



# NURTURING RESPONSIBLE TAX CITIZENS & KEY LESSONS LEARNT FROM THE TAX AMNESTY

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# SCOPE OF PRESENTATION

- **BACKGROUND TO ZIMRA**
  - **Mandate**
  - **Vision & Mission**
  - **Location of Offices**
  - **Brief on Tax Administration**
  - **Taxpayer Rights and Obligation**
- **TAX COMPLIANCE & NURTURING TAXPAYER COMPLIANCE**
- **TAX AMNESTY IN THE ZIMBABWEAN CONTEXT & LESSONS LEARNT**

# ZIMRA'S MANDATE

The Authority's mandate is derived from Section 4 of the Revenue Authority Act (Chapter 23:11) where the Acts administered by ZIMRA are:-

- **Capital Gains Tax Act (Chapter 23:01)**
- **Customs and Excise Act (Chapter 23:02)**
- **Finance Act (Chapter 23:04)**
- **Income Tax Act (Chapter 23:06)**
- **Stamp Duty Act (Chapter 23:09)**
- **Value Added Tax Act (Chap 23:12)**

**The Authority also enforces legal provisions, by extension from other Government Ministries & Bodies**

# VISION & MISSION STATEMENTS

## VISION

***“To be a beacon of excellence in the provision of fiscal services and facilitation of trade and travel.”***

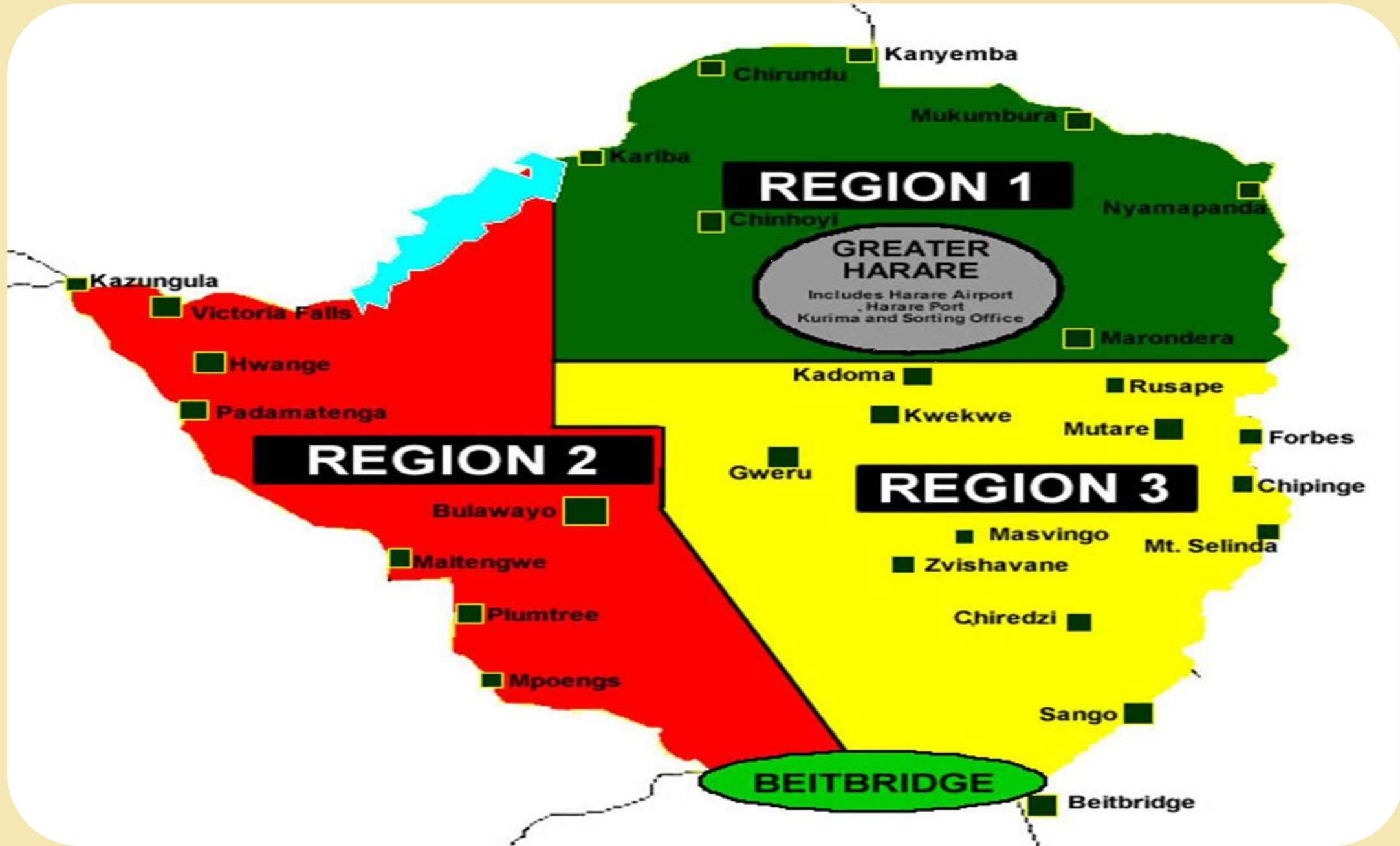
## MISSION

***“To promote economic development through efficient revenue generation, collection and trade facilitation.”***

## VALUES

***Integrity, Transparency and Fairness***

# ZIMRA SPREAD IN ZIMBABWE



# TWO FACETS OF TAX ADMINISTRATION

## TAX OBLIGATIONS

- Compliance with legislative and procedural requirements (non-tax issues)
- Payment of taxes and levies due
- General compliance with fiscal laws

## TAX INCENTIVES

- Entitlement to industry specific rebates
- Entitlement to tax deductions, credits and other rebates
- Entitlement to advantages and benefits conferred by international taxation agreements when operating in the territory of contracting countries

# TAXPAYER'S RIGHTS

A taxpayer:

- Is entitled to complete timely and accurate information with regard to his/her rights and obligations under the various Acts administered by the Authority.
- Is entitled to demand impartial application of the law. It is the responsibility of ZIMRA to collect only the correct amount of tax, duties, levies and fees.
- Is entitled to courteous, considerate and non-discriminatory treatment in his/her dealings with ZIMRA officials in all matters related to ZIMRA activities.
- Is presumed honest unless there is evidence to the contrary.
- Is assured that the personal and financial information that is provided to ZIMRA shall only be used for purposes of carrying out lawful duties unless ZIMRA has the taxpayer's express authority to do otherwise or in situations permitted by law.

# TAXPAYER'S RIGHTS cont'd

- Has a right to question ZIMRA.
- Can question the information, advice and service given to him or her.
- Has a right to demand an official departmental and ZIMRA identification card from any ZIMRA staff visiting the taxpayer. The taxpayer may also call the nearest ZIMRA office to confirm the identity of the officer visiting if in doubt of the identification provided.
- Has a right to be represented by an authorized /licensed agent of his/her choice.



# TAXPAYER'S OBLIGATIONS

- All persons who are taxpayers, or are eligible taxpayers have obligations to comply with Zimbabwean tax laws under the various tax Acts.
- All persons who are eligible to pay taxes (Income Tax, VAT, PAYE, Excise duty or any other tax) that require registration are under obligation to register.
- Registration of Motor vehicles – every taxpayer is under obligation to ensure that any motor vehicle(s) he/she presents to the Registrar of Motor Vehicles has been properly acquired, and all duties and taxes paid in full.
- All VAT registered Taxpayers are obliged to install and operate an Electronic Tax Register.
- Every taxpayer is under obligation to file their returns and make appropriate payments as stipulated under the respective Acts.

# TAXPAYER'S OBLIGATIONS cont'd

- Every taxpayer is under obligation to ensure that his/her returns and declarations represent a full and true disclosure of their tax status and transactions.
- Every taxpayer is under obligation to make payment of tax on the due date. Any taxes that remain unpaid after the due dates attract initial late payment penalties as stipulated in the various acts.
- Every taxpayer is under obligation to accord ZIMRA officials' cooperation, due respect and freedom to carry out their lawful duties. The taxpayer should not intimidate, abuse, threaten or influence the Officers in any manner whatsoever, whether financial, material or otherwise.
- The taxpayer is under obligation to disclose and produce all relevant information, records and documents required by ZIMRA officials when carrying out their lawful duties. It is an offence to refuse to give or to withhold information, records or documents.
- The taxpayer is also under obligation to maintain high levels of integrity in their dealings with ZIMRA officials, which the ZIMRA officials are also expected to uphold

# **TAX COMPLIANCE & NURTURING TAXPAYERS**

# TAX COMPLIANCE - DEFINITION

- The degree to which a taxpayer complies (or fails to comply) with the tax rules of his country,
- Making tax payments and producing and submitting information, including returns, to the tax authorities on time and in the required form and manner.
- The willingness of taxpayers to **comply** with a **tax** system.

# TAX NON-COMPLIANCE - DEFINITION

- Tax non-compliance is a range of activities that are unfavorable to a state's tax system.
- Examples are;
  - ❖ Submitting false details in respect of a taxable entity
  - ❖ Failure to submit required returns and other information
  - ❖ Falsification of returns and supporting information
  - ❖ Failure to pay due taxes in full
  - ❖ Failure to cooperate during audits and inspections
  - ❖ Failure to maintain required records in the required form for the required period
  - ❖ Failure to conform with any laws relating to taxation.

# 1<sup>ST</sup> SCHOOL OF THOUGHT ON COMPLIANCE

## Rationale Choice Model

- Taxpayers assess the opportunities and risks and disobey the law when the anticipated fine and probability of being caught are small in relation to the profits to be made through non-compliance
- This model thrives on low administrative enforcement capacity, ineffective penal provisions and negative tax payer attitude (poor or low sense of moral obligation)

# 2<sup>ND</sup> SCHOOL OF THOUGHT ON COMPLIANCE

## Attitudes and Moral Obligation

- Attitudes and moral obligations rather than, or in addition to purely economic calculations or fear of reprisal/punishment are important drivers of positive compliance behaviour.
- This school of thought identifies trust between the tax administrator and the taxpayer as a key motivating factor to compliance.
- Trust prevails where there is a positive and mutually beneficial business relationship between the tax authority and the taxpayer community

# TYPES OF NON-COMPLIERS

- **Tax protesters** create new interpretations of the legislation (usually with the assistance of lawyers, accountants and other representatives) to show that their economic activities and receipts thereof are not liable to taxation.
- They have a habit of presenting, over and over again, the same arguments, usually frivolous, that have been rejected by decisions passed by tax administrators or courts of law.
- **Tax resisters** deliberately refuse to pay taxes for conscientious reasons, sometimes arguing that government actions in relation to tax revenue and its use are morally reprehensible.
- They do not consider whether the tax laws are legal or illegal or whether these laws apply to them, but they are more concerned with not paying for what they find to be grossly immoral government use of public funds, e.g. government expenditure towards what they do not approve.



# DRIVERS OF NON-COMPLIANCE

- Absence of tax morality in the taxpayer
- High tax rates
- Taxation illiteracy
- Poor or no public enlightenment campaigns
- Lack of adequate enforcement for default
- Lack of adequate tax incentives
- Non-existence of an equitable & efficient tax system
- Poor relationship between taxpayers & tax administrators
- Proliferation of taxes and other tax related charges/levies

# NURTURING COMPLIANCE

Choice between two enforcement strategies:-

1. Deterrence based strategies which make use of punishment and sanctions

2. Gentle persuasion and cooperation or accommodative strategies which seek to increase support of the law with or without incentives

- Whether an enforcement strategy is stigmatic or re-integrative influences the feelings of resentment in taxpayers
- These feelings of resentment have a direct impact on the taxpayer's decision to comply or not
- Modern day tax authorities regard taxpayers as business partners and tend to favour persuasive interactive/accommodative strategies and only employ coercive & aggressive enforcement strategies as a last resort on potential and active defaulters while rewarding compliant taxpayers.

# APPROACHES TO TAX COMPLIANCE

Table adapted from James and Alley (2004) *Tax Compliance, Self-Assessment and Tax Administration*, *Journal of Finance and Management in Public Services*, Volume 2 No. 2 (2004)

TAX COMPLIANCE	FIRST APPROACH	SECOND APPROACH
<b>Concept of</b>	Coercive/Tax Gap 100% compliance required less actual revenue	Voluntary Willingness to act in accordance with the letter and spirit as well as the letter of the law
<b>Definition/Scope</b>	Narrower	Wider
<b>Tax Compliance</b>	Economic rationality	Behavioral co-option
<b>Exemplified by</b>	Trade off: 1. Expected benefits of evading 2. Risk of detection and application of penalties 3. Maximum personal income and wealth	Taxpayers are not simply independent, selfish utility maximizers. They interact according to differing attitudes, beliefs, norms and roles. Success depends on cooperation
<b>Issues of:</b>	Efficiency in resource allocation	Good corporate citizen
<b>Also termed</b>	The Economic Approach	The Behavioral Approach

# STANDARD COMPLIANCE MODEL

- Identify the nature of the taxpayer and his special needs
- Identify the common causes of non-compliance inherent in the taxpayer's line of business
- Assess the tax authority's current capacity to address the causes
- Design strategy to effect the required changes aligning the resources to the strategy
- Apply the approach that best suits the nature of the taxpayer
- Segmentation is key in the segregation of taxpayers to enable the development of strategies and structures that suit specific types of taxpayer.

# ZIMRA's APPROACH

- ZIMRA to Business relationship strategy supported by a memorandum of understanding
- Client friendly communication strategy for taxpayer engagements including education and dispute resolution
- Interactive approach that allows taxpayers to access management, including executive management at all levels
- Automation for closer monitoring of transactions
- Assignment of tax processes to taxpayer through e-services to increase accessibility and lower costs of compliance and administration
- Taxpayer engagement in the negotiation of terms for current obligations and arrears
- Use of coercion/aggressive enforcement and recovery strategies as last resort
- Taxpayers segmentation that limits the extension of trust to assessed taxpayers

# **TAX AMNESTY IN THE ZIMBABWEAN CONTEXT & LESSONS LEARNT**

# AMNESTY PROVISIONS AND BENEFITS

- Zimbabwe introduced a tax amnesty in 2014 to encourage errant taxpayers to make good their outstanding i.t.o. the Finance Act (No 2) of 2014 published on 17 October 2014
- Conditions for qualification included:
  - ❖ Tax irregularities not known to the tax authority that occurred in the specified amnesty period
  - ❖ Only the specified irregularities qualified
  - ❖ Application had to be in writing accompanied by required tax returns and application for registration
  - ❖ Approved applications were locked to the payment periods approved
- Amnestied taxpayers would be absolved from payment of penalties and interest as well as prosecution

# IMPORTANT SPECIFICS ON TIME

## Amnesty Period




1 February 2009 to 30 September 2014

## Application Period

1 October 2014 to 31 March 2015

## \$\$\$\$\$\$\$\$Payment Period\$\$\$\$\$\$\$\$

1 October 2014 to 31 December 2015

-  Amnesty Period
-  Application period for tax amnesty
-  Payment for approved applications



# DEFINITIONS OF TAX AMNESTY

## General Definition

- *An official undertaking to take no action against specified offences during a fixed period*
- *A limited-time opportunity for a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties) relating to a previous tax period or periods and without fear of criminal prosecution.*
- **Legislated Definition**
- Amnesty or tax amnesty refers to the relief against interest payment, penalties or prosecution

# CHALLENGES ENCOUNTERED

- Initial legislation unclear & complex, delaying procedure development and implementation
- Time constraints negatively affecting taxpayer and tax officer education initiatives
- Slow uptake due to skepticism and mistrust of the intentions by taxpayers
- Misinterpretation of the intention by non-qualifying taxpayers
- Protest from compliant taxpayers who pointed out that the law in this instance favoured the errant at the expense of the compliant
- Incomplete or incorrect applications delaying processing

# SHORTCOMINGS NOTED

- Lower expectations in terms of expected applications and payments
- Uncertainties causing taxpayers to play a “wait and see” game (speculative tendencies)
- Perception by compliant tax payers that the principles of equity and the basic canons/tenets of taxation were being violated
- Foregone revenue in the form of penalties and interest

# BENEFITS TO THE ADMINISTRATION

- Additional revenues collected
- Taxpayer database growth
- Intelligence gathered on taxpayers added to the risk management platform
- Quick returns to the fiscus
- Creation of relationship opportunities with otherwise errant tax payers
- Building of taxpayer trust in the tax administrator (honoured commitments)
- Encouragement of future compliance

# LESSONS LEARNT

- Tax amnesties do not necessarily yield as expected and their yield is short term anyway
- They create friction between the tax administration and compliant taxpayers who feel unfairly treated
- They can also create speculative tendencies and cause taxpayers to continue non-compliance in anticipation of another amnesty
- They enable the tax authority to obtain, albeit to a limited extent, a realistic feel of some the levels of non-compliance
- Amnesties must be extraordinary and not routine

# LESSONS LEARNT cont'd

- Amnesties frees resources (administrative and judicial collections costs)
- They provide the tax authority with opportunities to gather data on taxpayers
- There is need for greater education campaigns for both the compliant and non-compliant taxpayers
- Amnesties spread the tax burden to other taxpayers and may remove pressure from the compliant taxpayers in the long run.
- There is a greater need for impact assessment to make any proposed amnesty worthwhile

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