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A diagnosis of the deficiencies in the Zimbabwean value added tax system

Abstract

The paper analyzes the Zimbabwean VAT system. The main objective was to establish and evaluate the gaps within the Zimbabwean VAT system, with the view of closing them so that the Zimbabwean VAT is attuned to the dictates of the best practice VAT. A review of literature was used and the main sources of information were the Zimbabwe Revenue Authority, the South African Revenue Services, literature from various journal articles and books and various reports and legislative instruments. The key finding of the study was that the Zimbabwean VAT system falls short of both the South African and best practice VATs. The main reasons for the gap are; a narrow VAT base fuelled by rampant VAT zero-rates and exemptions; it defies the destination principle; it does not conform to the principle of tax neutrality and tax simplicity; and it has high costs of collection and compliance. The study recommends that the Zimbabwean VAT system should be aligned to the best practice VAT through streamlining VAT privileges and correctly implementing the destination principle. Adequate funding should be allocated to the Zimbabwe Revenue Authority in order to embrace the Information Communication Technology (ICT) drive to reduce costs of compliance and collection.

Keywords: value added tax, Zimbabwe, South Africa, best practice VAT.

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Introduction

Origin of VAT. In 1767, Sir James Steuart proposed a tax that appears to be essentially a broad-based consumption tax, which had the characteristics of a broad-based VAT (Van Oordt, 2015, p. 33). Citing Jones (1914), Van Oordt (2015, p. 33) described that tax as "...a tax of so much percent upon the sale of every commodity". According to Adams (1921), also cited in Van Oordt (2015, p. 33), in 1921, Carl Von Siemens wrote a paper entitled "Improving the Sales Tax", wherein he proposed that taxes paid upon business inputs should be recovered, alleviating the cascading problem of sales tax and turnover taxes (James, 2011). After the Second World War, the French government successfully rebated the turnover tax paid by certain exporters. Following the successful rebating of turnover tax to exporters, Maurice Laure wrote two publications wherein he discussed the extension of the rebate to all levels of production, shifting the tax to the final consumer. Today he is regarded as the father of VAT (James, 2011). His publications formed the basis of the first broad based VAT in Denmark in 1967, and France in 1968 (*ibid*). Therefore, the pioneering of the VAT is accredited to France, and it was a type of consumption tax on goods that was levied at the production stage (Cnossen, 1992).

From France, the VAT spread to the Western Europe and Latin America at the remainder of the 1960s and 1970s (Van Oordt, 2015, p. 34). After 1980, there was a rapid spread of the VAT around the world (Ebrill, Keen, Bodin, and Summers, 2001). The initial VATs included a number of VAT privileges that were carried over from the turnover taxes. These tax relief measures formed the basis of the European Union VAT model, which was adopted from the Sixth Council Directive (De la Feria & Krever, 2012). In 1984, New Zealand introduced a new model VAT, which is referred to as a modern VAT (James, 2011). According to Van Oordt (2015, p. 34), this type of VAT addressed most of the shortcomings of the EU model VAT and it is currently regarded as the model of choice for a VAT.

VATs in Africa. The African countries to have introduced VAT in earlier days were Cote d'Ivoire, which introduced VAT in January 1960, and Senegal in 1961. As Krever (2008) alludes, Senegal's VAT evolved from a limited manufacturer's turnover tax with credits in 1961 and, then, evolved to the modern VAT in 1980. Niger introduced VAT in 1986, while Malawi introduced it in 1989. South Africa, the top trading partner of Zimbabwe in the SADC region, introduced its VAT in September 1991. In Zimbabwe, VAT was introduced in 2004 to replace sales tax.

The following table shows the years of introduction and rates and thresholds of VATs in different African countries that are in the Southern African Development Community (SADC) regional grouping.

Table 1. VAT years of introduction, rates and thresholds in SADC countries

Country	Year of introduction	Standard rate at introduction %	Rate in 2006 %	Current rate %	Threshold as of 2006 in USD	Threshold as of December 2016 ¹
Botswana	July 2002	10	10	10	45,953.00	97,089.26
DRC	June 1997	18	18.9	18	0.00	55,967.54
Lesotho	July 2003	14	14	14	81,149.00	65,000.00
Madagascar	September 1994	20	18	18	25,000.00	63,869.80
Malawi	May 1989	35	17.5	17.5	15,259.00	13,762.63
Mauritius	September 1998	10	15	15	97,543.00	115,054.28
Mozambique	June 1999	17	17	17	4,091.00	0
Namibia	November 2000	15	15	14	32,460.00	15,352.02
Seychelles	January 2010	15	15	15		147,646.15
South Africa	September 1991	10	14	14	48,689.00	125,000.00
Swaziland	2013			14	n/a	38,183.10
Tanzania	July 1998	20	20	18	33,088.00	17,891.09
Zambia	July 1995	20	17.5	17.5	61,216.00	86,486.49
Zimbabwe	January 2004	17	15	15	60,000.00	60,000.00
SADC Average		17.00	15.92	15.50	42,037.33	64,378.71

Source: adapted from "VATs in Africa" by Krever (2008).

The table shows that in the SADC region, the country that introduced VAT at first was Malawi in 1989, followed by South Africa in 1991. Zimbabwe was the third last country to have introduced VAT in 2004, with Swaziland being the last of all, having introduced its VAT almost a decade after Zimbabwe.

VAT in Zimbabwe.² Before the introduction of VAT, the country was implementing a single-stage sales tax, which had been in place since 1976 (Glendary, 2004). The sales tax was applied on all goods sold locally, including services and the rate was 15%. A 25% rate was applied to motor vehicles, while specified commercial vehicles and supply of electricity were levied sales tax at the rate of 10%. Registration was compulsory on all auto dealers, auctioneers and financial agents, service traders with over US\$5000.00 (ZW\$500, 000.00) in turnover and goods traders with turnover of US\$25,000.00 (Z\$2.5 million) (ibid). Voluntary registration was applicable on traders below ZW\$2.5 million, but above US\$2,500.00 (ZW\$ 250, 000.00).

By the year 2000, preparatory work had already commenced towards introducing the VAT that was penciled for 2000 (International Monetary Fund, 2000). In 2003, the International Monetary Fund revealed that Zimbabwe was well advanced with preparations for the introduction of a VAT system in 2003, which the authorities expected to address weaknesses in the then existing sales tax system (International Monetary Fund, 2003). VAT was eventually introduced in 2004, replacing the sales

tax system. When VAT was introduced, the minimum annual turnover for compulsory registration was set at US\$25,000.00 (ZW\$250 million) and voluntary registration was allowed for turnover above US\$20,000.00 (ZW\$200 million). The Zimbabwean VAT system was adopted from the Zambian, South African and New Zealand VAT systems. Zimbabwe's VAT system is more recent as compared to most of its African counterparts. The idea was to adopt the New Zealand GST, but Zimbabwe's colonial history could have influenced the decision to adopt some of the features of the European Union VAT model.

The main reasons for the introduction of VAT in Zimbabwe were to curb the gross abuse of sales tax numbers by registered operators and the need to raise more revenue for the government, since VAT has a wider tax base than the sales tax. In addition, in Zimbabwe, like in many countries where the VAT has now replaced the retail sales tax (RST), the main strength of the VAT is that revenue is secured by being collected at every stage of production instead of being collected only at the retail stage.

1. Key features of the best practice VAT

Countries that have implemented the VAT have modelled their VATs either along the European Union model or along the modern VAT model (Ebrill et al., 2001). The EU model was challenged by politicians and consumers and, as a result, it contains several VAT exemptions and differentiated rates (Van Oordt, 2015). The modern VAT, also referred to as the best practice VAT, is characterized by a simpler and single standard rate, broader base and it is a neutral tax. The first country to have implemented a modern VAT is New Zealand (Ebrill et al., 2001). The following are the features of the best practice VAT.

¹ Conversion to US\$ was done using the prevailing rate as of the 30th of May 2017.

² Conversion to United States Dollar was based on the prevailing exchange rate of US\$1: ZW\$100.00 in 2000.

VAT should be revenue productive and, at the same time, responding to changes in revenue needs (Cnossen, 1992). It ought to have a broad tax base that covers as many goods and services as possible (Cnossen & Gendron, 2011). In fact, the best practice VAT had better include all the goods and services in its base, unless specifically exempted. Exemptions that should only be allowed in a best practice VAT are those that are standard (Bird & Gendron, 2011). Standard exemptions include hospital and medical care, dental care, charitable work, non-commercial activities of non-profit making organizations, immovable property, financial services, insurance and gambling (ibid). Non-standard items include foodstuffs, water, medicines and pharmaceutical products, newspapers, books, public transport, feed, seed, fertilizer and agricultural implements. These exemptions, when applied to tradable goods and services, distort regional and international trade, yet, they are still prevalent in the VATs of many African countries (ibid). The best practice VAT should not have zero-rated goods, except for exports and major agricultural inputs (Cnossen, 2012). Maples and Sawyer (2017) argued that the New Zealand GST is the purest form of a VAT in operation anywhere in the world, having the highest C-efficiency rating of a VAT/GST of about 99 percent. The C-efficiency ratio is a ratio of revenue to consumption expenditure, divided by the standard rate, expressed as a percentage. Maples and Sawyer (2017, p. 11) observed that since New Zealand has only one rate, a comprehensive base and virtually no exemptions its C-efficiency of 99 percent comes as no surprise. In New Zealand, even items classified as necessities, such as food, children's clothing, medical services, education services and energy are not exempted (ibid). According to Dickson and White (2008, p. 4), prior to the GST in New Zealand, there was a wholesale tax that omitted around 67 percent of the potential indirect tax base.

The best practice VAT was founded on the destination principle as opposed to the origin principle. Commodities should be taxed in the country of consumption as opposed to the country of production according to the provisions of the GATT (Cnossen, 1992). According to Gendron (2012), it should be based on the equivalence principle in that it should have the same tax on imports and no tax on exports. It should not interfere with trade and investment. The best practice VAT should have no interference between home produced and foreign goods. The destination principle also implies that VAT on inputs for exports is refunded without delay and that domestic purchasers of imported goods and services receive an immediate

credit or refund, where necessary for the VAT levied on importation (Cnossen & Gendron, 2011). However, Cnossen (2012) states that although this is ideal, it is not the usual practice in many countries. Le (2003) confirmed that the New Zealand VAT system is applied on a destination principle.

The best practice VAT dictates that taxation should be clear and simple to understand so that the taxpayers can anticipate the tax consequences of a transaction, including knowing when, where and how the tax is to be calculated (IBFD, 2009). Consequently, simplicity of a tax system results in the tax being easy to implement and apply, with limited need for litigation and high voluntary compliance. The modern VAT, which is also regarded as the best practice VAT, should be simple with a single rate and it should zero rate only for export (Cnossen, 2012). Simplicity also implies that the VAT should have very few exemptions and the seller always charges the VAT, while the tax administration concentrates on audits (Cnossen & Gendron, 2011). The Director of the GST coordinating office in the New Zealand, Jeff Todd, in Kreyer and White (2007, p. 29) observed that the New Zealand GST was structured in such a way that it would avoid the mistakes and complexities of overseas VAT systems and it had to be kept simple. According to Todd in Kreyer and White (2007), in Britain, within just a few months of introduction of VAT, the system required about 400 pages of Customs and Excise notices to explain, indicating that it was not a simple VAT.

Costs of collection and enforcement of best practice value added tax ought to be kept low. Therefore, the VAT should be administered on a self-assessment basis. Small businesses should be exempted in the best practice VAT (Cnossen, 2012). This is mainly because small businesses tend to have less reliable books of accounts, yet full compliance control for a VAT requires that a cash and bank book should be maintained (Gendron, 2012). These accounts would be difficult to maintain for illiterate traders (Cnossen & Gendron, 2011). To eliminate small businesses, the threshold should be kept as high as possible. To keep collection costs low, tax invoices should be key driving element in enforcing the tax (Bird and Gendron, 2011). Accordingly, the New Zealand distinguished its VAT from earlier European VATs by including very few exemptions on the grounds of efficiency (Maples & Sawyer, 2017, p. 8). Bird, in Maples and Sawyer (2017, p. 12) distinguished the Canadian GST as inferior to the New Zealand GST from both administrative and economic perspectives. In the same manner, Davis (1996, p. 12) observed that the cost to the government of Canada to collect and

administer the GST was 3 percent of tax collections as compared with the New Zealand GST estimated at 0.5 percent.

Another feature of the best practice VAT is low compliance costs. The VAT should be easy to comply with and should not interfere with the free functioning of business and trade. It should be attuned as closely as possible to actual business transactions and accounting methods (Cnossen, 1992). The due dates for payment should be clear and verification of the tax should be through audits opposed to physical types of control (*ibid*). As Cnossen and Gendron (2011) argue, since VAT is based on self-assessment, whereby taxable persons file returns and pay VAT at their own initiative, it is, therefore, crucial that VAT be easy to comply with. Thus, under a VAT based on self-assessment, the tax administration's task should be confined mainly to providing taxpayer education, monitoring late filers and late payers, and auditing taxpayers' accounts. Walpole (2014) observed that the New Zealand Inland Revenue Department published both 2010 and 2011 reports of surveys on tax compliance costs, but the two reports did not produce similar findings. The 2010 report with a focus on the small and medium enterprises indicated that GST was the most burdensome tax in terms of time expended. On the contrary, the 2011 report which focused on large business entities showed that GST was not the most cumbersome. The conflicting result reinforces the understanding that GST compliance costs are highly regressive and bear more heavily on clients with low turnover (*ibid*).

As Gendron (2012) alludes, another key feature of a best practice VAT is neutrality. Neutrality entails that the use of exemptions should be restricted wherever possible (IBFD, 2009, p. 78). The best practice VAT requires that exemptions provided should be appropriate and few (*ibid*) and that there should be limited special schemes. Under a VAT, a tax credit would not be allowed unless the taxpayer proves the satisfaction of the tax authorities that the dual use goods have been applied for business purposes (Cnossen, 1992). If consumption taxes like a VAT are not to interfere with producer and consumer choices, the base should be defined as comprehensively as possible while producer goods should not be taxed. Neutrality also entails that the best practice VAT ought to be anti-cascading and should have a refund mechanism that ensures that prices are free of input VAT and refunds are paid quickly (Cnossen, 2012). In other words, cascading or cumulative effect is eliminated by granting taxable firms a full and immediate tax credit or deduction for the tax paid in respect of inputs from other tax-

able firms, against the VAT payable on sales. The New Zealand VAT is such a VAT that is neutral. As Maples and Sawyer (2017, p. 15) assert, Papua New Guinea introduced its VAT in 1999, and it was regarded as the purest version that followed the New Zealand model. One of the reasons for the reform was to make the tax head neutral, by removing the distortions of the economy and also shifting the burden of taxation away from highly variable trade taxes towards a more uniform consumption tax.

2. Deficiencies in the Zimbabwe VAT system

2.1. VAT base. The VAT system in Zimbabwe is a hybrid system, even though modelled around the New Zealand Goods and Services Tax. It deviates from the principles of the modern VAT by allowing widespread exemptions. It is more attune to the traditional VAT in the United Kingdom (UK) (Jawa, 2013). The Zimbabwean VAT system leaves a large proportion of consumption out of the tax base for merit reasons, by exempting domestic electricity, passenger transportation, health care education and postal services. Exemptions are also extended to live animals, fuel and agricultural equipment that are not even considered to be standard exemptions for merit reasons. This type of treatment is also prevalent, although limited in the UK VAT system which limits exemption for merit reasons to education, health care, works of art and postal services.

Technical exemptions are in the VAT system, because they are difficult to tax (Bird & Gendron, 2011). Some of the technical exemptions are the supplies of immovable property, financial services, and pooling services consisting of insurance and gambling. These supplies would ideally be subject to VAT, but are not because of the conceptual difficulties in applying the tax to them. To some extent, the treatment of technical exemptions in the Zimbabwean VAT resembles their treatment in the New Zealand GST. The Zimbabwean VAT taxes some of the technical exemptions like gambling, commercial and new residential property. However, it exempts fee-based financial services and non-life insurance without any rational basis. This treatment resembles the treatment in the traditional VAT system in the UK.

Apart from VAT exemptions, the Zimbabwean VAT system's tax base is also negatively affected by zero rates. As reiterated, zero rating erodes the tax base, necessitating a higher VAT rate. While policy makers often argue that zero rating and exemptions are good for social reasons, since they help the poor, it has been discovered that not only the poor benefit from zero rates (Black, Calitz & Steekamp, 2012). In fact, other studies have

found out that the rich benefit more from VAT zero rates as compared to the poor (Katz Commission, 1994). Zimbabwe has a very long list of zero rated goods, which is not justified. Some of the products on the list are reflected in Table 2 (see Appendix). Despite the existence of a long list of VAT zero rates, Zimbabwe continued to add more products on the list of zero-rated goods, while few products were streamlined from the list.

Table 3 shows statistics of net domestic VAT collections versus domestic VAT expenditures (zero rates and exemptions) for the period 2013-2016. Domestic VAT expenditures is the total of VAT zero-rates and VAT exemptions.

Table 3. Domestic VAT expenditures (zero rates and exemptions) versus collections

Year	Domestic VAT expenditures US\$ millions	Net domestic VAT US\$ millions	Domestic VAT expenditures / Net domestic VAT
2013	1,400.00	554.08	253%

Table 4. Standard VAT rates and VAT on exports in Zimbabwe

VAT Rate	Nature of goods	Year effected	Whether the rate is still in force
0%	Zero-rated goods	2004	Yes
15%	Standard rate	2005	Yes
15%	Exports of unbeneficiated chrome	2010	Removed in 2015 mid-year
15%	Exports of unbeneficiated platinum	2014	Yes
15%	Exports of rough diamonds	2014	Removed in 2015
20%	Exports of unbeneficiated chrome	2010	No, currently under suspension
22.50%	Mobile service providers	2005	No
75c per kg or 5%	Raw hides	2014	Yes

Source: Ministry of Finance and Economic Development (MOFED) budget statements.

By charging VAT on exports, as reflected in the Table 4, the Zimbabwean VAT system deviates from the destination principle, which says that commodities should be taxed in the country of consumption as opposed to the country of production. Export tax on chrome was introduced in 2011 at the rate of 20%. This resulted in dwindled exports of chrome, indicating that the measure had interfered with trade and investment, thus, working against the destination principle. Having realized this, policy makers reviewed VAT on exports of unbeneficiated chrome downwards to 15%. However, since the policy was not bearing any fruits, it was abolished in 2015. Despite the realization that export tax was interfering with trade and investment, in 2014, three more products were levied VAT on exports (MOFED, 2013). These were raw hides, unbeneficiated platinum and rough diamonds. Again, this resulted in huge stock piles of raw hides and diamonds, indicating that VAT was interfering between home produced and foreign goods.

In the mid-term budget statement of 2015 (MOFED, 2015), export tax was removed from chrome and

2014	1,090.00	516.39	205%
2015	918.67	547.07	168%
2016	1100.00	601.22	183%

Sources: ZIMRA annual reports.

From the table, the levels of VAT exemptions and VAT zero rating were more than double in 2013 and 2014. In 2015, domestic VAT expenditures were 168% of VAT collections, while in 2016, they were 183 % of domestic VAT collections. This is an indication that VAT expenditures are very high in Zimbabwe, to the extent of surpassing revenue collections. This is mainly due to the prevalence of long lists of zero-rated and exempt products, which have significantly eroded the VAT base.

2.2. Destination principle. The VAT in Zimbabwe violates the dictates of the best practice VAT in that it levies VAT on some exports, as depicted in the table below.

rough diamonds. The removal of export tax on chrome and the lifting of the ban on the exportation of chrome ore and fines were done to encourage the export of chrome ore and fines, which were reported to be piling up as the export tax and temporary ban were negatively affecting the viability of the chrome miners. Export VAT was also removed from exports of rough diamonds (ibid). However, unbeneficiated platinum and raw hides are still being levied export VAT.

The destination principle further requires that VAT on inputs for exports should be refunded without delay (Bird & Gendron, 2011; Cnossen, 2012). However, the prevailing situation in the Zimbabwean VAT system is such that there are delays in both the processing and payment of VAT refunds (Zimbabwe Revenue Authority, 2015). In addition, unlike the South African VAT system, which refunds VAT paid locally when goods are eventually exported, such a scheme is missing in the Zimbabwean VAT system. All these attributes are in violation of the destination principle.

However, it can be argued that to a greater extent, the destination principle is upheld in the Zimbabwean VAT system, since the rest of exports, except those indicated in the Table 4, are not levied VAT on exportation.

2.3. Simplicity. The Zimbabwean VAT system does not conform to the doctrine of simplicity. This is mainly because it has multiple rates as has already been discussed under the destination principle. These rates include the 15% standard rate and the 5% VAT rate on exports of raw hides. There is also US\$0.75 per kg for exports of raw hides and the 20% VAT on exports of unbeneficiated chrome, which has temporarily been suspended. The disadvantages of multiple rates are that they require a classification of supplies of goods and services subject to the different rates, which can lead to divergences and potential disputes over which rate would be applied (IBFD, 2009). Multiple rates also complicate the taxpayer's requirements in terms of compliance costs (ibid).

As reiterated, the Zimbabwean VAT system is also not simple in that it has very long lists of exempt and zero-rated products. Some of the goods found on the list are animal feed, fertilizer, pesticides, tractors, lacto, maize, cane sugar and plain bread. The extensive number of exemptions in Zimbabwean has complicated the VAT system by requiring more verification of the self-assessed returns, requirement of more procedures, increasing the need of apportioning mixed supplies and litigation, which all result in an increase of the administrative costs (Jawa, 2013).

While the best practice VAT dictates that the Revenue Authority should concentrate on audits, the audit capacity of the Zimbabwe Revenue Authority does not yet satisfy these requirements. The Zimbabwe Revenue Authority does not have adequate VAT auditors to concentrate on audits as per the dictates of the best practice VAT. For instance, statistics from ZIMRA (2016) indicated that 1,089 routine risk based audit cases were completed against a target of 2,296 and only \$13,862,104.42 was collected against established debt of \$118,105,516.28. Thus, only 47% of the targeted audits were done and only 12% of established debt was collected, indicating a need to fully capacitate the audit unit so that audits can realize more revenue.

2.4. Costs of collection. Zimbabwe is on self-assessment, which began in 2008, with large clients who were in category C. This was a category for large clients, which was based on turno-

ver. By the end of 2008, around 2002 clients were already on self-assessment. The figure rose to 16000 clients at the end of the 2010 tax year (Zimbabwe Revenue Authority, 2010).

As reiterated, under the best practice VAT, tax invoices should be the key driving element in enforcing the VAT. Zimbabwe is doing quite well in this regard. After the inception of VAT, the Revenue Authority introduced fiscalized registers, which were used by clients to record sales transactions. ZIMRA would monitor the use of these fiscalized gadgets in shops and business premises. This was done mainly to reduce false declarations to get more revenue from the VAT. The main challenge encountered from these fiscalized tax registers was that they were not connected to the ZIMRA server, making them prone to abuse by some clients. In 2015, the Revenue Authority introduced Tax Management System (TMS), which is an electronic invoice management system that monitors real time sales transactions from clients to the Zimbabwe Revenue Authority Server (ZIMRA, 2015). The system has enabled ZIMRA to gather data, register additional clients who were outside the tax net, unravel audit cases and cut down on VAT refunds. The roll out of the Tax Management System progressed in 2016 and legislation was put in place for all business persons in trade to be registered on the system by January 2017 (MOFED, 2015).

The best practice VAT dictates that small businesses should be kept out of the VAT through imposing high thresholds. Zimbabwe's VAT threshold is at US\$60,000.00 (converted to US\$ 119,078,000, using the purchasing power parity index (African Tax Administration Forum, 2016). By setting the threshold at US\$ 60,000.00, Zimbabwe realized the need for a trade-off between extra revenue from the small traders and extra administration and compliance costs. In 2006, Zimbabwe's threshold was the fourth highest in the SADC region after Mauritius, Lesotho and Zambia (ibid). A low threshold implies capturing a very huge number of players into the VAT system, hence, reducing the informal sector. However, the trade-off will be administrative inefficiency, that is, high compliance and administrative costs. On the other hand, a very high threshold implies that most of the businesses would not be captured in the VAT net, hence, encouraging growth of a huge informal sector. The trade-off in this case would be administrative efficiency and low compliance and collection costs.

The following graph shows the thresholds in fourteen ATAF member countries, including Zimbabwe.

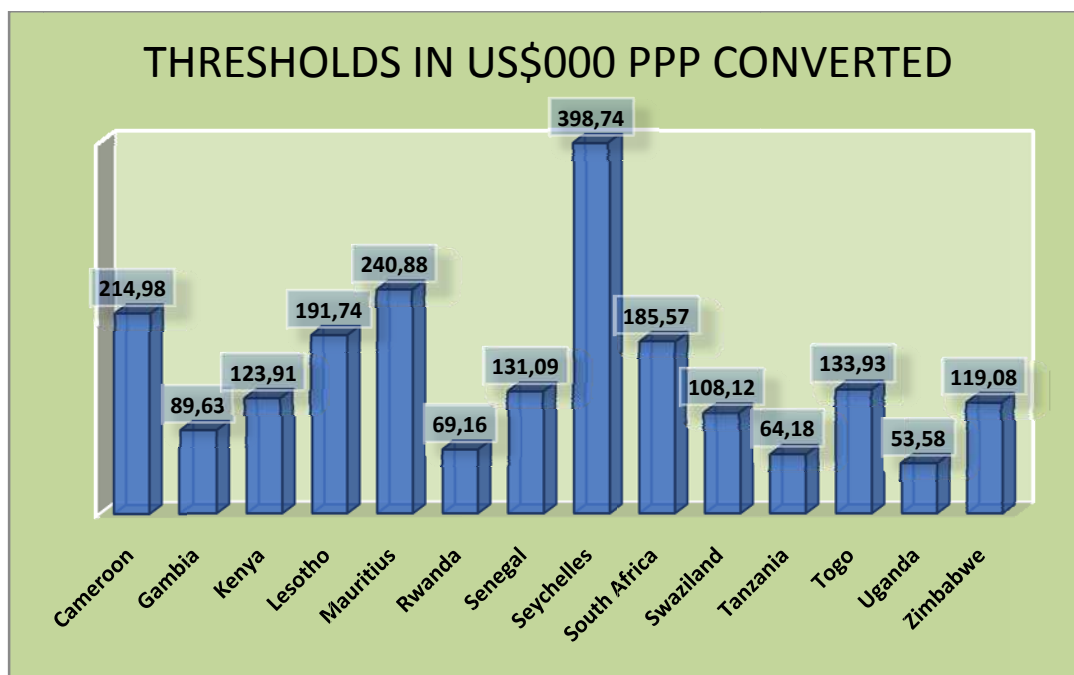


Fig. 1. VAT thresholds in 14 ATAF member states

Source: ATAF (2016).

As can be seen from the graph, the threshold of Zimbabwe is above those of Uganda, Tanzania, Swaziland, Rwanda and Gambia, but very close to that of Kenya. At US\$119, 078,000.00 (after conversion, using the PPP), the threshold is significantly higher than the OECD average of US\$34000 (ATAF, 2016). This threshold is high enough to exclude small businesses from the VAT, hence, reducing costs of collection.

Despite all the efforts made by Zimbabwe to contain the costs of collection, the country's costs of collection are still negatively affected by the existence of many exemptions and zero rates (Jawa, 2013). The long lists of VAT exempt and zero-rated products result in the tax administration (ZIMRA) incurring costs in determining the acceptable and correct treatment of goods and services, i.e., whether taxable or exempt. There is also the need to check and verify the self-assessed returns, and this also increases with the increase in exempt and zero-rated goods.

2.5. Costs of compliance. Zimbabwe's VAT system is self-assessment based, with the view of reducing compliance costs, in line with the best practice VAT. The e-services platform was introduced to reduce compliance costs, as clients can conduct ZIMRA business in the comfort of their offices or homes. The platform allows for online registration, filing of returns, online application of tax clearances, sending queries and requests, account management and payment of fiscal services. By the end of 2015, e-services phase 1 was deployed for registration of taxpayers, submission of returns for

VAT, PAYE and Income Tax and transaction view (Zimbabwe Revenue Authority, 2015).

The Client Services Unit of the Zimbabwe Revenue Authority holds frequent workshops and stakeholder consultative meetings (Zimbabwe Revenue Authority, 2016). These workshops and meetings are designed to provide adequate information to clients in order to reduce the costs of compliance. In line with the requirements of the best practice VAT, the Zimbabwe Revenue Authority is also working towards creating a full-fledged VAT audit unit, whose tasks will be mainly monitoring clients and auditing their accounts. As reiterated, the organization has not yet developed full audit capacity per the requirements of the best practice VAT.

Due to many exemptions and the complexity of the Zimbabwean VAT system, there are extensive rules for the proper classification of goods and services, including exemptions. Therefore, there is a need for tax professional advice, thus, increasing costs of labor, time and expertise. One can argue that although compliance costs have been significantly reduced through some of the measures cited above, the existence of long lists of exemptions and zero rates is working against these positive moves.

2.6. Neutrality. Tax neutrality is violated due to the existence of numerous VAT privileges (exemptions and zero rates). Due to these exemptions in the Zimbabwean VAT system, the VAT is sometimes cascading. This happens when exemptions occur at some intermediate stage with the exempt

goods sold to other registered operators. Dickson and White (2008, p. 5) assert that the “irrecoverable input VAT comes on top of the VAT that will be charged to final consumers”. It results in an increase in net revenues, because the prices charged by firms downstream in the distribution chain increase to cover for the unclaimed input tax. More output VAT will be collected on the higher prices. This means that the value addition prior to exemption is taxed more than once (Ebrill, Keen, Bodin, and Summers, 2001).

The Zimbabwean VAT is non-neutral in tandem with the traditional VAT, typically prevalent in the European Union countries. These VATs are said to be non-neutral and result in major compliance and administration costs that arise from the complexities of multiple rates and exemptions (Krever, 2008).

Summary findings, conclusion and recommendations

Summary findings. The Zimbabwean VAT system falls short of the attributes of both the South Africa, New Zealand, as well as the best practice VATs. The South African VAT system is better and closer to the New Zealand and the best practice VATs than the Zimbabwean VAT system as affirmed in Van Oordt (2015, p. 117) when he said that “...the South African VAT aligns fairly well with the structure of a good VAT” and that “... it has a better revenue performance than most VATs in other countries”. When compared with the Zimbabwean VAT, the South African VAT has a broader base, is more neutral, is more efficient and makes use of a single non-zero standard rate. On the contrary, the Zimbabwean VAT falls short of the best practice VAT, because it has a narrow base due to VAT privileges; it violates the destination principle; it violates the principle of neutrality and it has high costs of collection and high costs of compliance.

There is no evidence of in-depth research and wide consultations before and after implementation of the Zimbabwean VAT system. This has resulted in a number of policy inconsistencies, with some of the decisions being reversed either after public outcries or after outcries from the business community. For instance, the Minister of Finance and Economic Development had to suspend Statutory Instrument 20 of 2017, citing the need for further consultations. However, the statutory instrument was eventually repealed within the same month, leaving unanswered questions on whether wide consultations were made to reach that decision.

The Zimbabwean VAT has a long list of zero-rated products that constitutes several items. Top

on the list of zero-rated products in Zimbabwe were foodstuffs like fish, meat, eggs and milk. The main reason was to assist the poor, although from the Katz Commission (1994), it was revealed that zero rating foodstuffs actually benefit the rich more than the poor. South Africa, which has a subsidy policy in place whereby the poor are being assisted from social grants, has a shorter list of zero-rated foodstuffs (Van Oordt, 2015). On the contrary, Zimbabwe does not have an unemployment benefit in place, hence, its reliance on tax policy to assist the poor.

Conclusion. Although Zimbabwe modelled its GST on the New Zealand GST, it deviated from the New Zealand GST in a number of respects and largely followed the European VAT model. Several exemptions and zero rates are inherent in the Zimbabwe VAT system thereby compromising its efficiency, simplicity and neutrality. The deviation could be due to the fact that the country took a cue from the Zambian VAT which is more akin to the European VAT. In addition, since Zimbabwe is a former colony of Britain, the historical relationship could have influenced the country to adopt some of the aspects of the European VAT model. Furthermore, pressure from politicians and the consuming public resulted in policy makers succumbing to the demands of various lobby groups thereby compromising the Zimbabwean value added tax system.

Policy recommendations. Zimbabwe ought to align her VAT system with the best practice VAT. Zimbabwe should take a cue from New Zealand from where she borrowed her VAT system. Issues that should be considered in aligning the Zimbabwean VAT system include expanding the VAT base through streamlining VAT exemptions and zero rates, especially merit exemptions. Some of the food items should be levied VAT, in line with the main tenets of the modern VAT. The country should also aim to reduce the costs of compliance and costs of administering its VAT, as well as making the VAT more neutral. This recommendation is in synchronization with the findings of Jansen and Claitz (2015) and Van Oordt (2015) for the case of South Africa.

Zimbabwe should further align her VAT system with the New Zealand VAT, South African VAT and the best practice VAT by implementing the destination principle in its entirety. Zimbabwe is advised to discontinue the policy of levying export tax on raw hides, raw platinum and raw diamonds. This practice leads to economic distortions and is against the principle of tax neutrality. It also makes the exports less competitive in the international

market. Therefore, Zimbabwe should consider other policy options, besides levying export tax to discourage exportation of raw minerals. Zimbabwe is currently giving a monetary export incentive of 5% to exporters (Reserve Bank of Zimbabwe, 2016), and the country may consider applying such an incentive only to exporters of beneficiated mineral exports in order to encourage value addition of mineral exports.

Since it was established that there are policy inconsistencies in the Zimbabwean VAT system, that emanate from insufficient consultations and inadequate researches, it is recommended that before and after implementing tax policies, Zimbabwe should consult widely across the different stakeholders. This may call for coming up with different independent Commissions of Inquiry, whenever a significant tax reform is being envisaged. Government policy would, then, be informed with findings and recommendations from independent Commissions, as in the South African case. It is further proposed that the composition of such Commissions and/or Committees should

include experts with proven records in tax policy design, administration, litigation and analysis.

Zimbabwe zero rates most of her foodstuffs in a bid to assist the poor. Instead of using tax policy to assist the poor, Zimbabwe can do better through introducing subsidies and social grants targeted for the poor and under-privileged and gradually remove foodstuffs from her list of zero-rated products. Available literature, such as the Katz Commission (1994), has revealed that the rich actually benefit more from zero rating than the poor.

The Zimbabwe Revenue Authority should be capacitated with material, financial and human resources in order to enable the Revenue Collecting Agency to embrace the Information Communication and Technology (ICT) drive that will eventually reduce costs of compliance and costs of collection.

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Appendix

Table 2. Goods currently on the Zimbabwe exempt and zero rated lists

<ul style="list-style-type: none"> ◆ Direct exports ◆ Indirect exports ◆ Sale of going concern ◆ Supply of goods for agricultural purposes, foodstuffs and goods for use by disabled persons ◆ Services other than telecommunication services ◆ Services paid for in foreign currency by persons not resident in Zimbabwe ◆ Production of documentary proofs ◆ Animal feed: a) goods consisting of: ◆ Any substance obtained by a process of crushing, gritting or grinding or by addition to and substance which possesses or is alleged to possess nutritive properties; or ◆ Any condimental food, vitamin or mineral substance or other substance which possesses or is alleged to possess nutritive properties; or ◆ Any bone product, intended or sold for the feeding of livestock, poultry, fish or wild animals (including wild birds); ◆ Stock lick or substance which is of a kind which can be and is in fact used as a stock lick, whether or not such stock lick or substance possesses medicinal properties; ◆ Animal remedy ◆ Fertiliser 	<ul style="list-style-type: none"> ◆ Meat of bovine animals, fresh or chilled ◆ Meat of swine, fresh or chilled ◆ Edible offals of animals, swine, sheep, goats, horses, asses, mules or hines ◆ Meat and edible offals of poultry ◆ Fish ◆ Milk and cream not concentrated ◆ Buttermilk, curdled milk and cream, yoghurt, kephir ◆ Duram wheat ◆ Maize (corn) ◆ Broken rice ◆ Grain sorghum ◆ Other cereals ◆ Cooking oil ◆ Cane sugar ◆ Plain bread ◆ Plain buns ◆ Groundnuts butter ◆ Infant food preparations ◆ Salt ◆ Glands and other organs for organ therapeutic uses ◆ Human and animal blood ◆ Medicaments 	<ul style="list-style-type: none"> ◆ Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets in single sheets, whether or not folded (published in braille) ◆ Newspapers, journals and periodicals, whether or not illustrated or containing advertising material ◆ Maps and hydrographic or similar charts of all kinds, including atlases, wall maps, topographical plans and globes, printed ◆ Typewriters and word processing machines ◆ Steering wheels, steering columns and steering boxes (motor vehicle parts specially constructed or adapted for use by disabled drivers) ◆ Invalid carriages, whether or not motorised or otherwise mechanically propelled ◆ Contact lenses ◆ Spectacle lenses of glass: ◆ Refractive lenses of a kind used for sight correction ◆ Spectacle lenses of other material ◆ Spectacles ◆ Braille watches ◆ Supply of goods by disabled persons ◆ Supply of pipeline transport
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Table 2 (cont.). Goods currently on the Zimbabwe exempt and zero rated lists

<ul style="list-style-type: none"> ◆ Pesticides ◆ Plants ◆ Seed in a form used for cultivations ◆ Tractors: used for agricultural purposes and parts thereof ◆ Equipment or machinery: items of agricultural equipment and machinery 	<ul style="list-style-type: none"> ◆ Wadding gauze ◆ Pharmaceutical products ◆ Electricity for domestic uses 	
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