

Government Inducing Negligible Presumptive Tax Inflows from Informal Sector: Reasons and Perceptions of Informal Sector Players

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Abstract: The purpose of the study was to encourage the government to formalise the informal sector so that it could increase revenue inflows from taxation. The researchers sought to establish how informal traders justified non-payment of presumptive tax to government and why they felt they should not pay tax to the government. The qualitative paradigm was used to obtain the perceptions, experiences and thoughts of small and medium traders on the issue of presumptive tax. Small and medium business operators from the city of Harare formed the population. In-depth interviews and focus group discussions were used to gather data. The data was tabulated and analysed; and then grouped into themes. The researchers discovered that all the sampled small and medium business operators had never paid presumptive tax to the government because they claimed that the government abused tax money, the state did not plough back any of the collected taxes into the informal sector; and the informal sector did not generate enough money to pay taxes. The researchers recommended further research to establish the exact figures of money lost by government through non-payment of presumptive tax.

Keywords: informal traders, informal sector, medium business operators, taxation.

1. INTRODUCTION

It is in the best interest of government to formalise the Small to Medium Enterprises (SMEs). Government operations depend on the taxes and other revenue streams that flow from the business community; the larger the pool of existing and potential tax payers the larger the inflows and the more the projects the government can undertake to the satisfaction of the citizens. The Secretary General of the Zimbabwe Chamber of Small and Medium Enterprises, (20 October 2017), said, in an interview with The Financial Gazette, that SMEs contributed 40% of the country's Gross Domestic Product (GDP) in 2014 and that contribution was expected to increase to 45% in 2017. However, the contribution to GDP is not reflective of the contribution in revenue flows into government coffers, or into the government account, in terms of tax contributions. Muchimbidzi (undated) says that SMEs contribute more to output and GDP than they do to government revenue. The reason why SMEs do not contribute significantly to government taxes is clear; the majority of SMEs are not formal entities and government may not have proper structures for tax collection. The definition of small and medium enterprises used in the paper comes from the definition given by FinScope (2012); an SME is a business entity that employs between six (6) and a hundred (100) people. The definition can also be in terms of the total annual turnover, which must not exceed one (1) million dollars or the total value of assets that must not exceed two (2) million dollars. The projected 45% contribution to GDP by the informal sector, constituted by micro-small-medium enterprises, should reflect a 45% contribution to government revenue, through taxes, by the same informal sector, *ceteris paribus*.

The purpose of the paper is to exhort government to do whatever it can to formalise the informal small and medium enterprise sector, as a way of formalising revenue collection that drives government projects. The paper presents a conservative computation of possible revenues that the government could be achieving, as a basis for sustaining the argument that formalisation is imperative in the current and any other dispensation.

1.1 Background to the problem:

According to FinScope (2012), a micro enterprise consists of under 5 people; a small enterprise employs between thirty and forty people and a medium enterprise employs up to seventy people. A small and medium enterprise (SME) must not exceed one (1) million dollars and have a gross value of assets that does not exceed two (2) million dollars. The Zimbabwe SME founding Act [Chapter 24:12] defines a small to medium enterprise as one registered in terms of their legal status and employing anywhere between 6 and 100 workers. In Zimbabwe, SMEs employ an estimated 5.7 million people, 2.8 million people are owners of Micro, Small and Medium Enterprises (MSME) and 2.9 million are employees, with 22% of the employees working full time; the figures relate to those above 18 years of age, and adults (FinScope, 2012).

International Labour Organisation (ILO, 2007), cited by Muchichwa (2017:4), defines an informal sector of the economy as referring to '...all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements'. Valodia and Davy (2012), also cited in Muchichwa (2017:4), define the informal economy as characterized by:

1. Non-registration of the enterprise in terms of national legislation, such as taxation and or other commercial legislation;
2. Non-registration of employees of the enterprise in terms of labour legislation;
3. Small size of the enterprise in terms of the people involved.

The common denominator in the definitions of the informal sector enterprises is that they are income-generating entities, selling goods and services, illegally. The non-registration with government and lack of compliance with normal economy-wide tax regulations reflects the informality of enterprises. According to Muchichwa (2017), the informal sector includes all activities that are not covered or insufficiently covered by the law. The workers and owners of enterprises in the informal sector are excluded from exchange obtaining in the recognised system, national accounts and are excluded from national statistics. The workforce is not recognised, registered, regulated and protected by labour regulations and provisions, like those in the formal sector; the workforce is vulnerable, powerless and excluded from all labour activities. This situation illustrates what obtains to informal workers in Zimbabwe.

The Zimbabwe Revenue Authority (ZIMRA), charged with the task of collecting taxes from all business operators, (http://www.zimra.co.zw/index.php?option=com_content&view=article&id=33&Itemid=31), including small to medium enterprises, introduced the concept of presumptive taxes in respect of the informal SME sector. The concept of the Presumptive Tax Legislation is built on the understanding that an entity is in business but is not formalised to the extent that it has records, the place of business operations is known and tax payments can easily be computed. The business particulars are either unknown or they are so scanty that no meaningful intelligence can be derived from them. Because of this, the government came up with a blanket amount of tax that every operator in a specific area of operation should pay as tax.

The exclusion of the informal sector from government and labour regulations, motivated the government to introduce presumptive tax legislation to broaden the revenue base in view of the increase in informal business activities. Selected sectors of the economy were targeted to ensure the participation of informal businesses in tax payment in line with experiences of other developing countries.

Muchimbidzi (undated) says presumptive taxation is an indirect way of calculating tax liability, a different method of the usual calculation based on the taxpayer's account. The presumption is that a tax liability exists; the taxpayer's income is not less than the income comparable situations. According to Muchimbidzi (undated) the computation method covers 'a wide variety of alternative means of determining the tax base, ranging from methods of reconstructing income based on administrative practice, which can be rebutted by the tax payer, to true minimum taxes with tax bases specified in legislation. The provision for the levying of a presumptive tax on informal traders is in the Income Tax Act, at 10%.

Presumptive tax is born out of the supposition that the probability of a taxable income exists; a business concern, unregistered for tax purposes, is accruing enough income from its operations to warrant the payment of tax. Such business concerns include cottage industry operators, hair salons, small miners and omnibus operators.

Table 1: Presumptive Tax for Transport Operators

Operator of:	Description	Presumptive Tax (US\$ per quarter for each vehicle)	Presumptive (US\$ per month with effect from 1/01/2017)
Omnibuses	8 to 14 passengers	150	40
	15 to 24 passengers	175	45
	25 to 36 passengers	300	70
	From 37 passengers and above	450	100
Taxi-Cabs	All	100	25
Driving Schools	Class 4 vehicles	500	100
	Class 1 and 2 vehicles	600	130
Goods Vehicles	More than 10 tonnes but less than 20 tonnes	1000	200
	More than 20 tonnes	2500	500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2500	500

Source: ZIMRA

The table gives blanket tax obligations for the people deemed to be in the same bracket, based on the size of a vehicle, not the amount of business a vehicle carried out within a given period. Clearly, this is an inefficient way of collecting government revenue; the potential taxpayer is not charged tax according to their performance.

Table 2: Other Presumptive Tax Categories

SME Sector	Presumptive Tax	Period
Hairdressing Salon	USD10	Per chair per month
Informal traders	10%	Of rental per month
Small sale miners	0%	indefinite
Cross-border traders	10%	Of value of import for duty purpose
Restaurants and hotel operators	USD70	Per month
Cottage industry operators	USD70	Per month

Source: ZIMRA

Table 3: Commercial waterborne vessels

Operator of:	Carrying capacity inclusive of cabin crew/description	Presumptive tax per quarter per vessel in US\$ with effect from 1 January 2012	Presumptive tax per month per vessel in US\$ with effect from 1 January 2017
Waterborne Vessel	Up to 5 passengers	250	60
	6 to 15 passengers	500	100
	16 to 25 passengers	1 000	200
	26 to 49 passengers	1 500	350
	50 passengers and above	2 000	450
Waterborne Vessel	Fishing rigs	350	80

Source: ZIMRA

The finding of Muchimbidzi's undated researched is that 'there is massive evasion of tax by informal traders in Zimbabwe'. A number of reasons cited for the evasion of tax include a lack of information and knowledge, lack of formality and proper accounting records and deliberate evasion. These and other reasons indicate that the level of tax hemorrhage is tremendous; an uninformed computation

FinScope (2012) indicates that SMEs employ an estimated 5.7 million people; 2.8 million of the people are owners of MSMEs and 2.9 million are employees. If both owners and employees paid an average of USD30 per month, the government would be USD171 million better off than now when they do not pay anything. If the SME owners owned one

SME each and it contributed, on average, USD250 every month to the fiscus then government would get around USD725 million each month; add the two together and the government would be better off by about a billion dollars every month. The Zimbabwean economy was reduced to an informal one due to the closure of big companies and suppose each SME were formalised for tax purposes, the rewards for formalisation would be huge.

1.2 Statement of the problem:

The massive non-payment of tax by informal traders in Zimbabwe is motivated by reasons and perceptions that the informal traders find plausible. The reasons and perceptions should be established; and government should be encouraged to formalise every informal enterprise and increase tax inflows.

1.3 Research questions:

Main research question

1. How do informal traders justify non-payment of tax to government?

1.4 Subsidiary questions:

1. Why do informal traders feel that they should not pay tax?
2. How does the informal sector justify their not paying tax to government?

1.5 Purpose of the study:

The study sought to encourage government to formalise the informal sector through use of innovative means.

1.6 Significance of the study:

The research is of paramount importance to government, the informal and formal sectors of the economy and the different stakeholders of the informal sector.

The government should realise the urgency of finding a way of formalising the sector, like loosening regulatory requirements, reducing the cost of formalisation and formally engaging the sector.

The informal sector's voice needs to be heard and one way of doing that is through studies like the current one. The formal sector and stakeholders should be involved in the interaction between government and the informal sector and that can happen when they know what is happening in the economy.

1.7 Delimitation of the study:

The scope of the research is the informal enterprises resident in Harare City and seeks to establish the perceptions and reasons why informal sector is not complying with tax payment regulations that negatively affects government revenue.

2. REVIEW OF RELATED LITERATURE

The review of related literature affords the researchers an opportunity to learn from other researchers who researched in this area before them. The main consideration is to establish the reasons for the proliferation of SMEs that do not formalise their operations, establish the reasons some SMEs formalise and, in the process, educate the government on the imperative of formalising all the SMEs in the country. The purpose of the study is to illustrate that government is the ultimate benefactor of formalisation of the economy.

Nelson and de Bruijn (2005) define informal enterprises as those that behave in an uncodified manner; they do not follow regulations and rules of government. These regulations preclude the informal enterprises from accessing the banking sector and credit facilities, they impose a tax regime that scare away business enterprises from formalising their activities. The informal sector generally grows a negative attitude towards government regulations. Nelson and de Bruijn (2005) continue to state that the informal enterprises have no property rights that are assured by government, they lack working and investment capital, technology and competences, working space and premises, and cannot access training services.

The study defines Zimbabwean informal sector as those enterprises unregistered with state authorities but possess local authority licences to undertake business activities, which is similar to the Tanzanian situation, according to Nelson and de Bruijn (2005).

2.1 Conceptual framework:

The informal economy is given many different names. Schneider (2006), cited in Chekenya (2016), calls an informal business sector the shadow economy and proceeds to state that informal economies were functional in countries with low incomes. The informality of such economies lies in the fact that such economies produce legal goods and services but fail to comply with the government's legal provisions. The other name of the shadow economy is the second economy.

Sustainable Livelihoods Foundation (2016) breaks down informal economy into its constituent parts; township economy, reflecting townships with space on the streets for business. These informal businesses are mostly of a micro-enterprise nature.

According to Sustainable Livelihoods Foundation (2016), the informal economy is fueled by the strict implementation of regulations and the regulatory framework that business enterprises must operate under, in the form of permits and licences.

The SMEs are hindered from formalising due to policy requirements and zoning regulations that restrict certain activities to designated spaces. The special layout of residential areas and the shopping spaces may restrict or expand the type of business activity that entrepreneurs are able to undertake.

Sustainable Livelihoods Foundation (2016) refers to an increasing understanding of the link between the spatial layout of a township economy and its resident micro-enterprises. For instance, an area with reduced vehicular traffic may result in increased pedestrian traffic, which results in increased micro-activity because of pedestrians walking by; the pedestrian economy.

2.2 Theoretical framework:

According to Chekenya (2016), three theories of informality explain the reasons enterprises do not formalise their enterprises; the exclusion model, the rational exit model and the dual-economy model. The exclusion and the rational exit models stem from classical theoretical traditions.

De Soto (2000), cited in Chikeya (2016), says that the exclusion model reflects a situation of informality that is a result of burdensome regulations. Government excludes enterprises from formalising by imposing too many policy requirements and regulations. Through the removal of barriers to formalisation, many informal enterprises could formalise and secure financial assistance, which unlocks their potential to grow and exploit their entrepreneurial potential. The barriers can be in the form of stringent licencing regimes, red tape and restrictive legal requirements.

The rational exit model is a logic-based model that response to high costs of formalisation, when considered against the benefit that accrue to the entrepreneur or owner of the SME. Chikeya (2016) says that when costs outweigh the benefits, enterprises opt out of formality. The costs could be in the form of high costs of accessing financial services, costs encountered through government contracts, courts, and tax payments, costs of compliance to regulatory requirements and costs of staying within a formal environment. The benefits of operating formally include access to financial services, access to public infrastructure, limited liability, commercial contracts and freedom of association with other enterprises. Added to these are the workers' recognition and protection in the legal environment and the rights and privileges that accrue to workers.

The dual-economy model realises that an economy is composed of both formal and informal sectors; informal enterprises are fundamentally small and inefficient. The owners or entrepreneurs are poorly educated, which leads to low productivity that prevents them from joining the formal sector because they cannot afford the formalisation costs. The informality is a function of poverty and resides in the mainstream economy; they are two sides of the same coin. The researchers believe that informal and formal economies are equal to a healthy economy; an economy that nurtures both types of entrepreneurships.

The study adopts the three models as they portray the situation obtaining in the country. There are those small to medium enterprises that feel excluded because they cannot afford the costs of formalisation; the policy and regulatory environment is an impenetrable forest to them. The second category of enterprises cannot access financial services and other benefits of formalisation and they decide to forego formalisation. The third group of enterprises belongs to the marginalised entrepreneurs who eke out a living selling trinkets and basic foodstuffs, but cannot formalise their operations due to the costs that are involved.

2.3 Reasons for informality:

According to Nelson and de Bruijn (2005), an informal enterprise in Tanzania is one that does not comply with government regulatory requirements and does not pay government taxes; an informal enterprise does not seek a government operating licence, permit, notification or any form of government registration that authorises the entity to operate as a business concern.

A research by Williams (2014) indicates that there are many reasons why enterprises operate informally.

Table 4: Enterprises' reasons for operating informally

	Fully informal	
Anti-formalisation	<p>Fear of losing social benefits. Do not view as 'real' business. Limited intermittent income streams. Corruption of state officials. Lack of tax morality. Perceived injustice and unfairness of tax office. Perceive their endeavour as illegitimate.</p>	<p>Fear losing social benefits. Do not view as 'real' business. Limited intermittent income streams. Corruption of state officials.</p>
	Fully formal	Pro-formalisation
	<p>Problems of registering as business. Tax unfairness and tax injustice. View informality as having positive, not negative, impacts. View it as petty fiddling. Everybody else doing it. Tax unfairness and tax injustice. Necessity to stay in business.</p>	<p>Pressure from customers. Complexity of compliance. Lack advice on how to formalise. Perceive benefits do not outweigh costs.</p>

Source: Williams (2014)

2.4 World experiences:

In a study on the management of fisheries in Brazil, McGrath (2012) concludes that for any policy initiative to work, the involved community of enterprises should be involved in the formulation of the policy and its implementation. In the same vein, the informal sector could team up with government to construct formalisation policies that are favourable to the operators and government; a win-win situation. This way the informal enterprises formalise their businesses and government receives what is due to it in the form of taxes. The same community of enterprises could monitor the entrance of new players into business, assist them register and in operating their business successfully.

Shahid and Williams (2014), in a study in Pakistan, reveal that two in five entrepreneurs are neither fully formal nor informal, but hover between the two extreme positions. There is a high degree of tolerance for informality, which is reducible through education and culture change targeting values, beliefs and norms.

Koroma, Nimarkoh, You and Ogalo (2017), in a study of African experiences and trends in Africa, note the Ugandan experience; Uganda formulated a policy framework to guide informal traders with issues of quality and value addition as a way of enhancing informal traders' earnings, leading to formalisation. Colombia's 'Formalisation Law 1429 of 2010' was designed to formalise informal firms and increase the employment of formal workers. The law was meant encourage formalisation in the formative stages of an enterprise due to reduced costs and a simplified process. The law was supposed to "generate employment, increment formality and make us more competitive" as a nation (Koroma *et al* 2017:16). The same authors cite the Common Market for Eastern and Southern Africa's (COMESA) Simplified Trade Regime (STR)

policy-induced initiative that promotes trade by recognising cross-border informal traders as crucial operators/players in their economies. The informal traders are encouraged to trade freely on a commercial basis, and mainly on duty free basis. When recognition is afforded at continental level, the importance and role of informal players in continental economies is enhanced and their contribution is likely to increase. At an anticipatory level, Koroma *et al* (2017) state that the introduction of a Common Passport for the Economic Community of West African States (ECOWAS) would enhance trade between and among member states, including that of informal traders. This is enhanced by the introduction of a single tourism visa in 2014; the informal trader's existence and support is assured and their economic role guaranteed. In the Southern African Development Community (SADC) region, the formation of the Advocacy Strategy on Informal Cross Border Trade of 2011 was targeted at informal cross border traders and women; governments were expected to mainstream economic and trade policies on informal traders. This enhanced the sharing of information on cross border informal traders within the SADC region with a view to increasing the volume of trade and enhance national livelihoods.

Koroma *et al* (2017) summarise the experiences and trends in Africa on issues pertaining to the formalisation of informal enterprises, as follows:

1. Governments in Africa should support informal enterprises by removing or reducing barriers to formalisation; they should create a business-friendly environment
2. Informal sector should form partnerships to help them pool resources and expertise
3. Incentives were critical if the informal enterprises were to formalise; retroactive tax should also be ignored as an incentive to formalise
4. The courts are used as the last resort in the formalisation process and should be avoided wherever possible. Government should not link revenue generation to formalisation; the two should be distant cousins
5. Informal traders are frightened away from registration if the process required many documents and a long process; one all-inclusive document should suffice
6. Governments should dialogue with the informal sector for buy-in and appreciation of each other's position. Dialogue removes suspicion and generates goodwill.

The above recommendations were applicable to all countries and situations; they were meant to unlock formalisation challenges found in most of the countries in Africa. In an undated document, the United Nations Conference on Trade and Development (UNCTAD), advocated to member states to make formalisation easy and limit the number of documentation involved, among other suggestions.

2.5 Benefits of formalization:

Mphambela, <https://www.southerneye.co.zw/2014/05/13/>, outlines reasons why formalising is such a positive move for informal operators in Zimbabwe. The major reasons are that formalisation:

1. creates a name for the enterprise
2. develops a unique brand identity for the enterprise
3. builds goodwill
4. develops a sound banking relationship
5. accesses loans
6. attracts new investors
7. manages growth, longevity and continuity
8. accesses trade and local authority licences

2.6 Government action:

Williams (2014) suggests that government can take one of four policy alternatives; government could do nothing, it could deregulate formal entrepreneurship; it could abolish informal enterprises and or government could formalise the informal enterprises. The first alternative of doing nothing is not a viable option; formal enterprises cannot operate in an environment of unfair competition, where the informal enterprises can charge low prices because of their low operating costs. Government should assist informal enterprises to access credit and grow their business; the customer should be

guaranteed that safety and health standards are being observed; and, taxes should be paid to government by the informal enterprises. The second option of reducing all enterprises to informality is equally unacceptable; it reduces the high operating standards of formal enterprises to the level of informal enterprises. The positive aspect of formalising the economy would be to reduce all enterprises to the same operating level and simplify compliance with business start-ups; no enterprise would fail to comply. The acceptable option is to formalise the informal enterprises.

According to Williams (2014), government should prioritise the formulation of policy that encourages all informal enterprises to formalise their operations. Williams (2014) says policy is divided into direct and indirect segments. Direct policy is further divided into incentives to formalise or deterrents imposed to enterprises that are reluctant to formalise. Deterrents could be in the form of increased penalties to both individuals and businesses for operating informally. This could be achieved through data matching and sharing, joined-up strategies and operations. Other penalties could be increased sanctions and advertising penalties to informal businesses. On the positive side, government could simplify compliance requirements, offer direct and indirect tax incentives, share supply chain responsibilities and offer support and advice to start-ups. Government could also offer supply-side incentives, like voluntary disclosure, supply-wide amnesties and smoothing the transition from informality to formality.

Government could address the informal sector by offering indirect controls through a reduction of the asymmetry between formality and informality. A deliberate change in culture, by changing norms, values and belief system enhances the formalisation of the informal sector. Government could also change its laws, regulations and codes of conduct or behaviour. Government could implement tax measures, normative appeals; undertake education and awareness raising training sessions and offer benefits for declared work. It is also important to introduce a culture of procedural fairness and justice, exercise redistributive justice and undertake wide economic and social development (Williams, 2014).

3. RESEARCH METHODOLOGY

The research was guided by a qualitative paradigm. The researchers sought to access the thoughts, experiences and perceptions of informal sector operators in respect of their presumptive tax payments and whether they think government is receiving its dues or not. The quantitative paradigm allows researchers to interact with informal sector practitioners in in-depth interviews, where they can freely express their views, perceptions and experiences in a cordial environment.

The researchers regarded the informal sector players in Harare as the target population, without specifying a particular segment since all segments are supposed to pay presumptive tax. From the adopted population, the researcher selected finance sector, the stationery sector, the food, beverages sector, and the clothing sector. These sectors were chosen based on the numbers that are readily available in Harare.

In-depth interviews were held with representatives of each sector, who were conveniently selected. The in-depth interviews were terminated after eight practitioners had been interviewed; the point of saturation had been reached, where interviewees stopped adding new information to the study. Each one of these interviewees was requested to provide another practitioner from their sector of company to be included in a focus group discussion. The focus group discussion was held with eight participants; the discussants expressed their perceptions, experiences and beliefs about the payment of presumptive tax to government.

The generated data were tabulated and analysed as it was accessed, first in broad codes and later when these were grouped into themes. The researchers identified the main themes, based on the research questions, and subsidiary themes. Findings were derived from these themes, which in turn, resulted in a study conclusion.

4. FINDINGS OF THE STUDY

The characteristics of participants were illustrated as follows.

Table 5: Demographic data of participants

Name	Age –Years	Informal sector	Qualifications	Experience in informal sector- years
Godwin Chamu	38	Stationery	Ordinary Level	16
Grace Dema	41	Clothing	Advanced Level	21
Yemu Chigorimbo	42	Food and Beverages	ZJC	23
Charlotte Gunde	29	Clothing	Advanced Level	11

Livingstone Shariwa	55	Clothing	Ordinary Level	32
Tawanda Dzimone	49	Finance	Bachelor's degree	19
Rumbidzai Rambanepasi	36	Stationery	Bachelor's degree	10
Regis Sithole	34	Finance	Ordinary Level	13

Source: Research findings

What emerged from the demographic analysis was that there was no discernible pattern for choice of business. A practitioner got into a sector due to the need to sustain oneself and feed a family. The in-depth interviews pointed to the need for self-sustenance as the reason the participants joined the businesses in which they are now involved, more or less permanently.

Table 6: Themes on generated data

Main Theme	Subsidiary themes	Source of theme
Never paid taxes of any form	Government wants to reap unjustly Presumptive tax without infrastructure No financial assistance Earning just enough to sustain family Where does the tax come from? Presumptive tax is like going on a fishing expedition	In-depth interview
Corruption in Government	Tax is money down the drain Where is government service? Money is abused Fat cats steal our tax There are no projects for the people Cannot pay to feed bottomless pit	In-depth interviews and focus group discussion
No justification to pay tax	Informal traders do not have working space Infrastructure not provided Expensive Not given financial assistance Traders must meet government first	In-depth interviews and focus group discussion
No profit in informal sector	We don't make money Informal sector is broke Informal sector is milkless cow I am owner and worker, where do I get the money.	In-depth interview

Source: Research findings

The participants reached consensus on the question of presumptive tax payments to government; they had not paid any tax. They felt that presumptive tax was like going on a fishing expedition where government was not sure of who would pay and who would not. Government should know who was eligible to pay tax and how much they were supposed to pay; those who paid tax should feel it was used properly. Participants felt that there was no justification in paying presumptive tax when the little that government used was not employed in improving the status of the sector.

Generally, the participants are convinced that there was little profit in the informal sector, compared to the costs that they incurred in formalising their operations. A few said that the major reason for being informal was that they needed a source of survival, not to make money. The participants also felt that the rampant corruption in the economy was most evident in government departments, which involved the taxes that were paid to government; more taxes meant increased corrupt activities.

5. CONCLUSION AND RECOMMENDATION

The major finding was that, of all the interviewed informal sector practitioners, not even one has ever paid presumptive tax. They all cited the allegation that government abuses tax money, it does not plough back any of the collected taxes and the informal sector did not generate enough money to pay taxes. The researchers recommended further research to establish the exact figures of money lost by government through non-payment of presumptive tax. It is not enough to approximate the loss; the loss needs to be quantified accurately because it is huge.

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