



## An assessment of ZIMRA anti-smuggling initiative on tax revenue: A case of Zimbabwe

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### Abstract

The main objective of this study was to assess the effect of anti-smuggling initiative by ZIMRA on tax revenue of Zimbabwean government. The study was descriptive used only primary data from revenue authority revenue performance quarterly reports of 2019 and 2020. From the reports, the researcher took out data on VAT on imports and customs duty for the 1<sup>st</sup> half of 2019, 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2019. For the year 2020, the researcher made use of data for the 1<sup>st</sup> half and the 3<sup>rd</sup> quarter. Results showed that there has been an increase in the revenue collected through custom duty in 2019 up to 5.3 trillion in the 3<sup>rd</sup> quarter of 2020 from 1 trillion in the 4<sup>th</sup> quarter of 2019. Thus there has been about a 4 trillion increase in the customs duty. It can be concluded that the increase in customs duty can be attributed to the anti-smuggling efforts instituted by ZIMRA. Findings also showed that there has been an increase in the amounts of revenue collected through VAT on imports for the period 2019 to 2020 due to measures on leakages put in place by ZIMRA. It can be recommended that there should be adherence to more compliance to the measures by ZIMRA such that there is increase on the revenue from VAT on imports and customs duty.

**Key words:** anti-smuggling, contraband, government revenue, informal business, smuggling

### Introduction

Smuggling of goods is often conducted for one or both of two reasons: to avoid excise taxes, and to evade rules prohibiting the sale of such goods (Merriman, 2012). When similar products are sold at substantially different prices in different locations, there is an incentive to transport the product from the lower-priced to the higher-priced market. Therefore, smuggling can be defined as the evasion of excise taxes on goods by circumvention of border controls. This definition of smuggling encompasses both illegal activities—typically thought of as “smuggling”—and tax avoidance activities which are legal and generally not considered “smuggling.” Economists generally term illegal circumvention of taxes as tax “evasion” while legal circumvention is called tax “avoidance.” Smuggling is a relatively sophisticated industry, often arranged in the form of a network amongst service providers and officials, organised primarily by a small number of key players, and following distinctive tactics, routines, and schedules (Araia 2009). Both illegal and legal circumvention can affect tax revenues and consumption, and hence can be important in the public policy debate. In this paper the term “smuggling” is used rather broadly (and somewhat loosely) to refer to all attempts to circumvent taxes. Revenue collection through customs duty is one of the main sources of income for modern nations, including Zimbabwe.



Since the collapse of the Zimbabwean economy during the last decades, a commodity crunch has forced many retailers to import a variety of goods for resale such as in flea markets. Beitbridge border post has been mostly affected by smuggling as unemployment in Zimbabwe has increased close to 94%. This has forced many people to shift to the informal sector where they hope to earn a living among such groups as cross-border traders who frequently travel to neighbouring countries to sell their products and return home with more goods for resale and some foreign currency (Mwaniki 2011). These traders evade tax for many reasons, but mainly the pressure to maintain high profit margins on goods. According to Mundia (2014) the main factors causing these cases of smuggling goods include the inability to pay high import duties on some goods, congestion and slow clearance of goods, and the existence of underpaid and greedy customs officials who take advantage of the prevailing conditions to accumulate extra money.

The Zimbabwe-South Africa borderland is a haven of clandestine activities such as goods smuggling. These activities usually are carried out by smugglers, they carry goods across the border evading customs and immigration authorities. According to Daiman, (2002) smuggling along the borderland occurs in two forms namely “smart entry” and “dirty entry”. ‘Smart entry’ involves illegally crossing through the official entry points, evading the customs and immigration officials. ‘Dirty entry’ involves the most life-threatening crossings through the numerous unofficial or unsanctioned entry points scattered along the border. Both these forms of smuggling contributed to a great loss of tax revenue by the Zimbabwean government.

Daiman, (2002) pointed out that, some smugglers prefer the ‘dirty entry’ methods of smuggling goods across the Limpopo River. The majority prefer using the ‘smart entry’ techniques through the which involve an extensive syndicate of goods smuggling involving the malaicha, cross-border traders, drivers, dealers, criminals, customs, and immigration officials. The smugglers thrive on bribing the border police, customs, and immigration officials to avoid duty as well as gain entry. This makes the Beitbridge Border Post one of the most porous entry points where the bulk of the goods that pass through the border post are smuggled leading to revenue loss by the two states. According to Gerede (2020), there are syndicates that are involved in whiskeys smuggling business, which come in a range of prestigious brands such as Red label, Jameson Irish whiskey, Blue label, Grants, Best and Vodka among others. The whiskey is much cheaper than authentic local or international brands. This has become a source of foreign currency leakage for the country. Also these whiskeys have become a serious health hazard as some whiskeys contains methanol, a highly toxic substance.

Flynn (1997) also points out that smuggling occurs across borders around the world, providing an important means of livelihood for border residents and prompting creative social networking and cross-border ties within borderland populations. Araia (2009) adds that officials are reportedly being paid regular ‘stipends’, bribed on an ad hoc basis, and encouraged using improper influence, to make smuggling possible in various ways and to protect the smugglers from arrest and prosecution. It has been revealed by Confederation of Zimbabwe Industries that Zimbabwe has 32 illegal entry points, at which contraband is easily smuggled.

Smuggling has negative effects on an economy of a country as it undermines government revenue. When there are various contraband smuggling taking place at a larger scale, the tax revenue decreases,



thereby reducing annual income of the government relatively (Dominguez, 1975). Customs duty forms a significant part of the Central Government revenues, which shows a decreasing trend over the past few years. This will force the government to stiffen tax collection and simultaneously increase extra charges which appear during reform of tax collection for it to balance the income and expenditure. The tax reforms that the government may introduce have their own shortcomings. As the contraband expands the general subordination of economics becomes worse, this is the exact situation in Zimbabwe. This reduces ability of the government to adopt rational decisions and predict consequences of those decisions. In the macroeconomic view the state statistic institutions may not measure changes of the gross domestic product (increase or decrease) more precisely and at the same time the government may not evaluate exactly the coverage of decisions by necessary resources, as some of the income is likely to be lost in the process. Consequences of such process may not be substantiated by reduction of income, increasing budget deficit, wrong understanding of economic processes and as a result improper allocation of resources.

These tax reforms may cause anxiety among economic entities and they will try to transfer their activities from legal and official economics into illegal one or hide a part of their income. To add on, smuggling kills the need of investment and innovations in the country: Innovators protect their thoughts through patents, copyrights, design rights and trademarks. Without adequate protection of these intellectual property rights, the incentive to develop new ideas and goods is reduced, thereby weakening the innovation process (Dominguez,1975). In industries where product development requires significant investment and innovation, smuggling of counterfeit product impairs investments and innovation by undermining the efforts of innovators and discouraging them from further research and development, which ultimately hampers overall growth of the economy. However, smugglers have remained the main hindrance for these entrepreneurs by providing quality products produced by advanced technologies at lower prices. By doing this, they downsize domestic entrepreneurs development and expansions. Innovation in the form of the conception of new ideas for the development of new products or processes and experimentation.

There are health and safety risks which are associated with smuggling. Smugglers carry products that are risky for society. They deal with prohibited goods like drugs, tobacco and alcohol which are the serious threat to the life of many citizens of the country (WEF, 2012). And pornography materials which display genitals and show sex acts in an offensive way, thereby eroding the moral values of the society. Even although the legal system of the countries prohibits the importation such products, they are entering the border increasingly with the increasing number of users (Dominguez,1975) Habit-forming dangerous drugs debase/ demoralize the moral senses of the youth and others who take illegal drugs for pleasure or because of addiction and it also cause them a wave of sickness when they are unable to continue captivating it. The poor-quality smuggled goods can produce health problems in the society.

Smuggling wipes out foreign currency a country may earn from legal import and exports: In June 2019, the Zimbabwean government banned the use of foreign currency in the country because everything was imported and there was shortage of physical cash. Smugglers wipes out the foreign currency that has been earned legally as they evade paying taxes thereby reducing government revenue (Herald, June 19 2019). There is creation of unfair competition in the market through smuggling: The flow of smuggled





products into a country's economy weakens local industries by distorting the prices of the products. These illegal, illicit traders will be well known by the act of providing the products at cheaper prices which will disappoint and may also remove local producers from the market. Their intention was to evade and avoid tax and regulations, so their cheaper prices may result in the breakdown of domestic industries or force domestic producers into bankruptcies. Thus this study intends to assess the impact of the anti-smuggling initiative on smuggling enforcement, and ultimately organized smuggling in Zimbabwe.

### **Strategies for anti-smuggling initiatives**

ZIMRA has gathered momentum in the implementation of a new five-year strategy (2019-2023) whose main thrust is to maximise revenue collection, increase compliance, strengthen institutional image, enhance trade facilitation and protection on civil society. ZIMRA's new strategy is well aligned to the following Government's Transition Stabilisation Programme (TSP) pillars:

- ♣ Improving ease of doing business
- ♣ Restoration of fiscal balance
- ♣ Plugging of revenue leakages

ZIMRA is acutely aware that integrity is the core value and must be reciprocal between clients and ZIMRA. In its five year strategic plan with the new board, ZIMRA is choosing what the law says must be done or what God says is right when no one is looking. ZIMRA has geared to prevent corruption through enforcing the following integrity management tools:

- Lifestyle audits on staff members;
- Asset declaration policy; 9
- Whistle blower facility;
- Using smart technology to remove human interface with taxpayers; and
- Taking corrective action using the ZIMRA Code of Conduct.

According to the Herald of 21 December 2018, the government had appointed a new ZIMRA board, which came with a five-year strategy from 2019-2023. In this new strategic plan, the government has urged the board to carry out lifestyle audit. This was to flush out individuals who acquire ill-gotten wealth and those who create wealth without paying tax. This was after a socialite businessman; the late Mr Genius Kadungure was arrested on allegations of evading tax amounting to \$22 million. According to Herald dated 10 June 2020, the socialite was accused of smuggling 5289kgs of gas into the country. Recently, the tax collector said the government is losing close to US\$1 billion every year through contraband. After the five-year Zimra strategic plan the researcher would like to assess if the anti-smuggling initiative is having an impact on the customs duty.

### **Research methodology**

The research was based on secondary data which was collected from the Zimbabwe Revenue Authority (ZIMRA) website ([www.zimra.co.zw](http://www.zimra.co.zw)). Data from the reports was collected for the three quarters of 2019 and 2020. The first quarter ended on March 2019 and 2020, whilst the second quarter ended on 30 June 2019 and 2020 and the third quarter ends on 30 September 2020. Data for the determination of anti-smuggling initiatives was based on customs duty and VAT on imports for the period under study. Data which was also collected was in the form of contributions to net revenue 2019 and 2020 which was in



the form of percentages. However data for 2020 ends on quarter 3 as the year 2020 has not ended and there is no data for the fourth quarter. The researcher presented the data collected in the form of graphs and tables.

## Results and discussion

### VAT on imports and customs duty for 2019

The results on Figure 1 show the VAT on imports and customs duty for 2019. For the first half of the year, there was more VAT on imports than revenue collected through customs duty. About 500 million revenue was collected through VAT on imports whilst about 350 million dollars was collected through customs duty. It can be noted that VAT on Imports and Customs Duty responded positively to the floated exchange rate and plugging of revenue leakages during the first half of 2019. Shortages of some goods on the domestic market saw imports filling the gap with a positive impact on Customs Duty and VAT on imports.

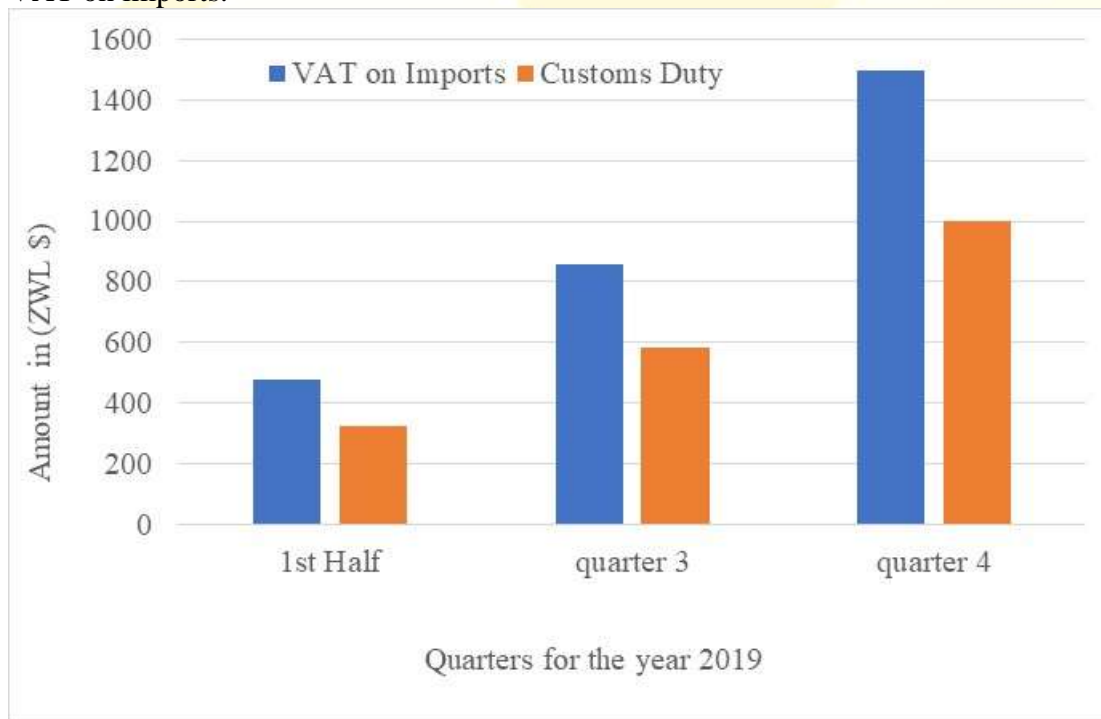


Figure 1: VAT on imports and customs duty for 2019

On Figure 1, it can be noted that there was an increase in the VAT on Imports to about 900million dollars from the 500million of the 1<sup>st</sup> half. There was almost an increase of customs duty upto almost 600million in the 3<sup>rd</sup> quarter. The fourth quarter saw the highest increase of VAT on imports having 1.4 trillion dollars collected against 1trillion dollars collected through customs duty. However for all these times, it can be noted that there was almost a doubling of the customs duty. The floating of the exchange rate in February 2019 continues to bear fruit as VAT on Imports and Customs Duty responded positively. At the same time, increased imports to cover for local shortages have boosted collections of both VAT on Imports and Customs Duty. In the first quarter, ZIMRA intensified corruption prevention measures. The authority had started scoring successes in property seizures under the Money Laundering



and Proceeds of Crime Act particularly houses and motor vehicles. Seizing all proceeds of corruption and prosecuting the offenders will reinforce the ZERO Tolerance to Corruption. In its report of the third quarter there are statistics showing ZIMRA's internal corruption fight statistics as at 30 September 2019 and in that quarter only, 146 cases were investigated. This alarmed both the smugglers and the ZIMRA staff on these illegal activities, forcing them to comply with the regulations.

In the fourth quarter of 2019, ZIMRA intensified lifestyle audits, use of whistle blower information, investigated intelligence and hotline cases and performed due diligence checks. The ZIMRA Loss Control team, in collaboration with other government law enforcement agencies such as ZRP, CID, ZNA, NPA and ZACC, conducted Special Operations to curb smuggling involving motor vehicle imports through the abuse of Customs Clearance Certificates. This has contributed to the growth of Vat on Imports and Customs Duty. The Authority has scored successes in contributing towards curbing corruption with 26 corruption cases having been referred to criminal courts. Other corruption prevention measures included seizures of proceeds of corruption in the form of property, under the Money Laundering and Proceeds of Crime Act, particularly houses and motor vehicles. This helped to reinforce the Zero Tolerance to corruption.

Table 1: Contributions to net revenue 2019

Tax head	First half	Second quarter	Third quarter
Vat on Imports	9.44%	12.40%	12.8%0
Customs duty	6.4%	8.1%	8.46

Revenue performance for the first half of 2019 exceeded the set target on both gross and net positions. Positive performance is attributed to the significant contributions from Excise Duty, Intermediated Money Transfer Tax (IMTT), Individuals Tax, Value Added Tax, Company Tax, VAT on imports and Customs Duty. This has been bolstered by the Authority's revenue enhancement initiatives and strategies aimed at promoting compliance and plugging of revenue leakages.

Revenue performance for the Third Quarter of 2019 exceeded the set target on both gross and net positions. The positive variance is attributed to both inflation and the Authority's voluntary compliance and enforcement strategies. Major contributors to revenue were Individual Tax, Company Tax, VAT on Imports, Excise Duty, Dividends, Fees, Interests and Remittances. From the above table we have noted that there is an increase in the contributions of both the VAT on Imports and the Customs Duty to the net revenue of the country. There is a positive change because of the strategies implemented by ZIMRA in plugging the revenue leakages.

The net revenue collected in Quarter 4 of 2019 grew by a great margin in nominal terms as compared to the same period in 2018. In real terms net revenue collections during Quarter 4 of 2019 grew by 11.44% from the same period last year. Generally, all revenue heads recorded growth in nominal terms which reflects both inflationary pressures and the Authority's revenue collection and enforcement strategies.

### VAT on imports and customs duty for 2020

Results presented in Figure 2 show the changes in VAT and customs duty for of 2020. The results of the study showed that there were more VAT on imports for the 1<sup>st</sup>half. This implies that more revenue was collected through VAT than customs duty. For the third quarter, again more VAT on imports was collected by ZIMRA than customs duty. However it should be noted that there was an increase in the





amounts collected as VAT on imports for the 3<sup>rd</sup> quarter. Customs duty also increased to above \$ZWL5trillion for the third quarter.

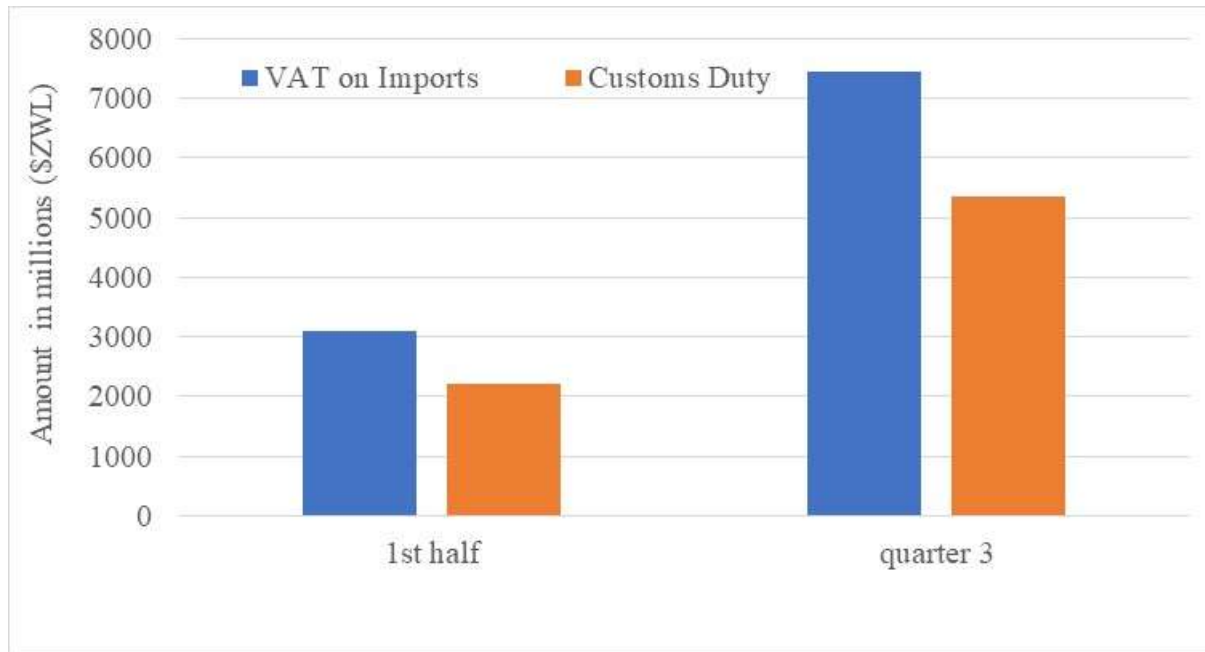


Figure 2: VAT on imports and customs duty for 2020

The Authority worked on risk-based audits and sector-based audit projects to plug revenue leakages during the first quarter. The projects included anti-smuggling, verification of suppliers' compliance and the IMTT. On the anti-smuggling project, the Authority carried out various post importation audits to verify the accuracy of the declarations made while on the suppliers' This can be seen on the above graph with no change from the last quarter of 2019. The first quarter is characterised with low business on imports as compared to the last quarter were the borders will be busy because of the festive season. In the second quarter there is a slight growth on the two tax heads, this has been caused by the COVID-19 pandemic. There were just a few activities on the border post of which most of the imports were exempted as they were channelled towards the COVID-19 pandemic. Therefore, it seems as if the anti-smuggling initiative is not producing results. In the third quarter we can see that there is a great increase in both tax heads as there was some shift in the lockdown restrictions. Also, ZIMRA together with Zimbabwe Republic Police reinforced roadblocks and border patrols to curb smuggling.

Table 2 Contributions to net revenue 2020

Tax head	1 <sup>st</sup> quarter	Second quarter	Third quarter
Vat on Imports	11%	8%	13.08%
Customs duty	8%	6%	9.40

Major contributors to revenue were Individuals Excise Duty, Companies and VAT on Local Sales, and VAT on Imports contributed 11% to the net revenue. The first quarter of 2020 was characterised by exchange rate-based price adjustments, which resulted in most tax payers realising higher sales revenue



thereby increasing their tax liabilities. The performance of Customs Duty, Excise Duty and VAT on imports largely benefitted from the floated exchange rate as Duty and VAT amounts are computed using the exchange rate of the day.

In the second quarter, the major contributors to revenue were Companies, Individuals, Excise Duties, and VAT on Local Sales. Customs Duty and VAT on Imports did not contribute much as shown in the table. The ban on non-essential imports and closure of some border posts at the start of the COVID-19 lockdown 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. Major contributors to net revenue collections in the third quarter of 2020 were: Individuals, Companies, Excise Duty, VAT on Local Sales and VAT on Imports. The positive performance of VAT on Imports and Customs Duty 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 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.

### **Conclusions**

The ZIMRA (Zimbabwe Revenue Authority) made the initiative as an effort to collect more revenues and as part of the plugging revenue leakages. It can be concluded that there has been an increase in the revenue collected through custom duty in 2019 up to 5.3 trillion in the 3<sup>rd</sup> quarter of 2020 from 1 trillion in the 4<sup>th</sup> quarter of 2019. Thus there has been about a 4 trillion increase in the customs duty. It can be concluded that the increase in customs duty can be attributed to the anti-smuggling efforts instituted by ZIMRA. There has been an increase in the amounts of revenue collected through VAT on imports for the period 2019 to 2020 due to measures on leakages put in place by ZIMRA. However, there should be more compliance to the measures by ZIMRA such that there is increase on the revenue from VAT on imports and customs duty.





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