{Y}_i lying outside the 0–1 range, and
- ❖ the generally lower R^2 values.

The author further noted that LPM is less attractive as it assumes that $P_i = E(Y = 1 | X)$ increases linearly with X , that is, the marginal effect of X remains constant throughout. Gujarati (2004:625) highlighted that logit and probit models give almost similar results though a logit model assumes error terms to follow a logistic distribution whereas the probit model assumes normality in the distribution of error terms.

Most of the research on tax morale uses ordered probit models. The estimated regression coefficients from an ordered logit model are about 1.81 times the values from an ordered probit model. However, logit models are simpler than probit models. The equation of the logistic Cumulative Distribution Function (CDF) for logit models is simple, while the normal CDF for probit models involves an unevaluated integral (Gujarati, 2004:614). The difference is trivial for dichotomous data, but for polytomous data, where multivariate logistic is required or normal distribution, the disadvantage of the probit model is more severe. In this research, tax morale data is polytomous in nature, thus it is more desirable to use a logit model.

Furthermore, a logit model is more desirable than a probit model because it is easy to interpret. The inverse linearizing transformation for the logit model is directly interpretable as log-odds, while the inverse transformation for probit models does not have a direct interpretation. Based on the strengths of the logit ordered model over other methods of analysis, the study used an ordered logit model for the analysis of tax morale determinants in South Africa and Zimbabwe. Whereas the survey question used will have ranked answers.

5.3.1 Assumptions of logistic regression

The foundation of an ordered logit model is logistic regression. Logistic regression is different from linear regression in that it does not make several of the key assumptions that linear and general linear models hold so close. Furthermore, logistic regression does not require a linear relationship between the dependent and independent variables. Moreover, the error terms (residuals) for logistic regression do not need to be normally distributed and homoscedasticity is not required. The dependent variable in logistic regression is not measured on an interval or ratio scale. The following are the assumptions of logistic regression, some of which also apply to linear regression:

5.3.2 Assumption of observation independence

Logistic regression entails the observations to be independent of each other. That is to say, and the observations should not come from repeated dimensions or coordinated data.

5.3.3 Assumption of linearity of independent variables and log-odds

Linearity of independent variables and log odds is one of the fundamentals of logistic regression. More so, logistic regression entails that the independent variables are linearly related to the log odds.

5.3.4 Assumption of the absence of multicollinearity

The independent variables for a logistic regression should not be too highly correlated with each other, that is, require little or no multicollinearity among the independent variables.

5.3.5 Assumption of a large sample size

Logistic regression classically calls for a large sample size. A general rule is that a minimum of 10 cases with the least frequent outcome for each independent variable in the model is needed.

5.3.6 Assumption of appropriate outcome structure

An appropriate structure of the outcome variable is one of the main assumptions of logistic regression. In other words, binary logistic regression requires the dependent variable to be binary and ordinal logistic regression requires the dependent variable to be ordinal.

5.4 Derivation of the ordered logit model

Let Y_i be considered to be an ordinal response variable with C categories for the i -th subject, combined with a vector of covariates X_i . Thus, a regression model will create a relationship between the covariates and the set of probabilities of the categories $p_{ci} = \Pr(Y_i = y_c | X_i), c = 1, \dots, C$. Grilli and Rampichini (2015:01) noted that regression models for ordinal responses refer to appropriate one-to-one transformations, for example, the cumulative probabilities $q_{ci} = \Pr(Y_i \leq y_c | X_i), c = 1, \dots, C$. Furthermore, the authors emphasized that the model specifies only $C-1$ cumulative probabilities.

Therefore, an ordered logit model for an ordinal response Y_i with C categories is defined by a set of $C-1$ equations where the cumulative probabilities $g_{ci} = \Pr(Y_i \leq y_c | X_i)$ are related to a linear predictor $\boldsymbol{\beta}'X_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots$ through the logit function:

$$\text{logit}(g_{ci}) = \log(g_{ci} / (1 - g_{ci})) = \alpha_c - \boldsymbol{\beta}'X_i, c = 1, 2, \dots, C - 1. \quad (1)$$

The parameters α_c , called thresholds or cut-points, are in increasing order ($\alpha_1 < \alpha_2 < \dots < \alpha_{C-1}$). More so, the effects of the covariates are constant across response categories, a characteristic feature called the parallel regression assumption. The assumption is confirmed as plotting $\text{logit}(g_{ci})$ against covariate results in $C-1$ parallel lines. Grilli and Rampichini (2015:01) highlighted that the ordered logit model is also known as the proportional odds model because the parallel regression assumption

implies the proportionality of the odds of not exceeding the c -th category $odds_{ci} = g_{ci}/(1 - g_{ci})$:

The cumulative probability for category c , derived from equation (1), is

$$g_{ci} = \exp(\alpha_c - \beta'X_i) / (1 + \exp(\alpha_c - \beta'X_i)) = 1 / (1 + \exp(-\alpha_c + \beta'X_i)) \quad (2)$$

A cumulative model for an ordinal response, such as the ordered logit model (1), is equivalent to a system composed of a set of thresholds α_c^* and a linear regression model for an underlying continuous response:

$$Y_i^* = (\beta^*)'X_i + e_i^* \quad (3)$$

where e_i^* is an error with mean zero and standard deviation σ_{e^*} . The relationship $\Pr(Y_i \leq y_c) = \Pr(Y_i^* \leq \alpha_c^*)$ implies that the linear model (3) is equivalent to the cumulative model $l(g_{ci}) = \alpha_c - \beta'X_i$, where the link function $l(\cdot)$ is the inverse of the distribution function of the error e_i^* . The relationship between a parameter of the cumulative model θ and the corresponding parameter of the underlying model θ^* is $\theta = \theta^* \sigma_l / \sigma_{e^*}$, where σ_l is the standard deviation of the distribution associated to the link function, for example, $\sigma_l = \pi / \sqrt{3} \cong 1.81$ for logit. The depiction through an underlying linear model also makes it clear that the estimated slopes from a cumulative model are approximately invariant to the merging of the categories.

5.4.1 Marginal effects

Making decisions about using variables' values in estimation is very important because the marginal effect depends on the values of all explanatory variables. Since total probability always equals 1, the total marginal effect for each variable is zero. But it should be noted that the marginal effect is not direct on binary variables, and it can be obtained by calculating the difference between the two possible probabilities. The marginal effects of each variable on the different alternatives sum up to zero. Marginal effects interpretation: each unit increase in the independent variable increases/decreases the probability of selecting alternative j by the marginal effect expressed as a percent.

Calculating the marginal effects is therefore a method to find the quantitative effect that the independent variable has on tax morale. The marginal effect indicates the change in the share of taxpayers (or the probability of) belonging to a specific tax

morale level (i.e. 0, 1, 2, 3) when the independent variable increases by exactly one unit. The study will present only the marginal effects for the highest value from the ordered logit estimation.

The calculation of the marginal effect of one unit change in X_k predictor on the probability of 'j' category is as follows:

$$\begin{aligned} \frac{\partial P(y_i = j|X_i)}{\partial x_k} &= \left[\frac{\partial \gamma(\mu_j - \beta' X_i)}{\partial x_k} - \frac{\partial \gamma(\mu_{j-1} - \beta' X_i)}{\partial x_k} \right] \\ &= [\lambda(\mu_{j-i} - \beta' X_i) - \lambda(\mu_j - \beta' X_i)] \beta_k \end{aligned}$$

In which $\mu_j = +\infty, \mu_0 = -\infty, \lambda_j(X_i) = \frac{\partial_{ij}(X_i)}{\partial X_k}$

5.5 The estimation of parameters

The parameters will be estimated using the maximum likelihood estimation (MLE) method, which maximises the probability of categorisation. The procedure of estimating MLE does not require an assumption of normality or homoscedasticity of errors. A maximum likelihood estimation is a statistical tool used for several analysis methods, to estimate the model parameters given a set of observations (Harrell 2015). It can be applied assuming that the explanatory model variables are independent of the unobserved components of the utility (Train 2009)

Maximum likelihood estimators (MLEs) are most attractive because of their large sample or asymptotic properties (Greene 2002: 472).

$$L(y|\beta; \mu_1, \mu_2, \dots, \mu_{j-1}) = \prod_{i=1}^n \prod_{j=0}^J [\gamma(\mu_j - \beta' X_i) - \gamma(\mu_{j-1} - \beta' X_i)]^{Z_{ij}}$$

Where ' Z_{ij} ' is a binary variable, it is equal 1 when the observed group for person ' i ' is ' j ', and if they are not equal, it equals 0. The Newton-Raphons algorithm is used in the maximising process (Greene 2002:472).

5.6 Empirical model

The empirical model is specified as follows:

$$\text{Tax morale} = F(\text{Age}, \text{gender}, \text{edu}, \text{ms}, \text{es}, \text{reli}, \text{inc}, \text{hu}, \text{corr}, \text{tp}, \text{happ}, \text{SD}, \text{Prid}, \text{aw})$$

or equivalently

$$\begin{aligned} P(\text{TMorale} = 1/X) \\ = \beta_0 + \beta_2 \text{age} + \beta_3 \text{gender} + \beta_4 \text{edu} + \beta_5 \text{ms} + \beta_6 \text{inc} + \beta_7 \text{reli} + \beta_8 \text{corr} \\ + \beta_9 \text{happ} + \beta_{10} \text{hu} + \beta_{11} \text{es} + \beta_{12} \text{SD} + \beta_{13} \text{Prid} + \beta_{14} \text{aw} + \beta_{15} \text{TP} + \mu_i \end{aligned}$$

Where $P(\text{Tax Morale} = 1/X)$ is the probability that an individual is willing to pay tax given the vector of observable demographic, economic and institutional characteristics:

β_0 is a constant

age is age of the respondent;

gender is sex of the respondent;

educ is education of the respondent;

ms is marital status;

es is employment status of the respondent;

inc is income of respondent;

reli is religion of respondent;

hu is level of hunger of the respondent;

corr is corruption perception;

TP is trust in parliament

SD is the level of satisfaction with democracy

Prid is the level of the respondent's pride

aw is the level of awareness

$Happ$ is the level of happiness

μ_i is an error term.

5.6 Diagnostic Tests

To ensure reliable results for policy, the study will perform statistical tests on the data collected.

5.6.1 Multicollinearity test

Multicollinearity ensues when two or more independent variables in the model are approximately determined by a linear combination of other independent variables in the model. To check linear dependence between explanatory variables, a correlation test will be carried out. A correlation matrix will be computed. If explanatory variables are correlated, then there is a problem of multicollinearity and this may result in biased results. To solve this problem, one of the variables should be dropped.

5.6.2 Specification test

The Ramsey Regression Equation Specification Error Test (RESET) for misspecification will be carried out. The test detects omitted variables and the incorrect functional form of the model. The mechanics of the test are that, if non-linear combinations of the explanatory variables have any power in explaining the dependent variable, then the problem of misspecification exists. If the model can be significantly improved by artificially including powers of the predictions of the model, then the original model must have been inadequate.

5.6.3 Log-likelihood ratio test

The log-likelihood ratio test (LRT) is a statistical test of the goodness of fit between two models. It is used in the Likelihood Ratio Chi-Square test of whether all predictors' regression coefficients in the model are simultaneously zero.

5.6.4 LR $\chi^2(3)$

This is the Likelihood Ratio (LR) Chi-Square test which assumes that at least one of the predictors' regression coefficients is not equal to zero in the model. The number in the parenthesis indicates the degrees of freedom of the Chi-Square distribution used

to test the LR Chi-Square statistic and is defined by the number of predictors in the model.

Likelihood ratio tests (LRTs) have been used to compare two nested models. The form of the test is suggested by its name,

$$LRT = -2 \log_e \left(\frac{\mathcal{L}_s(\hat{\theta})}{\mathcal{L}_g(\hat{\theta})} \right),$$

the ratio of two likelihood functions; the simpler model (s) has fewer parameters than the general (g) model. Asymmetrically, the test statistic is distributed as a Chi-Squared random variable, with degrees of freedom equal to the difference in the number of parameters between the two models.

Likelihood ratio tests compare two models provided that the simpler model is a special case of the more complex model (i.e., “nested”). LRTs can be presented as a difference in the log-likelihoods (recall that $\log A/B = \log A - \log B$) and this is often handy as they can be expressed in terms of deviance. Then,

$$\begin{aligned} LRT &= -2(\log_e(\mathcal{L}_s) - \log_e(\mathcal{L}_g)) \\ &= -2(\log_e(\mathcal{L}_s) - 2 \log_e(\mathcal{L}_g)) \\ &= \textit{deviance}_s - \textit{deviance}_g. \end{aligned}$$

Therefore, the likelihood ratio test can be calculated as a difference in the nonconformity for the two models. This is convenient as deviance is an estimation of interest for different aspects.

5.6.5 Prob> Chi square

This is the probability of getting a LR test statistic as extreme as, or more so than that observed under the null hypothesis. The null hypothesis is that all of the regression coefficients in the model are equal to zero.

5.6.6 Pseudo R-squared

This is McFadden's pseudo-R-squared. This value lies between 0 and 1. The Pseudo R-square is used to measure the goodness of fit of the model. The Goodness of fit of the fitted models is assessed by using the Pseudo-R² criterion. The selection of variables is based when the 95% confidence level or variables with a p-value of less

than 0.05 are considered significant in the model selection procedure. McFadden's R^2 is another version, based on the log-likelihood kernels for the intercept-only model and the full estimated model.

5.6.7 Z and $P > |z|$

These are the test statistics and p-value, respectively, for the null hypothesis that an individual predictor's regression coefficient is zero given that the rest of the predictors are in the model.

5.7 Validity

The validity indicates the extent to which a measuring device is able to measure what will be measured. A research instrument is said to be valid if it is able to measure what you need and can properly reveal the data of variables to be studied. Validity will be analysed with both convergent validity and discriminant validity.

5.8 Discussion of variables

The idealistic inclusion of the variables specified in the model is anchored on strong theoretical and empirical justification.

5.8.1 The dependent variable – tax morale

Tax morale in this study, as in similar previous studies, is a dependent variable. It is a measure of the intrinsic motivation of an individual to pay tax. The author used the 2010-2012 and 2017-2020 World Values Survey (WVS) data to measure individual impetus to pay tax. The WVS dataset commonly used a 10-point Likert Scale approach to generate data on tax morale from the respondents. This approach of having a series of responses is credited based on promoting more accurate truthful responses compared to the approach of pinpointing one's level of underreporting that encourages the respondent to lie (McAuliffe, 2017). Tax morale in this study is measured by assessing whether, given a chance, one always justifies cheating on taxes, or, given a chance, never justifies cheating on taxes.

For the purposes of this study, tax morale is captured by compressing the 10-point Likert Scale into a 4-point scale. The 4-point scale developed in this study took the value 3 for never justifiable, denoting high tax morale, and 0 for always justifiable, meaning low tax morale. Values 1 and 2 represent mid-low and mid-high tax morale respectively.

5.8.2 The independent variables

The following is the discussion of the independent variables of the study's ordered logit model:

5.8.2.1 Marital status

This variable intends to establish if there is a relationship between marital status and tax morale. Tittle (1980) claims that marital status influences legal or illegal behaviour depending on the extent to which individuals are constrained by their social networks. Further literature suggests that married people have more social stakes in the society in which they live and are more committed than singles to their social and political community. As a result, couples are likely to have higher tax morale than singles. Separated and divorced people, as put forward by Torgler et al. (2007:31), are more pessimistic in life and are more likely to have low tax morale.

This study classified marital status into six categories coded as follows 1 stands for married people; 2 for living together as married; 3 for divorced people; 4 for separated people; 5 for widows; and 6 for singles. Due to differences in economic situations in South Africa and Zimbabwe, singles are expected to exhibit higher tax morale in Zimbabwe than other categories. It is the view of this study that it is difficult if not impossible for a rational person to consider paying tax before meeting family responsibilities. Given the economic condition in Zimbabwe, this study supposes that people with heavy family responsibilities, couples included, are likely to have low tax morale. In South Africa, however, married people are expected to have high tax morale.

5.8.2.2 Religion

This variable accounts for the differences in values, ethics and beliefs on tax morale. Religion and socio-cultural beliefs play a major role in tax payment or tax evasion by discouraging or encouraging compliance with tax laws. It is assumed in this study that religious individuals will have higher tax morale compared to non-religious people. The variable measures the effect and importance of God, biblical teachings, Christian values, ethics and beliefs in upholding national obligations. This variable is captured as a categorical variable coded as follows: 1 if the respondent is a religious person; 2 if not a religious person; and 3 if an atheist. Similarly to other previous studies (Torgler 2003, 2005, 2006; Alm and Torgler, 2006; Torgler and Schneider, 2007, Torgler and

Martinez-Vazquez, 2009), this study expects that people who report being religious have higher tax morale than non-religious and atheist people.

5.8.2.3 Gender

The variable seeks to establish the relationship between gender and tax morale. There is overwhelming evidence that women have higher tax morale than men. According to Ross and McGee (2012), women are more opposed to tax evasion. Spicer and Becker (1980), Tittle (1980) and the social-psychological literature validating Ross and McGee argued that women are more compliant with tax than men. Frank (1996) further substantiated the claim submitting that women pay more attention to ethical considerations, even when choosing an employer. Daude et al. 2013; Kogler et al. 2007; Leonardo and Martinez-Vazquez, 2016; Torgler, 2003, 2004, 2006) also acknowledged that women have higher tax morale than men. This study, too, expects that women have higher tax morale than men. The study used a dummy variable to capture gender as follows, 1 if the respondent is a male and 2 otherwise.

5.8.2.4 Income level

Literature suggests that tax morale also depends on one's level of income. It is assumed that upper-income class people are more tax compliant. Because of their economic status, they always want, by any means, to avoid shaming and blackmailing their branded names. Further, wealthier individuals could have access to tax planning and therefore are able to minimize their tax burden. As a result, they are argued to have high tax morale compared to their lower-income counterparts. However, new literature advocates that the influence of income class on tax morale depends on preferences and the progression of income tax schedules. Thus, tax morale may increase or decrease with the income class.

This study, like other previous studies, classified income level into 3 categories as follows: 1 representing the lower-income class, 2 indicating the middle-income class and 3 for the upper-income class. The study expects a positive or negative effect of income level on tax morale.

5.8.2.5 Employment

There is a consensus that the occupation of an individual affects the level of tax morale. It is assumed that formally employed people with known permanent incomes have access to tax planning and therefore are able to minimize their tax burden, unlike

the self-employed people. Torgler and Murphy (2004:313) argued that self-employed taxpayers have more opportunities to evade taxes than formally employed individuals whose employers deduct tax on their behalf. Lewis (1982) added that taxes are more visible for self-employed people due to the high compliance costs. While compulsory deduction of tax on behalf of employees does not reflect the willingness to pay of the employee, this study argues that employed people are better motivated to pay the tax due to lower compliance costs.

Employment in this study is classified into 4 categories, namely: full-time employment, part-time, informally employed and unemployed. The four classes were coded as follows: 1 stands for full-time employed people, 2 for part-time, 3 for informally employed people and 4 for unemployed people. While there are diverging views on the effect of employment on tax morale, this study, in line with the findings of Schmolders (1960) in Europe and Torgler and Shaltegger (2006:409), expects full-time employed people to have high tax morale across all the models.

5.8.2.6 Age

There exists conflicting literature on the effects of age on tax morale. While other studies endorsed a positive relationship between age and tax morale (Torgler, 2007:12; Bilgin, 2014:67), others concluded that younger people are more ethical, perhaps showing more idealistic beliefs in ethical responsibilities (McAuliffe, 2017). Age in this study is captured as a categorical variable classified into 3 groups, namely: the dependent age group (1-25 years), the active or working age (26-59) and the old age, usually retirees (60+ years). The author assumes that university students, for instance, complete their first degree at an average age of 25, they then are employed between 26 and 59 years and retire at 60. As a result, age is captured as follows: 16-25 years is coded 1, 26-59 years is coded as 2 and 60+ years as 3.

This study submits that as individuals grow older in stable economies with vibrant pension schemes and other social security systems as in South Africa, they become more tax compliant and develop greater respect for authority/legislation/political responsibility. However, in unstable economies as in Zimbabwe, where pension schemes and social security systems are poor and ineffective, old age may not exhibit high tax morale. The study, thus, expects old age and middle age to have higher tax morale for South Africa and Zimbabwe respectively.

5.8.2.7 Educational level

Educational level, according to Oberholzer and Stack (2009), as quoted in Pretorius (2015), is a very powerful factor that influences attitudes towards tax compliance. According to McGee (2012), educational level is positively and negatively related to tax morale and tax evasion respectively. McGee reasoned that educated people, unlike their uneducated counterparts, are likely to respect and uphold national rules, laws and regulations. This study concurs with the research findings of McGee (2012) and Pretorius (2015), that a higher level of education reduces taxpayer's chances to evade tax. Tax literacy is crucial in making tax decisions, especially tax planning. Educated people are likely to have knowledge of the benefits and use of tax by the authorities. Given that the taxes are not abused by responsible authorities, highly educated people are likely to pay tax.

This study classified and captured educational levels as follows: respondents without primary education level or with below primary education level were coded 1; those with basic primary level but without secondary level were coded 2; respondents with secondary level but below university level were coded 3 and respondents at university level and above were coded 4. The study expects that highly educated respondents exhibit higher morale to tax payment.

5.8.2.8 Corruption

There exists a growing literature on the effect of corruption on tax morale. Torgler (2006) argues that countries with high levels of corruption lack the social norm of paying taxes to the government. Thus, according to Torgler, higher levels of corruption increase the chances of tax evasion. Besley and Persson (2013) also confirmed that corruption is an obstacle to the emergence of tax compliance norms in developing countries. Irrespective of classes of corruption, several studies, Makumbe (2011) and Transparency International-Zimbabwe (2012) included, concur that corrupt people are unlikely to pay tax.

This study argues that in an inefficient state where corruption is rampant, the citizens will have little trust in authority, which would be reciprocated by a low incentive to cooperate and pay tax. However, this study, unlike previous studies, interrogated corruption, not from the receiver's perspective, that is the tax authority, but from the taxpayer's viewpoint. Although corruption can be facilitated by the tax authorities, often

it is initiated by the taxpayer. It is the view of this study that corrupt people are unlikely to pay tax. Whilst tax authorities sometimes facilitate corruption, taxpayers initiate it and evade tax.

Thus, in this study, corruption is coded as follows: 1 if the respondent is not corrupt (do not justify payment of bribe), 2 if the respondent somehow justifies corruption and 3 if the respondent is corrupt and always justifies the payment of bribes. The study expects that corrupt people have low morale to pay tax.

5.8.2.9 Hunger

Generally, people have an inherent behaviour to fend for themselves or their families before they think of someone else. Further, whenever people are employed they ought to satisfy personal desires before thinking of meeting national obligations such as tax payment. It is the view of this study that a hungry person would seek to meet personal needs before thinking of paying tax. Thus, tax payment is a secondary commitment only met after satisfying higher order or primary obligations. This study proposes that people who have never gone without enough food to eat have high morale to pay tax. The study expects that a rational person, given insufficient resources, would evade tax. Consequently, people who often go without enough food to eat are likely to evade tax.

Hunger (which is relatively new to available studies), in this study, is measured using the frequency of getting enough food to eat. The variable is therefore classified as follows: 1 stand for respondents who often go without enough food to eat (extremely hungry); 2 for respondents who sometimes go without enough food to eat; 3 for respondents who rarely go without enough food to eat; and 4 for respondents who have never gone without enough food to eat. The study supposes that extremely hungry people have low tax morale.

5.8.2.10 Democracy

Feld and Frey (2006) emphasized the role of politics and perceptions of democracy on tax morale. The duo submitted that tax morale is enhanced if political processes are perceived as fair and legitimate. Evidence also supports that citizens of countries that are democratically governed have greater morale to pay tax. Torgler and Shaltegger (2006:413) confirmed that a higher pro-democratic attitude leads to higher tax morale in Latin America and transition countries as well. The duo reasoned that

the inclusion and broad participation of the public (public participation) in tax and expenditure policies in democratic countries affect the individual's willingness to pay tax.

Often, taxpayers construe being asked about their policy preferences as a signal that government considers them as partners in governance, and will in turn reciprocate that treatment by being willing to comply with their tax obligations. Consistent with previous studies, this study expects tax morale to increase with the level of democracy. The variable was classified and captured as follows: 1 stand for not at all democratic; 2 for mid-low democracy; 3 for mid-democracy; 4 for mid-high democracy; and 5 for complete democracy.

5.8.2.11 Pride

The role of pride in tax matters has been widely discussed in the literature. Interesting among the different schools of thought is that eventually, they concur that national pride boosts the individual's morale to pay tax. According to Torgler (2004:243); Torgler and Shaltegger (2006:412), pride stimulates cooperative behaviour. Torgler (2003) and Tyler (2000) put forward that pride warrants love and support for the country. Previous studies, Leonardo and Martinez Vazquez (2016) and Torgler (2004) included, confirmed the positive relationship between national pride and tax morale.

This study shares the same view with Leonardo and Martinez Vazquez and Torgler. The study argues that people who are proud of their nationalities are often patriotic and are likely to pay tax. Pride in this study is captured as follows: 1 for respondents who are very proud of their nationalities; 2 for quite proud; 3 for not very proud; 4 for not at all proud; and 5 for respondents who are not nationals of a country.

5.8.2.12 Awareness

The role of tax information on tax planning, compliance and evasion cannot be overlooked. For citizens to comply with tax, adequate and timely information on tax ranges, schedules and non-compliance costs, among others, is critical. Tax information, apart from its prospects of encouraging tax compliance, can also motivate tax evasion. Often, should people decide to evade tax, they utilize the information that they have. Adequate tax information, thus, may stimulate or deter the payment of taxes.

This study measures tax awareness using the frequency of listening to the radio and captures it as follows: 1 for respondents who listen and get radio information daily; 2 for those who get radio information weekly; 3 monthly; 4 less than monthly; and 5 never get radio information. The study hypothesizes that people who frequently get tax awareness information, be it tax changes, tax policies and government tax expenditures in and around their country, are likely to have more or less incentives to pay tax. This study, therefore, expects a positive or negative effect of tax awareness on tax morale.

5.8.2.13 Happiness

There is a consensus that human contentment has an effect on tax morale. For whatsoever reason, angry people are dispirited to cooperate. Given chances, frustrated people will evade tax. This study proposes a positive relationship between the level of happiness and tax morale. The study argues that happy people are often in high spirits (cooperative) and are unlikely to evade tax. Happiness, in this study, is classified as follows: 1 stands for respondents who are very happy; 2 for respondents who are rather happy; 3 for respondents who are not very happy; and 4 for respondents who are not happy at all.

5.8.2.14 Trust in Parliament

The role of public trust in government institutions, especially the three arms of the government, namely the legislature, the judiciary and the executive, have been emphasized in McAuliff (2017) as one of the crucial determinants of tax morale. Frequently, citizens feel cheated if taxes are not spent efficiently (Cummings et al. 2009). Accordingly, citizen attitudes and trust towards the government in general and specific institutions matter. Citizens are reluctant to contribute to a tax that they believe is being spent poorly. As such, literature suggests that trust in public institutions, mostly the legislature, contributes positively to tax compliance.

For the avoidance of doubt, distrust in Parliament gives the suspicion to the public regarding the legitimacy of the tax laws and regulations they make. Trust in Parliament in this study is captured as follows: 1 if respondents have a great deal of trust in the Parliament; 2 if respondents have quite a lot of trust in the Parliament; 3 if respondents do not have very much trust in Parliament; and 4 if respondents do not at all have trust

in Parliament. Similar to other previous studies, this study predicts trust in Parliament to contribute positively to tax morale.

5.9 Data sources

The main source of data for the study is Wave 6 (2010-2014) and Wave 7 (2017-2020) of the World Values Survey (WVS). Wave 6 was for both South Africa and Zimbabwe while Wave 7 was for Zimbabwe only. The WVS investigates socio-cultural and political change and collects comparative data on values and belief systems. It is based on representative national samples of at least 1000 individuals. The World Values Survey (WVS) is conducted worldwide and covers quite a large number of countries. For Zimbabwe, Wave 6 and Wave 7 had a sample size of 1500 and 1200 respectively. The Wave 6 survey for South Africa had 3531 participants. The survey interviewed participants who were above 18 years regardless of gender. The participants were also drawn from all the provinces in South Africa and Zimbabwe as well as from both rural and urban areas.

Bilgin and Bilgin (2016:169) highlighted that all research studies on tax morale and its determinants used international databases such as the International Social Survey Programme (ISSP), World Values Survey (WVS), European Values Survey (EVS) and African Opinion Survey (Afrobarometer). The following are the advantages and disadvantages of using WVS:

5.9.1 Advantages of using WVS

- ❖ As taxation issues are sensitive, the surveys are advantageous in that they are structured in such a way that the respondent does not suspect that he/she is being asked about tax evasion.
- ❖ This creates a hypothetical situation in which taxpayers have an 'easy opportunity' to evade and it does not ask participants about their actual tax-compliance behaviour. There is also evidence indicating that the replies to the corresponding question in the WVS are indeed linked with actual levels of tax evasion (Halla, 2012).
- ❖ The surveys overcome the language barrier as they are tailor-made in various languages.

- ❖ The surveys cover all the provinces, thus the results will give a fair assessment of tax morale in South Africa and Zimbabwe.
- ❖ The data allows analysis of tax morale and its determinants in different periods.
- ❖ A further advantage of using WVS data sets is that they cover a wide variety of questions on different topics, which helps reduce framing effects that may be present in surveys based only on tax compliance questions.
- ❖ Lastly, WVS had the edge over other surveys' data because it captured the issue of hunger, which is an important factor of tax morale that was introduced in this study.

5.9.2 Disadvantages of using WVS

- ❖ People interviewed in the surveys might overstate their willingness to pay taxes, as no sanctions are involved.
- ❖ Former tax evaders may compensate for their tax dodging by reporting high tax morale.

5.10 Reliability

Reliability estimates of the survey questions with respect to measuring tax morale and determining will be conducted. Reliability refers to the exactness of a measurement procedure. The data from WVS is reliable since it has been used by many researchers in the field of tax morale including tax morale gurus like Benno Torgler, Lars P. Feld and Bruno S. Frey to mention a few. Reliability is going to be measured in terms of Cronbach's alpha (α). The scale items will be regarded as reliable as Cronbach's alpha (α) values are greater than 0.70.

5.11 Conclusion

The chapter presented the research methodology which will be used in the study. The chapter also provided a discussion of the sources of variables to be used in the study based on the literature earlier reviewed. Thus the preambles from literature paved the way for the development of hypotheses that will be tested in the study. More so, the chapter also provided the sources of data which will be used in determining the factors affecting tax morale and or tax evasion. In addition, the chapter provided a discussion of the models which will be used in the analysis of data and the shortcomings inherent in each of the models. In the chapter, there was also coverage of the validity and reliability of the scale items from the questionnaire.

CHAPTER SIX

ESTIMATION, PRESENTATION AND INTERPRETATION OF RESULTS

6.1 Introduction

This chapter applies the research methodology elaborated in Chapter 5. Estimation, presentation and interpretation of the results is the object of this chapter. Descriptive analysis meant to enhance understanding of the data characteristics will be presented first. The chapter concludes by estimating, presenting and interpreting the results of the ordered logit model.

6.2 Descriptive analysis

This section presents the descriptive statistics for Zimbabwe (during the dollarization and post-dollarization periods) and South Africa. The table summarizes the lower (q-25), median (q-50) and upper (q-75) quartile statistics for the sample data.

Table 6. 1: Descriptive Statistics for Zimbabwe and South Africa

Variable	Zimbabwe During Dollarization Period			Zimbabwe Post-Dollarization Period			South Africa		
	25 quartiles	Median	75 Quartiles	25 quartiles	Median	75 Quartiles	25 quartiles	Median	75 Quartiles
Tax Morale	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Marital Status	1.00	1.00	6.00	1.00	1.00	5.00	1.00	3.00	6.00
Democracy	2.00	3.00	4.00	1.00	2.00	3.00	3.00	4.00	4.00
Religion	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Pride	1.00	1.00	1.00	1.00	1.00	2.00	1.00	1.00	2.00
Employment	2.00	4.00	4.00	3.00	4.00	4.00	1.00	4.00	4.00
Income	2.00	2.00	3.00	2.00	3.00	3.00	2.00	3.00	3.00
Gender	1.00	2.00	2.00	1.00	2.00	2.00	1.00	1.00	2.00
Age	24.00	30.00	41.00	25.00	35.00	50.00	27.00	35.00	48.00
Corruption	1.00	1.00	3.00	8.00	10.00	10.00	1.00	2.00	6.00
Happiness	1.00	2.00	2.00	2.00	2.00	3.00	1.00	2.00	2.00
Awareness	1.00	1.00	3.00	1.00	2.00	4.00	1.00	1.00	2.00
Education	1.00	2.00	2.00	1.00	1.00	2.00	1.00	2.00	2.00
Trust in Gvt	2.00	3.00	3.00	2.00	2.00	3.00	2.00	3.00	3.00
Hunger	2.00	3.00	4.00	2.00	3.00	4.00	3.00	4.00	4.00

6.2.1 Zimbabwe: Dollarization (2010-2014) vs post-dollarization period (2017-2020)

The descriptive statistics indicate close similarities in respondents' marital status, religion, gender, education and hunger. However, respondents indicate diverging views regarding their perception of democracy, employment, income, corruption, happiness, awareness and trust of government. Also, the age of the sample respondents varied during the two periods with the median age vary from 5 years to 30 years in the post dollarization.

6.2.2 Zimbabwe and South Africa

Zimbabwe and South African respondents portray identical characteristics on religion, pride and income. On other remaining variables, the respondents from the two countries depict huge variations in their perception and views regarding their respective countries. This study suggests that these differences in response characterise, perception and views on their countries, may result in differences in the level of tax morale between the countries.

6.3 Multicollinearity Test Results

Correlation analysis has been conducted in 3 parts using 3 datasets. First, it was conducted using Zimbabwean data during the dollarization period that is, using 2013 survey data. Second, it was conducted using the post-dollarization 2020 survey data for Zimbabwe again, and lastly, it was carried out using the 2013 South African survey data. The correlation matrices are done to find out whether there is a high correlation between the independent variables to pose the problem of multicollinearity.

6.3.1 Zimbabwe: Dollarization period

The correlation between tax morale and its covariates during the dollarization period indicates that marital status, democracy, religion, pride, income, gender, age, hunger and trust in government are positively correlated with tax morale, while employment, corruption, happiness, awareness and education have a negative association with tax morale. There are no indications of high correlation among covariates, suggesting the absence of multicollinearity in the empirical model.

Table 6. 2: Correlation matrix, dollarization period – Zimbabwe

	MARI-TAL	DEMOCRACY	RELIGION	PRIDE	EMPLOY	INCOME	GENDER	AGE	CORRUPT	HAPPIN	AWARENESS	EDUCAT	TRUST	HUNGER
MARITAL	1.0000													
DEMOCR	0.0179	1.0000												
RELIGION	0.0133	-0.0417	1.0000											
PRIDE	0.0396	-0.1386	0.0317	1.0000										
EMPLOY	0.1127	-0.0303	0.0207	0.0123	1.0000									
INCOME	-0.109	-0.0313	0.0373	0.0317	0.0798	1.0000								
GENDER	0.0076	0.0338	-0.0919	-0.027	0.2314	0.0468	1.0000							
AGE	-0.254	0.0476	0.0582	0.0465	0.0284	0.1095	0.0232	1.0000						
CORRUPT	0.0597	-0.0717	-0.0164	0.0340	-0.0522	-0.0608	-0.061	-0.077	1.0000					
HAPPINE	-0.047	-0.1579	0.0180	0.1448	0.0202	0.1956	-0.015	0.1896	0.0029	1.0000				
AWAREN	0.086	-0.0761	0.0117	0.0799	0.1085	0.0445	0.1159	-0.004	-0.0419	0.0736	1.0000			
EDUCAT	0.0770	-0.0249	-0.0213	-0.013	-0.2125	-0.2191	-0.175	-0.417	0.0767	-0.1163	-0.1147	1.0000		
TR GOV	0.0310	-0.3386	0.0154	0.1455	-0.0114	0.0099	-0.073	-0.101	-0.0163	0.1032	0.1595	0.0546	1.0000	
HUNGER	0.0508	0.1481	-0.0721	-0.061	-0.1262	-0.1758	-0.012	-0.077	-0.0120	-0.1686	-0.1652	0.1674	-0.055	1.0000

Table 6. 3: Correlation matrix, post-dollarization period – Zimbabwe

	MARI TAL	DEMOCR ACY	RELIG ION	PRIDE	EMPLO Y	INCO ME	GEND ER	AGE	CORRU PT	HAPPIN	AWARE NESS	EDUC AT	TRUS T	HUN GER
MARITALST ATUS	1.0000													
DEMOCRAC Y	0.0125	1.0000												
RELIGION	0.0322	0.0219	1.0000											
PRIDE	0.0768	-0.1761	0.0565	1.0000										
EMPLOYME NT	0.1304	0.0274	-0.0312	-0.022	1.0000									
INCOME	-0.032	0.0248	-0.0429	-0.023	0.0161	1.0000								
GENDER	-0.035	0.0092	-0.0965	0.0437	0.2194	-0.0264	1.0000							
AGE	-0.254	0.0080	-0.0148	-0.080	0.0556	0.0913	-0.014	1.0000						
CORRUPTI ON	0.0116	-0.2952	-0.0041	0.1434	-0.0440	-0.0437	-0.056	0.0021	1.0000					
HAPPINESS AWARENES S	-0.112	-0.2477	-0.0499	0.1647	0.0155	0.0641	-0.008	0.1711	0.1829	1.0000				
EDUCATIO N	0.0948	-0.0083	0.0706	0.0065	-0.0190	0.0087	0.1427	0.0472	-0.0484	0.0164	1.0000			
TRUST GOV HUNGER	0.0482	-0.0952	0.0306	0.0947	-0.1711	-0.1622	-0.177	-0.213	0.1303	0.0000	-0.1036	1.0000		
	0.0609	-0.3119	0.0519	0.2464	-0.1211	-0.1218	-0.089	-0.120	0.2410	0.2438	0.0310	0.2870	1.0000	
	0.0761	0.0629	-0.0064	-0.005	-0.0970	-0.1993	-0.084	-0.160	-0.0554	-0.1991	-0.0294	0.1600	0.015	1.0000

Table 6. 4: Correlation matrix – South Africa

	MARITAL L	DEMOCR RACY	RELIGION	PRIDE	EMPL OY	INCOM E	GEND ER	AGE	CORR UPT	HAPPI N	AWAREN ESS	EDUCA T	TRUST	HUNG ER
MARITAL STATUS	1.0000													
DEMOCR ACY	0.0304	1.0000												
RELIGION	0.1159	-0.0650	1.0000											
PRIDE	-0.0082	-0.1709	0.0203	1.0000										
EMPLOY MENT	0.2040	0.0246	0.0483	0.0442	1.0000									
INCOME	0.1526	-0.0026	0.0467	-0.017	0.1690	1.0000								
GENDER	-0.0544	0.0332	-0.1624	0.0373	0.1648	0.0132	1.0000							
AGE	-0.4443	-0.0467	-0.1221	-0.007	-0.0377	-0.0873	0.0560	1.0000						
CORRUP TION	0.0359	0.1168	-0.0258	-0.053	-0.0337	-0.0957	-0.015	-0.069	1.0000					
HAPPINE SS	0.0515	-0.0667	0.0444	0.1307	0.1928	0.2617	0.0232	-0.044	-0.1008	1.0000				
AWAREN ESS	0.0899	-0.0228	0.1098	0.0998	0.0726	0.0710	0.0184	-0.074	0.0083	-0.0387	1.0000			
EDUCATI ON	-0.1132	0.0311	-0.0471	0.0035	-0.2969	-0.3382	-0.030	-0.071	0.0366	-0.1779	-0.0900	1.0000		
TRUST GOV	-0.0352	-0.3464	0.0068	0.0648	-0.0095	-0.0059	0.0139	0.0242	-0.1912	0.0511	0.0872	-0.0568	1.0000	
HUNGER	-0.1278	-0.0123	-0.0818	-0.014	-0.1501	-0.2366	-0.030	0.0767	-0.1636	-0.1834	-0.0828	0.2455	0.1603	1.0000

Tables 6.2, 6.3 and 6.4 all show that correlation coefficients between the variables are less than 0.8 implying the absence of multicollinearity in the empirical model.

6.4 Ordered Logit Regression results

Table 6.5 presents the results of the ordered logit model analysis for three periods. The first column from the left shows the variables in the empirical model, the second shows regression results for Zimbabwe in the post-dollarization period, the third shows results for Zimbabwe during the dollarization period and the fourth column shows results for South Africa. The odds ratios, which are the exponentiated coefficients of the ordered logit shall be used to explain the effect of the independent variables on the dependent variable, tax morale.

Table 6. 5 : Ordered Logit Regression results

<i>Variables</i>		<i>Code</i>	<i>Zimbabwe: Post-dollarization</i>		<i>Zimbabwe: Dollarization</i>		<i>South Africa</i>	
			<i>Coefficients (t-value)</i>	<i>Odds Ratio</i>	<i>Coefficients (t-value)</i>	<i>Odds Ratio</i>	<i>Coefficients (t-value)</i>	<i>Odds Ratio</i>
<i>Marital Status</i>	<i>Married</i>	1	.0094171 (0.02)		.4284091 (1.37)		.0282913 (0.06)	
	<i>Living together as married</i>	2	.5800356 (0.69)		.1178515 (0.24)		.2380607 (0.49)	
	<i>Divorced (Base)</i>	3	-----		-----		-----	
	<i>Separated</i>	4	-.0012551 (-0.00)		.8663057 (1.92)*	2.3781	.1551589 (0.20)	
	<i>Widow</i>	5	.0083608 (0.02)		.4275914 (1.14)		.5079204 (0.94)	
	<i>Single</i>	6	.338936 (0.70)		.7066226 (2.11)**	2.0271	.2297962 (0.50)	
<i>Democracy</i>	<i>Not at all democratic (Base)</i>	1	-----		-----		-----	
	<i>Mid-low democracy</i>	2	.110642 (0.52)		.4001373 (1.74)*	1.4920	-.3517803 (-1.17)	
	<i>Mid democracy</i>	3	.1914844 (0.92)		.1943138 (0.87)		-.3687031 (-1.47)	
	<i>Mid-high democracy</i>	4	-.0627083 (-0.21)		.4026221 (1.72)*	1.4957	-.4444814 (-1.81)*	0.6412
	<i>Completely democratic</i>	5	-.4123182	0.6621	.238582		-.5372669	0.5843

			(-1.70)*		(0.90)		(-1.78)*	
Religion	A religious person (Base)	1	-----		-----		-----	
	Not a religious person	2	-.7335665 (-1.90)*	0.4802	.0053336 (0.02)		.0792352 (0.46)	
	An atheist	3	.6162435 (0.34)		.3044273 (0.48)		-.8141056 (-1.01)	
Pride	Very Proud (Base)	1	-----		-----		-----	
	Quite Proud	2	-.1004705 (-0.48)		.3117794 (2.09)**	1.3659	.0221562 (0.14)	
	Not Very Proud	3	.0585046 (0.22)		.6611218 (2.02)**	1.9370	-.1571131 (-0.54)	
	Not at All Proud	4	-.2050597 (-0.75)		.295523 (0.35)		.8442434 (1.59)	
	Not Zimbabwean	5	.2323125 (0.14)		2.572998 (1.31)		1.612976 (1.63)	
Employment Status	Full Time Employment	1	.107675 (0.40)		.0616993 (0.33)		-.1385578 (-0.42)	
	Part Time	2	.2338453 (0.69)		-.0288444 (-0.12)		.2147279 (0.54)	
	Informal Employment (Base)	3	-----		-----		-----	
	Unemployed	4	.0498386 (0.28)		-.2014747 (-1.22)		.051405 (0.15)	
Income Level	Lower Class	1	-.2748208 (-1.24)		-.0207662 (-0.12)		-.0321773 (-0.14)	
	Middle Class (Base)	2	-----		-----		-----	
	Upper Class	3	-.2818131 (-1.65)*	0.7544	.0419559 (0.31)		.10676 (0.62)	
Gender	Male	1	-----		-----		-----	
	Female	2	.0491599 (0.30)		.0816332 (0.64)		-.1236725 (-0.87)	
Age	16-25	1	-.2498024 (-1.14)		-.1299971 (-0.85)		-.2016365 (-1.02)	
	26-59 (Base)	2	-----		-----		-----	
	60+	3	.1030589 (0.43)		.138532 (0.603)		-.5580614 (-1.93)*	0.5723
Corruption	Not Justifiable	1	-.3453783 (-1.07)		2.195754 (12.47)***	8.9868	3.530923 (18.28)***	34.1555

	<i>Somehow Justifiable</i>	2	-----		-----		-----	
	<i>Always Justifiable</i>	3	-.5053274 (-2.31)**	0.6033	-1.177363 (-2.75)***	0.3081	-2.595797 (-4.31)***	0.0746
<i>Happiness</i>	<i>Very Happy</i>	1	.0646672 (0.30)		.3763216 (2.83)***	1.4569	.2453901 (1.57)	
	<i>Rather Happy (Base)</i>	2	-----		-----		-----	
	<i>Not Very Happy</i>	3	-.1826793 (-1.01)		-.0809876 (-0.45)		.303385 (1.47)	
	<i>Not Happy at All</i>	4	.1188297 (0.51)		.7712259 (2.03)**	2.1624	.0881281 (0.22)	
<i>Awareness</i>	<i>Daily</i>	1	.118984 (0.61)		-.0779138 (-0.52)		.0672562 (0.36)	
	<i>Weekly (Base)</i>	2	-----		-----		-----	
	<i>Monthly</i>	3	.2156289 (0.68)		-.2028686 (-0.73)		.2017922 (0.62)	
	<i>Less than monthly</i>	4	.6343276 (1.72)*	1.8858	-.4065117 (-1.82)*	0.6660	.1264609 (0.35)	
	<i>Never</i>	5	-.0199096 (-0.09)		.0491861 (0.22)		-.0375302 (-0.11)	
<i>Education</i>	<i>Below Primary level</i>	1	.0098071 (0.02)		.2609935 (0.78)		.2819304 (0.71)	
	<i>Primary level</i>	2	.9135844 (2.40)**	2.4932	.2588695 (1.16)		.0679388 (0.28)	
	<i>Secondary Level</i>	3	.884962 (2.35)**	2.4229	.3959813 (2.03)**	1.4858	.2540358 (1.15)	
	<i>University level and above (Base)</i>	4	-----		-----		-----	
<i>Hunger</i>	<i>Often</i>	1	.2133399 (1.00)		-.4476147 (-1.67)*	0.6392	-.6798816 (-1.53)	
	<i>Sometimes</i>	2	.5817029 (2.74)***	1.7891	-.2346452 (-1.37)		-.21434 (-0.97)	
	<i>Rarely (Base)</i>	3	-----		-----		-----	
	<i>Never</i>	4	.454632 (2.21)**	1.5756	.0752659 (0.52)		-.0102093 (-0.05)	
<i>Trust</i>	<i>A great deal</i>	1	-.0841116 (-0.36)		.1805055 (0.90)		-.1280422 (-0.51)	
	<i>Quite a lot (Base)</i>	2	-----		-----		-----	
	<i>Not very much</i>	3	.3487155	1.4172	.0600668		.0635737	

			(1.76)*		(0.43)		(0.37)	
	None at all	4	-.1631792 (-0.75)		-.0223649 (-0.12)		-.437466 (-2.16)	0.6457
Number of observations			1215		1215		1215	
LR chi2(41)			56.39		305.46		856.29	
Prob > chi2			0.0553		0.0000		0.0000	
Pseudo R2			0.0335		0.1081		0.3160	

t-values in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

6.5 Specification Test: Linktest, a simplified version of the Ramsey Regression Equation Specification Error Test (RESET)

Table 6. 6: Linktest – South Africa

<i>taxmorale</i>	<i>Coef.</i>	<i>Std. Err.</i>	<i>z</i>	<i>P> z </i>
<i>_hat</i>	1.098868	.3559542	3.09	0.002
<i>_hatsq</i>	-.013203	.0466016	-0.28	0.777

As the prediction squared has no explanatory power, the regression model shows no evidence of misspecification.

Table 6. 7: Linktest – Zimbabwe - dollarization

<i>taxmorale</i>	<i>Coef.</i>	<i>Std. Err.</i>	<i>z</i>	<i>P> z </i>
<i>_hat</i>	1.080475	.1129599	9.57	0.000
<i>_hatsq</i>	-.0262682	.0324203	-0.81	0.418

As the prediction squared has no explanatory power, the regression model shows no evidence of misspecification.

Table 6. 8: Linktest – post-dollarization

<i>tax morale</i>	<i>Coef.</i>	<i>Std. Err.</i>	<i>z</i>	<i>P> z </i>
<i>_hat</i>	1.165055	.2125178	5.48	0.000
<i>_hatsq</i>	-.1420445	.1433924	-0.99	0.322

As the prediction squared has no explanatory power, the regression model shows no evidence of misspecification.

6.6 Interpretation and Discussion of Results

Discussion of results in this study is done in two parts. The first part compares the regression results between two economic periods, the dollarization period, characterised by currency reforms leading to economic stability and recovery, and the post-dollarization period characterised by change of leadership, currency reforms again, reforming back to the mono-currency system, and economic, currency and political instability as well as economic decline. The second part involves a comparison of regression results between South Africa and Zimbabwe under dollarization using the 2013 survey data.

6.6.1 Dollarization and post-dollarization regression results

Empirical analysis of the determinants of tax morale during and after dollarization shows that marital status explains tax morale for the dollarization period only. Firstly, the separated have 138% higher odds of being in the higher category of tax morale than the divorced at the 10% level of significance. Also, the single is 2.02 times more likely to have higher tax morale than the divorced at the 5% level. Therefore, being single or separated is associated with having higher tax morale than the divorced in dollarized Zimbabwe, all other variables held constant.

Perceptions of democracy have been found to influence tax morale in both periods. Nonetheless, the results for democracy in the post-dollarization period are quite surprising. They contradict the theoretical prediction. Whilst theory predicts that people who believe the country to be democratically governed are expected to have high tax morale, the results show the opposite. People who believe the country to be completely democratic were 44% less likely to be in the high tax morale category than those in the not democratic at all category. On the contrary, and in line with theory, people in the mid-low and mid-high democracy categories are both 1.49 times more likely to have higher tax morale than those who are not democratic at all at the 10% level, holding all other variables constant.

Religion has been confirmed to influence tax morale in the post-dollarization period at the 10% level of significance while being insignificant for dollarized Zimbabwe. Those who are not religious are 52% less likely to be in the higher tax morale category compared to

the religious. The result means that being religious increases the willingness of a person to pay taxes, *ceteris paribus* for post-dollarization Zimbabwe.

All categories of national pride are statistically insignificant to explain tax morale in the post-dollarization period. Conversely, “*quite proud* and *not very proud*”, which are categories of national pride during the dollarization period, were positive and statistically significant at a 5 % level of significance. The *quite proud* and the *not very proud* were 1.36 and 1.93 times more likely to be in the higher tax morale category than the *very proud*. The results go against the theoretical predictions which suggest that people with weak pride in their nations have low tax morale. These findings could be as a result of economic stability experienced during the dollarization period such that even people with weak pride of being Zimbabweans were willing to pay tax. Another possible explanation could be that those not proud of their country would then want to pay taxes in order to improve their country, while those who are already very proud are happy with the status quo and see no need to pay more taxes.

The results further indicate that income level is a factor that influenced tax morale in the post-dollarization period at the 10% level but insignificant for the dollarization period. Regression results show that the upper-income class citizens were 25% less likely to be in the higher tax morale category than the middle-class citizens. This means that the upper-class citizen’s higher ability to pay taxes does not translate to higher tax morale. The results are in sync with the theory which predicts an ambiguous relationship between tax morale income levels. This study argues that the results could be a reflection of the state of the economic situation in the post-dollarization period wherein every individual focussed just on securing basic needs at the expense of tax obligations.

Perceptions of corruption have been found to influence tax morale in both periods. The not justifiable category was significant for dollarized Zimbabwe only, with people in that category being 8.9 times more likely to be in the higher tax morale category compared to those who felt it is somehow justifiable. On the other hand, those who felt that corruption was always justifiable were 40%, 70% less likely to be in the higher tax morale category than those who felt it somehow justifiable for post-dollarization Zimbabwe (5% significance) and dollarized Zimbabwe (1%), respectively. Therefore justifying corruption

is associated with low tax morale in both periods while being anti-corruption justifying corruption is associated with higher tax morale for the dollarized period.

Happiness is also a factor that was found to influence tax morale during the dollarization period. The same variable is found insignificant in affecting tax morale in the post-dollarization period. The very happy and not happy at all were 46% and 116% more likely to be in the higher tax morale category than those who are rather happy at the 1% and 5% level of significance, respectively.

Further, the regression results show that awareness is a factor that determines tax morale in both the dollarization and post-dollarization periods for the less than monthly category at a 10 % level of significance. The results indicate that people who listen to the radio and get information on what is happening in and outside the country “less than monthly” are 89% more likely to be in the higher tax morale category, relative to weekly, in the post-dollarization period and reduce the same chances by 33% for the dollarization period. Suggestions are that during the dollarization period, when the economy was stable, people focused on savings and investment, given that for the past period they had been de-saving. Accordingly, people used the radio information to know what is required of them and evade taxes.

Likewise, education was statistically significant for both periods, all at the 5% level. For post dollarization, in Zimbabwe, those with primary and secondary level education were 2.49 and 2.42 times more likely to have high tax morale than those with university-level education. In the case of dollarized Zimbabwe, those who learnt up to secondary level were 1.49 times more likely to be in the higher tax morale category than those with tertiary education. The results seem to imply that tax morale is higher among the less educated than the highly educated.

Hunger has also been empirically confirmed to influence tax morale during both the dollarization and post-dollarization periods. For post dollarization Zimbabwe, being sometimes and never hungry increased the odds of having higher tax morale by 1.8 and 1.6 times compared to those who are rarely hungry, respectively. For dollarized Zimbabwe, being often hungry reduced the odds of having high tax morale by 36% per cent compared to those in the rarely hungry category.

The regression results further indicate that trust in Parliament had a statistically significant effect on the level of tax morale in the post-dollarization period, but insignificant for the dollarization period. Those in the not very much category were 41% more likely to have high tax morale than those who trust in parliament quite a lot, at the 10% level of significance. These results contradict with theory as they imply that people are more likely to pay taxes if they do not trust Parliament.

6.6.2 South Africa and Zimbabwe regression results

Empirical analysis of the determinants of tax morale for South Africa and Zimbabwe (dollarized) presented in Figure 6.4 show that marital status does not explain tax morale in South Africa. However, in Zimbabwe, the separated have 138% higher odds of being in the higher category of tax morale than the divorced at the 10% level of significance. Also, the single is 2.02 times more likely to have higher tax morale than the divorced at the 5% level. Therefore, being single or separated is associated with having higher tax morale than the divorced in dollarized Zimbabwe, all other variables held constant.

The results go against prior predictions which expect married people to have higher tax morale. These results could be a result of the fact that divorced and separated persons have fewer responsibilities than married people. The study suggests that married people are more concerned about the future of their children, and as such, they mostly focus on planned investment for them, sometimes through sending them to boarding schools and investing in businesses. They are pessimistic on whether the government when they are no longer alive, would provide social nets for their children. As such they are more willing to secure a tangible legacy for their children at the expense of tax payment.

Democracy is statistically significant to explain tax morale in both South Africa and Zimbabwe. For South Africa, those in the mid-high and completely democratic categories had 36% and 42% lower odds of being in the higher tax morale category, than those in the not democratic at all category. This is contrary to the theory which predicts high tax morale for people who perceive the country to be democratically governed. On the contrary, and in line with theory, for Zimbabwe, those who believe that the governance of the country is reasonably democratic (mid-low and mid-high democracy) are both 1.49 times more likely to have higher tax morale than those who believe it is not democratic

at, holding all other variables constant. This implies that the higher the democracy the lower the tax morale for South Africa, and the opposite is true for Zimbabwe.

Religion, income level, gender and employment status are statistically insignificant to explain tax morale for both South Africa and Zimbabwe.

All categories of pride are also statistically insignificant to explain tax morale in South Africa, whilst those who are quite proud and not very proud were 1.36 and 1.93 times more likely to be in the higher tax morale category than the very proud for Zimbabwe. This study argues that during the period under investigation, Zimbabwe's economy was on a recovery path after a long decade of deplorable recession, such that even people who were not proud of being Zimbabweans because of the hard memories of the recession times, were willing to show appreciation and solidarity to the government through paying tax.

The age variable was significant for South Africa only, with those above 60 years of age having a 43% less likelihood of being in the higher tax morale category than those in the 26-59 age category. This is especially reasonable given that the over 60 years people are now in retirement and have less income (probably just pensions and savings) because they are now economically inactive. Their affinity to pay tax is likely to be low.

Corruption is established to be a critical determinant of tax morale for both South Africa and Zimbabwe. Those who felt that corruption is not justifiable were 8.9 and 34 times more likely to be in the higher tax morale category compared to those who felt it is somehow justifiable, for Zimbabwe and South Africa respectively both at 1% significance level. On the other hand, those who felt that corruption was always justifiable were 70% and 93% less likely to be in the higher tax morale category than those who felt it somehow justifiable for Zimbabwe and South Africa, respectively at the 1% level. The results indicate that people who justify corruption have lower tax morale than those who are against corruption.

The regression results also indicate that all categories of happiness do not explain tax morale in South Africa. However, for Zimbabwe, being "very happy" and "not happy at all" increased the odds of being in a higher tax morale category by 46% and 116% compared

to those who are rather happy at the 1% and 5% level of significance, respectively. The results are inconsistent with the theory, which suggests that happy people are expected to have higher tax morale than those who confirm that they are not happy at all.

All categories of awareness, hunger and education are statistically insignificant to explain tax morale in South Africa. However, the same factors have been empirically confirmed to determine tax morale in Zimbabwe. For awareness, listening to the radio less than monthly reduces the likelihood of being in the high tax morale category by 33% compared to weekly. Concerning hunger, being often hungry reduced the odds of having high tax morale by 36% compared to those in the rarely hungry category. This implies that hunger reduces tax morale in Zimbabwe. In the case of education, those who learnt up to secondary level were 1.49 times more likely to be in the higher tax morale category than those with tertiary education. The results seem to imply that tax morale is higher among the less educated than the highly educated.

The empirical results further show that trust is statistically insignificant for Zimbabwe but significant for South Africa at the 5% level. Those who do not trust parliament at all have a 35% less likelihood of being in the high tax morale category compared to those who trust Parliament quite a lot. Lack of trust in parliament reduces tax morale among South Africans.

6.7 Conclusion

The chapter estimated, presented and interpreted the results of the ordered logit model applied to investigate the determinants of tax morale using odds ratios. The study investigated determinants of tax morale (i) between Zimbabwean samples classified into dollarization and post-dollarization periods (ii) and between the Zimbabwean sample (under dollarization) and South African sample. It has been established that marital status, democracy, pride, corruption, happiness, awareness, education and hunger were determinants of tax morale during the dollarization period in Zimbabwe, whereas democracy, religion, income, corruption, awareness, education, hunger and trust are determinants of tax morale in the post-dollarization period. It can be noted from this analysis that the factors that determine tax morale during and post-dollarization have changed with changes in the economic situation in the country. For South Africa, the

analysis established that it is democracy, age, corruption and trust in Parliament that explain variability in tax morale. This entails that the determinants of tax morale in South Africa and Zimbabwe are not perfectly similar, possibly due to differences in internal conditions.

CHAPTER SEVEN

CONCLUSIONS, POLICY IMPLICATIONS AND FUTURE RESEARCH

7.1 Introduction

This chapter discusses the findings and conclusions of the study and points out areas for future research. The chapter is structured as follows: Section 7.2 highlights the study summary and Section 7.3 discusses the findings. In Section 7.4 the study's contribution to the body of knowledge is discussed and Section 7.5 proposes policy recommendations. Section 7.6 provides recommendations for further study in the area.

7.2 Summary of the study

From the literature reviewed in the study, it was revealed that few or no comparative studies had been done on the determinants of tax morale between South Africa and Zimbabwe. The main objective of the study was to identify and analyse the factors that influence tax morale in South Africa and Zimbabwe. In order to achieve this, the research sought to achieve five primary objectives. Firstly, the study critically assessed the dynamics of the tax systems in South Africa and Zimbabwe. Secondly, the research empirically determined the level of tax morale in both South Africa and Zimbabwe. Thirdly, the study critically analysed the relationship between tax morale and tax compliance. Fourthly, it compared determinants of tax morale in South Africa and Zimbabwe. Lastly, the study compared the level of tax morale in Zimbabwe in economic stability and in economic instability situations.

To achieve the first objective, this study critically assessed the tax systems in South African and Zimbabwe. It outlined the evolution of tax collection and tax compliance experiences and trends in the studied countries. In particular, it explored the origin of taxation and discussed the development of tax systems in terms of structural reforms and regulatory reforms. It also discussed the tax systems' performance during the recent decades (measured in terms of the tax-GDP ratio and tax buoyancy) and identified factors that affect tax compliance and the strategies used to mitigate against the jaws of tax evasion and avoidance. In addition, it presented the key challenges facing the

governments in terms of tax collection in the studied countries. More so, the study critically compared the similarities and the differences between the tax systems in these two countries. Lastly, to achieve the last objective, a comparison of levels of tax morale in Zimbabwe during economic stability and economic turmoil was done.

In order to achieve the empirical objectives of the study, data was collected using a standardized questionnaire from the World Values Survey on public attitudes on democracy, governance, markets, taxation and civil society in a number of countries around the world. The surveys interviewed participants who were above 18 years regardless of gender and ran for the period 2010 to 2020. Both dependent and independent variables were derived from the questions in the questionnaires mentioned above. An ordered logit model was estimated to determine the effects of the identified independent variables on tax morale in the two countries under study. Also, an ordered logit model was used to compare tax morale for South Africa and Zimbabwe as well as comparing tax morale in Zimbabwe in different economic environments.

This study also explored the theoretical and empirical literature that investigated the factors affecting tax morale in the studied countries. It found that the macroeconomic factors being investigated in the literature included social norms, trust in public institutions, demographic factors, corruption, quality of governance, pride in one's nation, satisfaction with democracy and happiness. The study found that the relationships between these factors and tax morale were extremely debatable in the literature. Therefore, the study enhanced the literature by conducting an empirical investigation on the factors that affect tax morale in South Africa and Zimbabwe.

Furthermore, through the literature review, the study critically examined the effect of tax morale on tax compliance. Sustainable tax compliance levels are critical goals of each and every nation around the globe. A plethora of studies concurred that tax morale has a positive relationship with tax compliance, signalling the importance of studying tax morale. The literature review also highlighted that tax morale, as part of behavioural economics, is the latest phenomenon that can be used to explain why tax compliance levels are high despite minimum deterrent efforts undertaken by the government.

7.3 Summary of thesis findings

The study was divided into two sections, namely, a comparison of tax morale in Zimbabwe during the dollarization era and the post-dollarization period, and an assessment of tax morale determinants in South Africa and Zimbabwe.

Independent variables that had similar effects on tax morale during both dollarization and post-dollarization include hunger, awareness, corruption and education level. Corruption and hunger showed a negative relationship with tax morale while the results indicated that the higher the level of education acquired, the higher the willingness to pay tax. Also, the study had findings that the more that people get information through the radio, the more they are willing to pay tax. Contrasting results were noted on democracy, income level, religion, happiness, trust in Parliament and marital status. Single participants exhibited higher tax morale than their married counterparts during the dollarization era, while the variable was insignificant in the post-dollarization period.

Interesting results for satisfaction with democracy were displayed for the post-dollarization era when the participants who were satisfied with democracy indicated low tax morale, which is deviant from the findings of the literature review in Chapter 4. Furthermore, the study revealed that a higher level of happiness among Zimbabweans during the dollarization period had a positive relationship with tax morale, while happiness was insignificant during the post-dollarization period. Trust in Parliament and religion was positively correlated with tax morale in the post-dollarization era while the two variables were insignificant in the dollarization period. A higher class of participants in terms of income level showed a negative relationship with tax morale in the post-dollarization period, while income level did not influence tax morale in the dollarization era.

It has also been shown that marital status, democracy, pride, corruption, happiness, awareness, education and hunger are statistically significant determinants of tax morale in Zimbabwe. For South Africa, the analysis established that it is democracy, age, corruption and trust in Parliament that explain variability in tax morale. This entails that the determinants of tax morale in South Africa and Zimbabwe are not perfectly similar, possibly due to differences in internal conditions.

7.4 Contributions of the study

The sub-section covers the contributions of the study in terms of the methodology, theory and management of taxes in South Africa and Zimbabwe. This research makes far-reaching contributions to behavioural economics in relation to the factors that influence tax morale in many dimensions. Firstly, to the researcher's knowledge, this is the first study to focus on factors that influence tax morale that include the hunger variable. According to World Vision (2020), hunger is increasing at a shocking rate in Africa. The organisation estimated that in Africa, 20% of the population are experiencing hunger. The inclusion of hunger will assist policymakers, especially in Third World countries to choose a sustainable mix in dealing with the improvement of tax compliance.

Secondly, the study contributes immensely to the body of literature as it is the first to analyse tax morale and its determinants in two different economic set-ups experienced by a developing country. Thirdly, an analysis and comparison of trends in tax systems for the two different African countries, in terms of economic growth, drew important conclusions on the impact of the socio-economic environment on tax morale.

7.5 Policy recommendations

One of the important objectives of the study is that it deduces recommendations that, if undertaken by policymakers, will improve the much-needed tax compliance levels. The major recommendation put forward by the study is that governments should invest in the understanding of tax morale and its determinants. Tax morale is worthwhile to the economy since it lessens the government's expense of financing the public sector. A high level of tax morale means that many people are paying tax, and thus there is an increase in the tax base which can lead to a reduction of tax rates. Low tax rates have the effect of improving the standard of living of the whole populace as disposable income is increased. More so, low tax rates have been proven to diminish financial bonds in the market, thus reducing enforcement and administrative expenses by the government. The spared revenue can be directed to other formative exercises profiting public development and advancement.

The second recommendation is that the tax authorities should intensify tax education and public campaigns to enhance acknowledgement that the payment of tax is a public

obligation and commitment of all, as opposed to citizens' perception of it as an oppressive exercise to consume their hard-earned income. To guarantee the accomplishment of raising tax proficiency to the best effect, the study recommends that the tax authorities should adopt the 'catch them young' concept on primary and secondary school pupils, thereby educating them on the importance of complying with tax laws. SARS and ZIMRA should also continue to broadcast tax tutorials through their respective websites, social media and radio with wide coverage.

The third recommendation submitted by the study is that the management of corruption and hunger by Third World countries is vital in formulating policies that seek to boost tax compliance. Corruption has a negative impact on public service delivery, which is an important factor that influences citizens' decision to pay tax. Satisfaction with the public service delivery is positively correlated with tax morale, and thus the perception that the tax paid is put to good use motivates citizens to pay tax.

More so, the research suggests that administration arms, namely parliament, the executive and the judiciary should deal with improving trust in them by citizens. The more that residents believe that government officials meet their requirements on the most fundamental level, the more they are willing to pay tax. Moreover, the study additionally suggests that governments should work on building a relationship of trust and participation between taxpayers and tax authorities to evoke the much needed voluntary tax compliance.

7.6 Recommendations for future study

This study focuses on only two African countries, and future research on determinants of tax morale using this study's approach can achieve improved results if more countries can be added. Additional countries would provide more data points and thus more robust suppositions.

There are some issues in respect of which the research did not fully address all the tenets of the recently launched slippery slope framework. This will be done by determining how the perceived power of authorities and procedural justice has an effect on tax morale

under contrasting economic conditions in Zimbabwe. The perceived power of authorities and procedural justice can then be compared across countries.

The study focused mainly on comparing tax morale in Zimbabwe under the dollarization and post-dollarization eras. Future studies can thus determine the different political changes within the Zimbabwean landscape. The periods which can be included in the study will be before the government of national unity, during the government of national unity (2009-2013), post-GNU, and post-Mugabe era. In this case, studies will be able to see the extent to which the different political establishments affected the tax morale in the context of Zimbabwe.

In future, other studies can look at how the use of technology such as the e-filing system which is used by the Zimbabwean regulator ZIMRA has affected the tax morale of the citizens of Zimbabwe. The use of technology can thereby be used to determine the interaction of technology and economic conditions in the country and how these can jointly affect tax morale in a country like Zimbabwe with a high literacy rate.

Other studies can minimize the methodological weaknesses associated with each method of data collection on the determinants of tax morale. There is therefore a need to fuse the quantitative research approach with an experimental approach such that there is an enrichment of the data on the determinants of tax morale. With the hybrid experimental and quantitative survey approach, there is an increase in the reaching of sound conclusions.

Results of the study showed that there are some factors that show negative or no relationships with tax morale and its determinants. Therefore, future studies need to look at how policies can change the tax morale of the citizens. They need to distinguish between persuasive and enforcement policies in dealing with the country's citizens.

Lastly, the study recommends additional surveys that target the context of African countries better by also focusing more on the interaction between taxpayers and the tax administration, for example, the Taxpayer Opinion Survey done by Torgler et al. 2008 and Torgler et al. 2010.

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