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Impact of COVID-19 on tax revenue collections in Zimbabwe

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1. Abstract

The novel coronavirus (COVID-19) in the world has negatively affected the economy in every sector of the world. Revenue losses is being experienced as most of the countires responded to the WHO recommendation of lockdown. Most of the business sectors were temporarily closed down due to the pandemic. Both developing countries and developed countries were affected with this pandemic, including the nation of Zimbabwe. Though the country is struggling economically, COVID-19 has affected the economy negatively as taxation is the critical source of government revenue. This study adopted an extensive literature review in order to address the academic gap. Literature on revenue and excise duty collected was donwloaded from the ZIMRA website (www.zimra.co.zw). In an attempt to understand the effect of the pandemic on tax revenue in Zimbabwe, we focus on how most of the business sectors were affected by the pandemic. Results indicated that excise duty declined for the first quarter of 2020 but rose grdually in the second and third quarters. Findings of the study also showed that there was an increase in the revenue collected throughout the 1^{st}, 2^{nd} and 3^{rd} quarters of 2020. This study established that COVID-19 will have short to long term negative impacts on Zimbabwe tax revenue. Basing on the results it can be recommended that Zimbabwe will need to increase their tax base by investing in the production sector and revising their tax policy and administration measures.

2. Keywords

COVID-19, tax basetax revenue, , tax policy, Zimbabwe

1.0 Introduction

COVID 19 pandemic, which was first detected in China in December 2019. According to statistics from World Health Organisation (WHO) on April 17 2020, the pandemic has claimed 140 000 lives and 2.1 million people have been infected globally. The impact of the COVID19 pandemic has been far most demaging in Europe, America, Asia and also Africa was not spared.

The nation of Zimbabwe has not been spared by this devastating disease. According to the Ministry of Health and Child Welfare in Zimbabwe, the nation had recorded 23 cases and 3 deaths, but still the nation is still in fear of an explosion of the pandemic in the country. On March 1, 2020 WHO declared COVID 19 a pandemic and recommended measures/policies to safeguide the disease. The recommended measures include lockdown, shutdown, social distancing, stay home and travel restictions. In response to the WHO's recommendations, leaders implemented the prescribed measures to mitigate the impact of COVID19 in their respective countries and globally.

On 23 March, the government of Zimbabwe put in place the following measures in response to WHO recommendations:

Boarder control: Government has decided to ban all non-essential travel and traffic, both inbound and outbound; except for movement of cargo. Government will close all boarders to human traffic, excluding returning residents.

Ban on entertainment and recreational activities: Government has put a blanket ban on gathering in nightclubs, bars, beerhalls, movie houses, swimming pools, gymnasium and sporting activities.

Public gatherings: All public gatherings should not exceed 50 persons. These include religious fellowship, weddings, conferences, workshops, and funerals.

Hospital visits: Hospital visits have been reduced to one visit per day, involving one relative per patient.

In addition the , the government of Zimbabwe announced the following measures:

1. total lockdown for 21days, starting from 30 March 2020. Only essenrial services and goods will be exempted.
2. Ban of all public transport operations excluding Zimbabwe United Passenger Company (ZUPCO) and Public Service Commission (PSC).
3. Deployment of security services and so on.

With these measures in place , and many business sectors being shutdown in response to the government directives and also to protect workers during this period (ZCTU response to covi19, 2020). Zimbabwe will be hugely affected because of the trade disruptions, travel bans and closure of boarders, low remittances, disruptions in agriculture, manufacturing and other sectors, exports, depressed Foreign Direct Investments (FDI) and so on.

Taxation has been a thorny issue in Zimbabwe (newsday, March 2018) due to market upheavals witnessed by businesses in the economy. Because of the pandemic, most of the Zimbabwe business sectors are struggling under the weight of COVID19 pandemic. Most business players are crying out for mitigatory measures including suspension of certain taxes and import duties on goods to facilitate efficient importation (Herald, April 2020). Economic analyst are saying that because of the disruptions in supply chain and the reduced access to markets for commodities and inputs, most businesses have experienced loss of revenue as most the companies are battling to meet fixed costs including payroll obligations (Herald, April 2020).. Loss of revenue of companies means loss of tax revenue to the government, this has prompted the researcher to assess the extent to which government is likely to lose tax revenue due to the closure of non essential services in Zimbabwe.

2.0 Understanding of pandemic and CoronaVirus

According to WHO (2020) Coronaviruses are a family of viruses that cause illnesses in humans and animals. These viruses cause respiratory infections ranging from colds to respiratory sydroms. In December 2019, COVID-19 a type of sydrome coronavirus 2 (SARS-CoV-2, formaely called 2019-nCoV) was identified in Wuhan City in China. The pandemic was reported to WHO on 9 January 2020. According to WHO (2020) the symptoms are fever, dry cough, tiredness, nasal congestion and headache. The COVID-19 spreads from one person to another through small droplets from the nose or mouth of an infected person when he/she coughs, sneezes or speaks. The droplets once they land on surfaces such as tables, doorknobs and handrails, people can be infected if they touch these surfaces. Due to the speed the virues spreads among people WHO recommended measures to be taken by countries across the globe. The measure were to have social distancing (one metre apart), washing of hands with soap or sanitising them, avoid touching eyes, nose and mouth, cover the mouth and nose with a bent elbow or disposable tissue when coughing and sneezing and stay at home and seek medical attention from local healt provider, if feeling unwell (UN News, 2020).

Currently the virus has widely spread across the globe (WHO,2020). According to WHO (2020) COVID-19 infects all people (white or black; young and old), however the most vulnerable groups are “old people and those with underlying medical conditions” such as cardiovascular disease, diabetes, chronic respiratory disease and cancer. These people are advised to take further measures, in addition to those recommended by WHO, by ensuring that people around them are following the prescribed recommendations.

2.1 Tax revenue

According to Piana, (2003) taxes are mandatory payments made to the State and are governed by law. Taxes are the primary source of income for the government , and the Business Stardard states that tax revenue is the income gained by the State through taxation. Tax revenue is made up of different types of taxes, depending of what is taxed. There is direct which includes corporate tax, stamp duty, customs and import duty, and indirect taxes which include VAT, PAYE in Zimbabwe. Tax revenue can be regarded as a measure of the degree to which the government controls the economy’s resources. Tax revenue as a percentage of the Gross Domestic Product (GDP) indicates the share of the country’s output collected by the government through taxes.GDP dynamics are a major determinant of tax revenue.tax revenue is the application of a tax rate to a tax base, the larger the tax base the higher the tax revenue nad vice versa (Piana, 2003)

2.3 COVID 19 and its impact on tax revenue in zimbabwe

The impact of COVID-19 pandemic has been felt globally, but in developing nations it has left a devastating effect . the pandemic is taking its toll on the world causing deaths, illnesses and economic despair. According to IMF developing countries will be affected the most as more people in these countries live close to the international poverty line. The

International Monetary Fund said Zimbabwe's economy would shrink by as much as 7.5% this year owing to the effects of the pandemic.

2.3.1 Exports

With the movement restrictions across boarders , trade between companies of different countries decreased. Many airlines cancelled flights that were booked in advance , this resulted in less inflows of business in tourism industry. Hotels have closed and dates of reopening remains uncertain. Tourist centres such as Great Zimbabwe monuments and Victoria falls recorded lowest tourist since the lockdown. According to Zimtrade magazine of March 2020 COVID 19 is expected to delay some trade related activities such as Trade fairs (exhibition), market surveys as the country continue to ban international travelling and large gatherings. Therefore the tax revenue the government was supposed to collect from these business was affected. Trade within the African continent was affected in the short term as countries reduced importation. This has impacted Zimbabwe adversely as exports like tobacco, fruits, nuts, citrus fruits, live animals could not be traded except for essential goods only. With the closure of Beibridge boarder post, Zimbabwean exports were affected since it takes 49 percent of Zimbabwe total exports. According to Zimtrade (2020), Zimbabwe exports to Europe were $60 million from products such as precious stones, cut flowers, vegetables, raw hides and skins, leather, works of art and tobacco. Since Europe has become the epicentre of COVID-19 , this has a negative impact on Zimbabwe as some orders will be cancelled.

2.3.2 Companies

Large and listed companies have been affected adversely by the COVID- 19, with the opening of industry and commerce by early May 2020 after the lockdown, with limited operational hours. According to the City Press , economist have warned that worse fortune awaits the country's economy after the pandemic. This means that the pandemic will have detriemental effects in the long run to the country's economy. Companies are now forced to retrench workers or to have salary cuts for their workers as they rationalise and restrategise for lost earnings during the lockdown. Retrenchment and salary cuts of workers means loss of tax revenue, in reduced Pay As You Earn (PAYE).

Research methodology

The study made use of secondary data which was obtained from the Zimbabwe Revenue Authority (ZIMRA) for the 1st, 2nd and 3rd quarters. Reports for the three quarters was downloaded from the ZIMRA website (www.zimra.co.zw). The first quarter ended 31 March 2020, whilst the second quarter ended on 30 June 2020 and the third quarter ended 30 September 2020. The data which was taken and reorganised from the reports included targeted and collected revenue and targeted and collected excise duty. For the each of the data sets variance percentage was reorganised such that there is determination if ZIMRA surpassed or failed to surpas the set targets.

Results and Discussion

Collected and targeted excise duty for the 1st, 2nd and 3rd quarters of 2020

Results presented in Figure 1 shows the targeted and collected excise duty for the first three quarters of 2020. For the 1st quarter it can be observed that ZIMRA failed to meet the targeted duty. From table 1 it can be noted that there was a negative variance of -11.73%. Thus, this implies that less revenue was collected by ZIMRA. From the 2nd quarter which ended on 30 June 2020, it was noted that there was a slight improvement in the duty collected as ZIMRA surpassed its target and there was a positive variance of 5.87%. For the 1st and 2nd quarters the duties both collected and targeted failed to surpass each the ZWL 3billion mark.

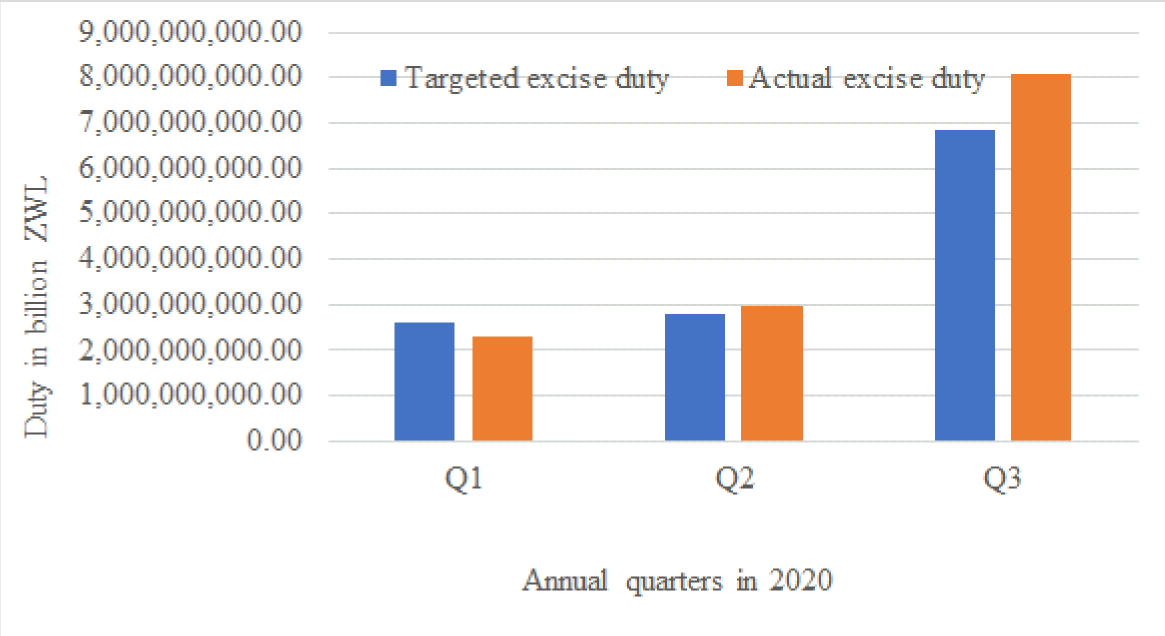

Figure 1. Collected and targeted excise duty for the 1st, 2nd and 3rd quarters of 2020

For the 3rd quarter there was an increase of actual duty collected by 5billion dollars and the target was achieved. The 3rd quarter attained the highest variance between targeted and collected revenue (17.99%). Therefore, the impact of the Covid-19 restrictions were not felt in the 1st quarter were there was negative variance percentage. This can be alluded to the high levels of smuggling and people evading paying duty. Also the lockdown was imposed on the 30th of March 2020. In this case the effect of the lockdown cannot be noted on the excise duty collected.

Table 1. Targeted and collected excise duty for the three quarters of 2020

Quarters	Variance %
Q1	-11.73%
Q2	5.87%
Q3	17.99%

Actual and targeted revenue for the 1st, 2nd and 3rd quarters in 2020

Figure 2. Actual and targeted revenue for the 1st, 2nd and 3rd quarters in 2020

Table 2. Variance between collected and targeted revenue

Annual quarters for 2020	Variance
Q1	10.42%
Q2	42.75%
Q3	27.16%

The period just before the commencement of the national lockdown due to the COVID-19 pandemic. The report shows that during this period the Zimbabwe Revenue Authority (ZIMRA) remained focused on the execution of its five-year strategy and maintained positive revenue collection results amid adverse economic challenges including the effects of the COVID-19 pandemic. During the first quarter of 2020, ZIMRA managed to collect cumulative net revenue of \$13.88 billion against a target of \$12.57 billion (10.42% above budget)

In the 2nd quarter revenue collections maintained a positive trajectory in nominal terms despite the adverse operating environment that has been exacerbated by the Covid-19 pandemic. The second quarter of 2020 was characterized by a widening gap between official and parallel market exchange rates and rising inflation. Net revenue collections for the second quarter of 2020 amounted to ZWL\$20.11 billion against a target of \$14.09 billion (42.75% above target).

Companies-The increase in the 2nd quarter on revenue collections was because of the hyperinflationary environment in the country. The Authority compliance programmes also ensured sustained compliance under difficult conditions of lockdown. Though ZIMRA experienced a drop in revenues below target in April 2020, the eased lockdown conditions in June 2020 boosted revenue collections as more business resumed operations.

Individuals – The revenue head registered a positive performance, mainly buoyed by cost-of-living adjustments, interbank rate adjusted salaries and cushioning allowances paid by most companies to cushion their employees against the hyperinflation scourge.

Intermediated Money Transfer Tax (IMTT) – The Authority continued with the compliance improvement strategies on the telecom sector and mobile money platforms to ensure improved collections; this had a positive impact on collections. The tax head performed above target as the use of data increased during the quarter with businesses setting up home work stations during the lockdown.

Excise Duty – Though the revenue head was marginally above the set target, collections in the quarter were negatively affected by reduced economic activity due to travel restrictions during the lockdown.

Customs Duty and VAT on Imports – The ban on non-essential imports and closure of some border posts at the start of the COVID-19lockdown had a major negative impact on Customs Duties and VAT on imports, reducing both their contribution to the overall collections and performance against the set targets. The performance of the revenue heads would, otherwise, have been better with the continued depreciation of the local purchasing unit against major currencies since import duties and VAT on imports are calculated using the prevailing exchange rate.

Though it seems there was a positive growth in revenue in the 2nd quarter in nominal terms, in real terms there was no growth because of the hyperinflationary environment that the country is experiencing.

The revenue performance in the Third Quarter ended 30 September 2020 reflected an upward trajectory despite the challenges in the operating environment during the period. Covid-19 lockdown conditions were relaxed, enabling more businesses to resume operations, thereby enhancing their ability to meet their tax obligations. Furthermore, the monetary policy interventions that were done during this period inflated the amounts to be collected resulting in a corresponding positive impact to the revenues. Caution had to be taken in granting tax incentives in the Mid Term Budget Review process as the impact of the Covid-19 pandemic was not yet clear enough. The need to maximize domestic revenue mobilization in the given environment guided the level to which tax incentives could be granted when compared to what other nations could afford. Revenue collections for the quarter were ZWL58.81 billion, translating to 31.19% above the targeted ZWL44.83 billion.

Individuals: The revenue head recorded positive performance due to continuous salary adjustments and cost of living adjustments that employers offered to their employees to counter rising inflation.

Companies: The positive performance during the quarter was mainly driven by the relaxation of lockdown conditions which resulted in more businesses resuming operations, restrictions of imports in line with COVID-19 measures which led to an increased demand for locally produced goods.

Excise Duty: The performance of the revenue is attributed to increased consumption of excisable goods as well as the exchange rate factor in the calculation of duty on fuel, especially in line with the auction rate adjustment.

VAT on Imports: The positive performance of this trade tax is mainly attributed to the diligence displayed by staff when clearing consignments and the prevailing exchange rates used in the calculation of taxes on imports.

Customs Duty: Customs Duties, which are usually among the top five contributors, only contributed 9.40% due to the impact of the lockdown on imports: only food, medicines, protective clothing, and machinery were being imported, and these were mainly either duty free or subject to duty rebates.

IMTT: The Intermediated Money Transfer Tax (2%) lost its momentum, missing the target of ZW$5,860,000,000 by ZW$1,947,176,596.12 (32.23%) and contributing only 6.86% to total revenue for the quarter. This was partly due to the monetary policy interventions introduced to harness the local currency depreciation that was threatening economic stability.

Other Taxes: Mining Royalties, Withholding Taxes and Other Taxes missed the quarterly targets, mainly due to operational challenges in the mining sector caused by energy shortages and the Covid19 pandemic.

Conclusion

This study showed that the decline in excise duty in the first quarter cannot be attributed to the Covid-19 restrictions as the lockdown measures were instituted at the end of the first quarter on 30 March 2020. Therefore, the decline in the revenue can be attributed to other issues other than Covid-19 such as smuggling and corruption. The highest actual duty was collected in the 3rd quarter of 2020. It can be concluded that revenue increased for all the three quarters assessed in the study. From the results indicated in this paper, Zimbabwe is not only affected by the COVID19 pandemic only, but it has been hit hard with the hyperinflationary environment. The results indicated a growth though there is no growth at all because of the negative economic environment.For this study it can be recommended that there is need to curb the other leakages in terms of excise duty which caused the decline in duty as can be the case of the 1st quarter of 2020. Therefore, there is need to deal with smuggling and corruption such that there is an increase in the revenue streams collected by ZIMRA. It can also be recommended that Zimbabwe will need to increase their tax base by investing in the production sector and revising their tax policy and administration measures.

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