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Waziona Ligomeka

Summary

The proportion of economic activities that are categorised as informal or small-scale is unusually high in Zimbabwe. Given the depressed state of the economy over an extended period, it is logical that the government is more actively taxing small-scale business activities.

Specifically, in 2005 the government introduced a presumptive tax (a tax on gross income), to be paid by small-scale traders in some businesses. The presumptive tax was broadened to include more small-scale businesses in 2011. While increasingly more of the small-scale sector is being subjected to the presumptive tax, little is known about the impact of this tax on the traders themselves – particularly its impact on women, who make up the majority of small-scale traders in Zimbabwe.

This study aims to unravel the reality of taxation in Zimbabwe's small-scale sector by focusing on flea market traders. The research involved interviewing small-scale traders in flea markets around Harare and Bulawayo, government officials and members of a small-scale traders association, and focus group discussions with flea market traders. This paper analyses the different types of tax payments that flea market traders make, the proportion of their income paid in taxes, and gender disparity in flea market trader taxation. Using a representative taxpayer approach, it finds that flea market traders pay a higher proportion of their income in taxes than formal traders, and therefore taxes paid by flea market traders are highly regressive. Women who operate in flea markets are more adversely affected by taxes because they earn a lot less than men (and are thus affected by the regressive nature of informal taxes), and because the markets in question have more women than men. The paper considers the implications of these findings on tax policy as it pertains to small-scale traders in general, and specifically to flea market traders.

Keywords: tax; gender; flea market; informality; cross-border; Zimbabwe.

Waziona Ligomeka is a doctoral candidate at the Institute of Development Studies, University of Sussex.

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Acronyms

CIT	Corporate Income Tax
PIT	Personal Income Tax
VAT	Value added tax
ZIMRA	Zimbabwe Revenue Authority

Introduction

There is a growing interest in taxing small-scale traders in developing countries in both the academic literature and the policy arena (Dube and Casale 2016; Joshi and Ayee 2002). This interest is due to the large and often growing portion of small-scale businesses in many developing country economies, which has eroded their formal tax bases (Bird and Zolt 2008). In addition, given the limited tax revenue being generated from the formal sector, small-scale businesses provide an alternative source of revenue for their governments (Bird and Zolt 2008; Gupta and Tareq 2008). Zimbabwe is one country that is slowly, but increasingly, taxing this sector. In 2005, the country introduced a simplified tax regime targeting small-scale businesses (Dalu et al. 2013), where they are required to pay a presumptive tax instead of the standard corporate tax.[1] Initially, only a limited number of business types were subjected to the presumptive tax. However, additional small-scale business types were included in the presumptive tax regime in 2011.[2]

There is a large literature on small-scale businesses, often referred to as informal businesses, despite incoherence on their definition, nature of activities, scope and measurement tools (UNDP Zimbabwe 2010).[3] Most authors studying what are referred to as informal economies face the difficulty of how to define them. A commonly-used definition is provided by Medina and Schneider (2018), who define the informal economy as all economic activities that are hidden from official authorities for monetary, regulatory and institutional reasons. However, aligning informal businesses with traders that engage in activities hidden from the authorities does not provide the full picture, as many small-scale traders who are called informal are registered with formal agencies. For instance, some small-scale traders make a declaration to local authorities, such as the city council, and pay appropriate taxes or fees (excluding income taxes) to the revenue authority. Therefore, there is often a grey area in which businesses are both formal and informal in modern economies (Cantens 2012). Accordingly, in this paper, informal traders or informal businesses are referred to as small-scale businesses, meaning those that are not registered with the revenue authority for income tax purposes, have few human resources, low finance, low volume and conduct low-value trading.

There is a growing interest in taxing the small-scale sector in Zimbabwe. This interest emanates from the gradual, but significant, increase in the number of small-scale traders, and a reduction in formal tax revenue as a result of a slowdown in economic activities (Munjeyi et al. 2017). According to Medina and Schneider (2018), Zimbabwe has the second largest informal sector as a percentage of its total economy in the world, with 60.6 per cent of its economy engaged in small-scale business.

As the drive to tax more small-scale businesses is increasing in Zimbabwe, the reality of taxing this sector is unclear. In 2005, the Minister of Finance in Zimbabwe argued that this sector should be taxed because: 'a significant number of small to medium scale businesses ... largely remain outside the tax system. In some instances, the income generated by this sector exceeds that earned by registered taxpayers. To broaden the tax base and uphold the

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1 Presumptive taxation involves the use of indirect means to ascertain tax liability, which differ from the usual rules based on the taxpayer's accounts. A useful description is provided by Ahmad and Stern: 'The term presumptive taxation covers a number of procedures under which the "desired" base for taxation (direct or indirect) is not itself measured but is inferred from some simple indicators which are more easily measured than the base itself' (Ahmad and Stern 1991: 276).

2 See <http://www.zimra.co.zw/index.php?option=com_content&view=article&id=33&Itemid=31>.

3 For a concise discussion of the informal sector, see Gerxhani (2004).

principle of equity in taxation, it is desirable to bring income earned from this sector into the tax net' (Government of Zimbabwe 2005).

Three key issues raised by the minister are that small-scale businesses often do not pay taxes, the sector sometimes makes a higher income than the formal trade sector, and introducing taxes targeted at small-scale businesses will bring equity in the tax system.

As the term 'small-scale businesses' can cover a wide range of traders and markets, this study focuses on flea market traders in Harare and Bulawayo, the two major cities in Zimbabwe where flea market traders are concentrated. Flea markets are places where people meet to buy and sell products, and are owned by the city council or private individuals in Zimbabwe. Some flea markets are located indoors, such as in shopping malls, while others are located outdoors – in a field, a parking lot, under a tent, or streets where traders sell their goods from their car boots. Commonly-sold products in flea markets include new and used clothes, household items and electrical equipment. Flea market traders range from a family that is renting a table (or stall), to scouts who roam the area buying items for sale from other flea markets.

Zimbabwe was chosen as a case study for the taxation of flea market traders for several reasons. First, as already highlighted, the small-scale sector in Zimbabwe is a significant proportion of its economy. Second, the country has an operating tax regime targeted at small-scale traders. Third, the majority of flea market traders are registered with the local council, hence it is easy to track them. Finally, small-scale businesses in Zimbabwe are able to flourish, due to, among other things, not facing interference from law enforcement agents, city councils or other government agencies (Chivivi et al. 2014). All these factors mean that it is easy for both researchers and policymakers to identify, tax or implement specific policies targeting flea market traders in Zimbabwe.

Furthermore, flea market traders are a good representation of small-scale traders, because goods sold in flea markets are sourced from various places, including outside Zimbabwe. This means that some flea market traders double as cross-border ones, which provides a fuller picture of the reality of taxation of flea market traders. This intersection between flea market trade and cross-border trade has not received much attention in the literature. Additionally, the International Labour Organization (ILO 2017) estimates that 67 per cent of informal traders in Zimbabwe are women, and Mupambireyi et al. (2014) similarly found that the percentage of women in flea market trade is between 60 and 70 per cent. The high number of women in small-scale trade in Zimbabwe requires special attention in relation to the subject of gender and taxation (Alesina et al. 2011; Grown and Valodia 2010). Specifically, this study aims to find out if taxes paid by flea market traders affect men and women in the same way or differently.

This paper seeks to answer the following questions:

1. What kind of taxes do flea market traders pay in Zimbabwe?
2. What proportion of a flea market trader's income is paid in taxes?
3. Is there gender disparity in the taxation of flea market traders?

The results of the study show that, apart from presumptive taxes, flea market traders often also pay market fees, toilet fees, storage fees and bribes. The study also finds that flea market traders pay regressive taxes, which means that they pay a higher proportion of their income than larger, more formal traders with higher income. Additionally, the study shows that there are no explicit biases against any gender as far as formal taxes affecting traders in flea markets are concerned. However, women are more adversely affected because there are more of them in the markets, and because on average they earn a lot less than men. Furthermore, the study finds that some informal taxes affect women more than men, and, while it was difficult to substantiate, women were in some cases affected by another ‘tax’ – sexual favours provided to the police and tax officials in return for having taxes and fees waived.

The rest of the paper is organised as follows. Section 1 gives an overview of the literature on taxation of the informal sector, with particular focus on the gendered impact of taxation. Section 2 outlines the methodological design of the research, Section 3 discusses the key findings, Section 4 summarises these findings and discusses the implications for policy purposes, and Section 5 highlights areas for further research.

1 Literature review

There is little concrete evidence globally on the impact that taxes have on the small-scale sector in general (often referred to as informal in the literature), and more specifically on women. The available literature is largely based on anecdotal stories, with little or no empirical evidence (Stotsky 1997; Dube 2014; Joshi and Ayee 2002; Joshi et al. 2014). From the literature that is available, this section discusses three issues that have a direct bearing on the research: the impact of taxes on small-scale traders, the impact of taxes on women, and methods used to analyse the impact of taxes on gender.

1.1 Impact of taxes on small-scale traders

Taxation can have an important effect on many parts of the economy, including an impact on firm creation and the development of small and medium-sized enterprises. Developing an environment that is conducive to the growth of small-scale businesses, whilst ensuring tax compliance, is a challenge all countries face. There are three key issues often discussed in the literature relating to the impact of taxes on small-scale traders: growth, compliance costs and equity.

The literature shows that the effects of informal sector taxation on growth are complex, and the results from various studies are somewhat inconclusive. Joshi et al. (2014) argue that broad-based taxation is a central element in the process of formalisation, which can have some strong implications on economic growth. One way in which growth can be triggered is through an increase in firm productivity. In their study of firm productivity from a sample of developing countries, La Porta and Shleifer (2008) find that value addition in small-scale businesses is only 15 per cent, compared to value addition in formal firms averaging 70 per cent. For some countries, this ratio ranges from 1 per cent to 10 per cent. The main reason why productivity may be low in small-scale businesses is that, although the businesses might be able to reap the benefits of non-taxation, they are simultaneously excluded from some other positive effects of formalisation. These include access to capital markets, new market opportunities, less exposure to police and municipal officers, and access to training and capacity building (Joshi et al. 2014). On the other hand, La Porta and Shleifer (2014) argue that other studies paint a quite different picture, suggesting that informal firms rarely become formal even when the barriers to entry are reduced, and that they are too inefficient to survive in formal markets. In addition, La Porta and Shleifer claim that informal firms are far too different from formal ones (e.g. in terms of the products that are offered) to actually pose a threat to the latter. In general, Joshi et al. (2014) note that there is a growing body of literature that empirically supports the assumption that formalisation (including that facilitated through taxation) can have a significant positive impact in terms of profitability, investment and growth. Yet, there remains the uncertainty of whether these effects also apply to small or micro informal firms, and the question of which channels are most important.

In terms of compliance costs, existing empirical evidence indicates that small- and medium-sized businesses are affected disproportionately by compliance costs. When scaled by sales or assets, the compliance costs of small-scale businesses are higher than large businesses (Chivivi et al. 2014). To mitigate this problem, governments have introduced special schemes for small-scale businesses. For instance, Ghana's Internal Revenue Service, after consulting with informal sector associations, introduced a presumptive tax system called Identifiable Grouping Taxation in 1987 (Dube and Casale 2016). In this system, associations are used as agents in the collection of taxes. The system was first implemented in the transport sector, and later extended to associations involved in 32 other informal sector activities (Joshi and Ayee 2002). The advantage of this system is that it does not have high requirements for taxpayers with respect to keeping records, thereby reducing the compliance cost.

Another issue related to taxation of the small-scale sector is the impact of taxes on small-scale traders in terms of equity, in comparison with large businesses. Empirical evidence on the impact of taxes on small-scale businesses shows that those taxes that are paid by small-scale traders can be regressive – in some cases, within the small-scale or informal sector, low-income earners pay a higher proportion of their income in the form of taxes than high-earning individuals or businesses (Olken and Singhal 2011; Van Damme 2012; Bahiigwa et al. 2004; Dube and Casale 2016. Joshi and Ayee (2008) argue that the main reason behind a higher amount of taxes being paid by low-earning individuals in this sector is the presence of flat taxes,[4] and that the lowest earners are less able to circumvent taxes or negotiate with tax administrators.

1.2 Impact of taxation on gender in the small-scale sector

This section covers two issues – the impact of taxes on gender in the small-scale sector, and methods used to analyse this impact.

Whilst the literature recognises the unequal burden that taxes have on men and women, there is little existing information on this topic, and the available literature lacks comprehensive evidence – especially regarding developing countries. One of the reasons why there has been little research on taxation and gender in developing countries is that explicit gender biases in taxation are most commonly found in developed countries. This relates to personal income taxes, which are not very significant in developing countries, because few people, especially women, pay these taxes (Joshi 2017). The available literature on gender and taxation in developing countries has focused on implicit gender biases – principally the impact of indirect taxes (such as value added tax (VAT) and excise duty) on men and women. Even though these taxes appear neutral, men and women have different consumption patterns, which means that these indirect taxes affect them in different ways (Stotsky 1997; Lahey 2014; Joshi 2017).

Overall, due to gaps in the literature, there is plenty of scope to explore the explicit biases in the taxation systems of developing countries and their effect on female small-scale traders.

1.3 Analysing the impact of taxation on gender

[4] Everyone pays the same tax rate regardless of their income level.

There are various methods used across the literature to look at how gender affects the impact of taxation. To analyse tax incidence and gender, Grown and Valodia (2010) used a method where the direct tax burden of women and men, in single versus married-couple households, is compared across varying levels of income in eight countries – Argentina, Mexico, South Africa, Ghana, Uganda, Morocco, India and the United Kingdom. In general, the researchers did not find any significant variance in the tax burden on men and women in any of these countries. The main limitation of this method is that it is data-intensive. The researchers have used national-level household income and expenditure surveys for their analysis.

Memon (2013), in a study of Pakistan's presumptive tax code, compares the hypothetical tax burdens of self-employed professionals and employees under the standard and presumptive tax systems – where tax is either calculated by exact income (standard) or by assumed income based on average rates (presumptive). The researcher wanted to know if Personal Income Tax (PIT) in Pakistan is regressive, neutral or progressive. The findings reveal that the Pakistani PIT is technically complex and imposes high compliance costs on small business. It also does not adhere well to the efficiency and equity principles, because it does not secure neutral tax treatment for all types of business sectors. Consequently, those who earn less (the majority of whom are women) pay more taxes than those who earn more.

Another method that is used to evaluate the impact of taxes on men and women is the representative taxpayer approach, which was used by Bahl (1972) and Atrostic and Nunns (1991). This approach uses hypothetical income levels to calculate the tax burden using applicable tax rates – the hypothetical income levels are based on the income levels of representative taxpayers. This method does not require a lot of data compared to others, such as the economic incidence model (Ballard et al. 1985) and the general equilibrium model (Ballard et al. 1985), which also serve as alternative models for equity comparison analysis. Thus, the representative taxpayer approach is a better alternative for analysing the impact of taxes on gender in the small-scale business sector.

2 Research methods

In line with similar studies conducted in this field (e.g Jibao et al. 2017; Dube and Casale 2016), this research study employs a mixed methods design involving face-to-face survey interviews, qualitative in-depth interviews and focus group discussions. The target population of the research is full-time salesmen and saleswomen[5] operating in 48 designated flea markets in Harare and Bulawayo.[6] These two cities were selected as they are the major cities in Zimbabwe, and have a high concentration of flea markets registered with local authorities. The interviews were conducted using a structured questionnaire, developed based on literature reviews and previous work done so far on informal taxation (Jibao et al. 2017; Dube and Casale 2016).

[5] Road show traders and car boot vendors were not interviewed.

[6] In Harare: Zimpost, Makoni, suif, Mabvuku, Kuwadzana, Africa, Glenview 1, Glenview 3, Makomva, Sengedza 1, Chitungwiza, Kwame Mall, HD Mall, Zengeza 2, Glenview teachaz, Copa Cabana, K&K Fabrics, ok Cameron, Kuwadzana, Market Square, Chinhoy Mall, fourth street and Homegate. In Bulawayo: Fort Street, Fort 11, Westide, Lobengula, Backtars, City centre, Kalbro, Trust Israel, Unit village, Sekusile, city hall, Magwegwe north, Afazal building, Tower Block, Hacdon and Sly, Emganwini, Ascot, Emganwini, Cowdrey Park, Entumbane Complex, Egodini, Khulumane complex, Emtonjeni, Highlanders club and Madlodlo North.

Random sampling technique was used to select both the flea markets and the participants. In selecting participants, at least every eighth trader was interviewed.[7] This was to ensure that respondents do not get influenced by others' responses, and that everyone in the market had a chance of being selected. A total of 448 questionnaires were analysed, and data coding and processing was done by the researchers.

Both men and women participated in the survey. The inclusion of men in the study is aimed at deriving comparisons on the differential impacts of tax on women and men. In-depth interviews were conducted with the Ministry of Finance and Economic Development, Ministry of Small to Medium Enterprises, Zimbabwe Revenue Authority (ZIMRA), local authorities/councils, and residents and trader associations.[8] Five focus group discussions were conducted – three in Harare and two in Bulawayo. One of the focus group discussions in Harare only included women, to allow women to freely discuss issues without the presence of men. The discussions focused on where different products sold by flea market traders are sourced, payments made by traders between product sourcing and sales outlets, how much is paid in taxes, fees or levies, and the participants' thoughts on the impact of taxes on gender.

One of the key research questions in this study relates to tax burden – what proportion of their income do small-scale traders pay in taxes? The challenge in calculating tax burden for different income groups is data, as there is a need to know exactly how much each individual earns and the taxes that are paid. To resolve this challenge, this paper uses the representative tax burden approach (Bahl 1972; Atrostic and Nunns 1991). The hypothetical income levels of the representative tax burden approach are informed by the reported income of respondents as captured during the survey and other survey reports conducted in Zimbabwe. The tax rates used in this study, therefore, are not hypothetical, but are actual tax rates based on Zimbabwe tax laws (Taxation Acts, Customs and Excise Act).

3 Findings and analysis of results

Both in-depth interviews and focus group discussions were used to build on information obtained from surveys. In general, these methods confirmed the findings of the surveys, regarding type of taxes paid, income levels and interaction with the tax administration, to provide a true reflection of flea market traders. This section summarises key findings from the study.

3.1 Characteristics of flea market traders

Gender. A total of 448 traders participated in the survey, of which 75 per cent (336) were women. This finding is not surprising considering that the participants were randomly selected, and, as outlined above, it is known that women are in the majority in flea market trade (ZIMSTAT 2015; Chivivi et al. 2014; Mupambireyi et al. 2014).

Types of goods being sold. Most traders sell clothes (both second-hand and new) – these account for 75 per cent of all products sold in the flea markets in Harare and Bulawayo. However, the clothes are usually sold together with other products, such as beauty products

[7] The range could go up to every 30th trader.

[8] Harare Residents Trust, Zimbabwe Cross Borders Associations, Zimbabwe Chamber of Informal Economy Association, Streetwise Traders Association, Bulawayo Progressive Residents, and Taxpayers Association.

and electronic gadgets. This finding is consistent with other studies on flea market traders (Mupambireyi et al. 2014). Other products sold by flea market traders include groceries, hardware items, spare parts, electronic gadgets and accessories, and beauty products for both men and women.

Source of products. 89 per cent of traders in the study source their goods from outside Zimbabwe (cross-border traders). The remaining 11 per cent either source their goods from those who buy outside Zimbabwe, or they buy from wholesale and other flea markets within the country. This finding is important for the study, because it means that, to get a full understanding of taxation of flea market traders, it is important to consider taxes paid within the flea market, as well as payments made when importing the products. The main country from which goods are imported is South Africa. Table 1 shows the source of products sold in flea markets in Zimbabwe, and the share of those products in the market. Locally sourced products account for 20 per cent of total goods sold in flea markets.

Table 1 Share of products sold by flea market traders in Zimbabwe by country of import

Country	Contribution
South Africa	33%
Zimbabwe	20%
Mozambique	13%
Botswana	8%
Zambia	5%
Rest of the world	21%
Total	100%

Income level. Around 75 per cent of the traders make less than $500 per month (Table 2). Table 2 further shows that most women have lower incomes than men. Specifically, the table shows that 82 per cent of the women have a monthly income of less than $500, whereas only 55 per cent of men have a monthly income of less than $500. This is consistent with the findings of similar studies in this field, where women have been found to earn less than men in small-scale businesses (Mupambireyi et al. 2014; Dube and Casale 2016). It was pointed out during focus group discussions that there are two main reasons for women earning relatively less compared to men. First, most women are involved in businesses with low return and low capital, such as selling second-hand clothes, whereas most men are in businesses with a high return that require more investment, such as selling electronic gadgets (e.g. mobile phones, televisions and motor vehicle spare parts). Second, women usually have fewer days for business than men – while men work nearly every day of the month, women do not have the same opportunity to do this. Traditionally activities such as childcare, caring for the sick, and attending funerals are mainly left to women – this takes up a significant proportion of their time, contributing to their low earning power.

Table 2 Average monthly income of respondents

Monthly income	Profit margin (average)	Percentage men	Percentage women	Total cumulative percentage
$0-100	20%	19	21	21
$101-250	20%	12	29	45
$251-500	20%	24	32	75
$501-1,000	25%	31	12	92
$1,001-5,000	30%	10	6	99
$5,000-10,000	38%	2	0	100
$10,001-15,000	45%	1	0	100
$15,000-20,000	40%	1	0	100
Total	33%	100	100	100

3.2 Taxes paid by flea market traders

The first question to answer from the aims of the study is: what kind of taxes do flea market traders pay in Zimbabwe? To get a comprehensive picture of these payments, flea market traders were asked which taxes, fees, levies or other payments they make to government officials or other stakeholders, with follow-up questions about the quantity, frequency and method of payments. Formal payments made by flea market traders included customs duties, presumptive tax on imports, and presumptive tax on rental income. Other common payments (non-taxes and other fees and charges) included tollgate fees, business licences, bribes, market fees and sexual favours. Below is a detailed discussion of the various payments that flea market traders make in Zimbabwe.

Customs duties. Customs duties are formal taxes paid to ZIMRA for importation of goods into Zimbabwe. They include import duty, import excise tax and import VAT. The amount of customs duty paid by a trader depends on the value of the goods being imported, and its type. Goods with a value of less than $300 are assumed to be for personal use, hence not subject to customs duties. As discussed previously, the majority of flea market traders also double as cross-border traders. 64 per cent of respondents said that they paid customs duty at least once in 2017. Of those who indicated that they import goods from outside Zimbabwe, 86 per cent reported that they import goods at least four times in a year, but they usually smuggled the goods using bus drivers or *malaicha* (truck drivers). The traders further indicated that in instances where smuggling was not possible, the goods are declared to tax officials, but deliberately undervalued.

Presumptive tax. The Government of Zimbabwe decided to broaden the tax base through the introduction of the presumptive tax in 2005 – this targeted the small-scale sector, much of which was not paying taxes previous to this (Government of Zimbabwe 2005). The presumptive tax is based on presumed (average) income of those persons engaged in any trade specified in the Income Tax Act (chapter 23:06) as opposed to actual income. There are various rates of presumptive tax applied on small-scale traders in different sectors or business types.[9] Flea market traders are subjected to two presumptive taxes – cross-border presumptive tax and rental presumptive tax.

[9] See <http://www.zimra.co.zw/index.php?option=com_content&view=article&id=33&Itemid=31>.

Cross-border presumptive tax. This tax is paid at the rate of 10 per cent on the value of imported goods. In line with customs duties, cross-border presumptive tax applies on goods whose value totals more than $300, as those goods are assumed to be for commercial purposes. Traders who are registered with ZIMRA for income tax purposes, and are up-to-date with their tax payments, are not subject to the cross-border presumptive tax. The traders pointed out that it would not be profitable for them to import goods of less than $300 into Zimbabwe, considering transport costs and other payments that make it more viable to transport goods in bulk. Therefore, all the flea market traders indicated that they import goods in excess of the exempt threshold. However, 36 per cent of participants stated that they did not pay presumptive tax on the border in 2017, so therefore smuggled their goods.

Presumptive tax on rental income. All persons in receipt of rental income from a small-scale trader, in terms of residential accommodation, premises, or a place where trade is carried out, are required to pay an additional amount by way of rental presumptive tax, equal to 10 per cent of the rental, and remit it to ZIMRA. Consequently, city councils and owners of private flea markets, or shopping malls where flea market traders operate, collect an additional amount of money on top of the rental fees, or market fee, to cover this presumptive tax. The daily market fee for city council flea markets in Harare is $1 per day, and on top of this the city council collects an additional $0.25 per day that they claim is for presumptive tax (note that this rate is significantly higher than the recommended 10 per cent rate, which would represent $0.10). For flea markets in shopping malls and private locations, rental presumptive tax varies depending on the amount due for rental income, which ranges from $30 to over $100 per month. 87 per cent of participants confirmed paying rental presumptive tax in 2017.

Tollgate fees. Traders who drive their own motor vehicles, instead of using public transport to transport their goods, pay tollgate fees. This fee varies depending on the type of vehicle and how many tollgates are used. Tollgate fees in 2017 were $2-$3 for light vehicles and $4-$10 for heavy vehicles. Only 6 per cent of traders indicated that they had paid tollgate fees in 2017, reflecting that most informal traders use public transport. This could be due to the majority having a gross income of less than $500 per month, and buying and maintaining a vehicle is relatively expensive.

Market fee and hawker licence. A market fee is charged by the city council, and used to cover costs associated with managing the market (including cleaning, security, provision of water and toilets). 87 per cent of participants indicated that they pay a market fee, which varies in amount depending on the market. The market fee is normally $1 per day in Harare; businesses in Bulawayo are required to pay a hawker licence fee of $11.50 per month instead of market fees.

Associated toilet fees. Traders in markets that do not have toilets have to pay to use private toilets – this costs between $0.25 and $1 per visit depending on location. Women are most affected by these toilet fees, as men find alternative ways of relieving themselves than visiting private toilets. 76 per cent of men said they use shielded places within the market, such as behind a tree or a building, or plastic containers. Women do not have similar opportunities. Women visit private toilets twice a day on average. This finding is consistent with other studies in this field (Siebert and Mbise 2018)

Storage fees. In most markets there is no security, so goods cannot be left unattended at the end of the day. Traders either move their goods from their home to the market and back every day, or store them for a fee at a storage facility within or close to the market. The storage fee is normally $1 a day. 78 per cent of the female respondents use storage facilities, compared to 53 per cent of men. Of those who do not use storage facilities, men usually carry the goods themselves, while women normally hire someone to carry the goods for them.

Bribes. Over 85 per cent of participating traders admitted to having smuggled goods at least once during 2017. Respondents talked freely about smuggling goods, often stating that 'everyone smuggles here. If we don't do that, we will be out of business because our products would be expensive'. To facilitate this, traders often pay a bribe to the police and/or ZIMRA officers, so that their goods are allowed to pass without paying duty. The amount of the bribe varies based on the 'greed' of the officer, as well as the quantity or value of goods being imported. In most cases, the bribe is not paid by the importer directly, but instead traders use bus or truck drivers, popularly known as *malaicha*. These drivers have agreed with customs officials on the amount of money they pay each time they cross the border for the bus or truck not to be searched. The traders contribute equal amounts to the driver, so as not to pay import taxes. This bribe money ranges from $1 to $20 per trader, per journey.

Other payments. Flea market traders make other occasional payments, such as payments to 'market bouncers' to ensure they keep their place/stall, especially for stalls with a good location in the market (e.g. close to the entrance). Other fees include project fees, paid to support a project within or close to the market, such as borehole drilling, and, finally, non-financial payments of sexual favours provided by women to police and ZIMRA officials, which are discussed further below.

Table 3 lists the various payments made by traders, and the percentage of traders (of the 448 participating in the survey) who made these payments in 2017.

Table 3 Payments made by small-scale traders

Tax type	Rate	Percentage of traders who paid in 2017
Customs duties	0-100% of value of goods	64%
Presumptive tax on imports	10% of value of goods	64%
Tollgate fees	$2-$10	6%
Market fee	$1 per day or $11.50 per month	87%
Informal traders presumptive tax	10% of rental income	87%
Bribes (ZIMRA, police)	Varies	21%
Toilet fee	$0.25-$1 per visit	34%
Market security	$1 per day	57%
Other	N/A	10%

3.3 Equity considerations

This section tackles the paper's second question: what proportion of a flea market trader's income is paid in taxes? A representative tax burden approach (see Section 1.3) is used to compare the tax burden for flea market traders at varying levels of income, with the tax burden of salaried employees under the standard Personal Income Tax (PIT) system, and registered businesses liable for Corporate Income Tax (CIT). Equity comparisons are made between those with similar incomes to determine whether their tax burdens are equal, and those at varying levels of income to determine whether their tax burdens are different.

Table 4 compares the formal and small-scale tax burdens at different income levels. A range of hypothetical income levels are used, which are informed by the survey reported in Table 3. The range of values in the reported income is consistent with the earnings reported by the small-scale business sector operators interviewed in this study as well as other studies, such as the one conducted by Dube and Casale (2016). In general, monthly income of flea market traders ranges from $200 to $20,000.

Table 4 Comparison of small-scale taxes and formal taxes

Taxes in small-scale sector				Effective small-scale tax rates at various profit margins			Formal tax rates	
Monthly income ($)	Cross-border presumptive tax ($)	Small-scale presumptive tax ($)	Total taxes paid ($)	20% profit margin	40% profit margin	60% profit margin	PIT rate	CIT rate
200	20	6	26	65%	33%	22%	0%	25%
400	40	6	46	58%	29%	19%	20%	25%
600	60	6	66	55%	28%	18%	20%	25%
800	80	6	86	54%	27%	18%	20%	25%
1000	100	6	106	53%	27%	18%	20%	25%
5000	500	6	506	51%	25%	17%	30%	25%
10,000	1000	6	1006	50%	25%	17%	35%	25%
15,000	1500	6	1506	50%	25%	17%	40%	25%
20,000	2000	6	2006	50%	25%	17%	45%	25%

Source: Study calculation

Only cross-border presumptive tax and small-scale presumptive tax are considered in the calculation, as these are the only payments comparable to income taxes in the formal sector. Other payments (including market fee, security/storage fee, customs duties, bribes to police officers and toilet fees) are not considered, because these payments vary so significantly. Cross-border presumptive tax and small-scale presumptive tax are both charged at 10 per cent of income. A market rate of $0.25 per day is used for rental income, and it is assumed that a person works 24 days per month.

The effective tax rate for flea market traders is calculated as the total of all tax payments, divided by the amount of profit. Table 2 shows that profit margins in the small-scale trade range from 0 per cent to 45 per cent. The profit margin varies based on products being sold – traders selling electronic products had the highest profit margin, followed by traders selling new clothes and accessories. These profit margins are consistent with profit margins reported in other studies of traders selling similar products (ILO 2017; Ama et al. 2013). The effective tax rate is calculated on three profit margin scenarios: conservative rate of 20 per cent (profit=monthly income*20%); moderate rate of 40 per cent (profit=monthly income*40%); and liberal rate of 60 per cent (profit=monthly income*60%).

Table 4 shows that the effective tax rate in the small-scale sector is regressive in all three of the profit margin scenarios – traders with a lower income pay a higher proportion of their income in tax than those on a higher income. For instance, if the profit margin of a small-scale trader is 20 per cent, then traders whose gross income is $400 per month have an effective tax rate of 58 per cent, while traders whose income is $15,000 per month have an effective tax rate of 50 per cent. This finding is in line with previous research on informal taxation (Olken and Singhal 2011; Van Damme 2012; Bahiigwa et al. 2004; Dube and Casale 2016), which shows that taxes on small-scale traders are regressive.

Furthermore, small-scale traders pay a higher proportion of their income in taxes compared to formal, or larger-scale, taxpayers, who are subjected to either PIT or CIT (the more formal taxation system based on actual income, rather than presumptive taxation). The calculation in Table 4 shows that small-scale taxpayers paying presumptive tax, whose profit margin is less than 20 per cent, have a higher tax rate than both PIT and CIT taxpayers at all income levels. If profit margin is 40 per cent, only small-scale traders who earn more than $5,000 per month have a tax burden similar to that for PIT or CIT taxpayers. It is only when the profit margin is above 60 per cent that the small-scale effective tax rate is lower than both the PIT and CIT rates. However, the maximum reported profit margin in the survey was 45 per cent, which shows that small-scale traders pay a higher proportion of their income in taxes than formal taxpayers.

3.4 Gender implications

The final question to be answered in the paper is: is there gender disparity in the taxation of flea market traders? Looking at the results from the previous two sections, the regressive nature of taxes affects women more than men, and there are certain payments that female traders are more subjected to.

First, the regressive nature of taxes in the small-scale sector can be viewed from a gendered perspective. Table 2, as well as a number of studies conducted in Zimbabwe (ILO 2017; Mupambireyi et al. 2014), shows that a high proportion of women in Zimbabwe earn less than $1,000 per month. It was previously noted that over 80 per cent of women earn less than $500, compared to 55 per cent of men earning this amount. Therefore, the gender discrepancy in tax payments is a result of the inequality between men and women in labour markets and business enterprise participation, and not due to explicit biases in the tax system – it is not due to different rates of tax being applied according to gender, but rather to uneven demographics and income amongst flea market traders.

Additionally, female traders in general pay higher fees associated with operating their trade in flea markets, including having to pay for private toilets and being less able to carry their goods home, resulting in them being more likely to pay storage fees, as outlined in the preceding discussion.

Furthermore, there is a lot of casual discussion around women giving sexual favours, or starting sexual relationships, with ZIMRA officials, customs officers and *malaicha* drivers, so they are relieved of fees and can freely smuggle goods. However, these stories could not be verified, as no participants were willing to reveal involvement in these activities. Efforts to get a response from the ZIMRA office on allegations against their officers for sexual misconduct also proved futile. These claims should not be readily disregarded as they were informally corroborated by several small-scale informal traders, and have been reported by reputable international organisations, such as the International Labour Organisation (ILO 2017) and newspapers[10] in Zimbabwe.

[10] e.g. *The Herald*, 6 November 2011, 'Cross-border traders' experiences'.

During one of the focus group discussions, a lady described how a female colleague, who usually imports a significant amount of goods, was asked one time to pay a high amount of duty. The woman told her colleagues to proceed with their journey, as she wanted to negotiate with the customs officers to reduce the fees. Since then the woman has been very close to one of the officers, and she never pays customs duties. Her colleagues believe that this is more than just friendship. While stories of this nature are difficult to confirm, and little concrete evidence has been found of ‘sex for tax exemption’ or ‘sex for smuggling’, it is an important factor to take into account as a likely extra burden on female small-scale traders.

These findings highlight the fact that, in an indirect way, female small-scale traders are subjected to different and more burdensome taxation practices than male traders in the same sector and area.

4 Conclusion and policy implications

This research has specifically explored the questions of which payments are made by flea market traders in Zimbabwe, the impact that these payments have on flea market traders in terms of proportion of income paid in taxes, and how female traders are affected by tax payments compared to men. Therefore, this research contributes to the discussion of small-scale taxation, as well as the gendered impact of small-scale taxation.

The research has five main findings:

1. Flea market traders are subjected to other tax-like payments, in addition to presumptive taxes, such as storage fees, market fees and toilet fees. Thus, when considering taxation of the small-scale sector, it is important to consider all payments that traders pay, not only formal taxes.
2. Most flea market traders double as cross-border traders. This results in these traders paying presumptive taxes twice – first as cross-border traders, and second as small-scale traders.
3. The majority of traders who operate in flea markets have a higher tax burden compared to formally salaried individuals who are subjected to personal income tax, or companies that are subjected to corporate income tax.
4. The taxes that flea market traders pay are regressive, where those who earn more income have a lower relative tax burden than those who earn less, unlike personal income tax or corporate income tax.
5. Women have a higher effective tax rate than men, because most women earn lower incomes than men, and are therefore more adversely affected by the regressive tax system.

The findings from this study carry a number of policy implications. As the Government of Zimbabwe is considering expanding the presumptive tax targeted at the small-scale sector, it is important that they consider the impact that the new taxes have on the growth of small businesses, and specifically on gender equality. Some of the issues, which would allow formal taxes introduced in small-scale markets to be implemented fairly, can easily be addressed. For instance, introduction of presumptive taxes in flea markets could be accompanied by the requirement that market owners ensure they have toilets and storage facilities, to reduce this gendered burden on women. Alternatively, the government could increase the number of public toilets in and around city markets. Secondly, as is done under withholding taxes, where a receipt is issued to show that withholding taxes have been deducted, ZIMRA should require all landlords collecting presumptive tax payments from tenants to issue a receipt. Tenants that have already paid cross-border presumptive tax could then be exempt from the presumptive tax on payment of rental income, or ZIMRA could refund the traders who have been double-taxed. Lastly, the threshold for exemption of cross-border presumptive tax should be high enough to ensure that low-income traders are not adversely affected. The threshold of $300 should be revised to $1,500 to allow small-scale traders, who are mainly women, to be exempt from the cross-border presumptive tax, thereby reducing their tax burden.

5 Areas for further research

There are two issues related to this study that should be highlighted for further research.

First, the discussion of cross-border traders in this study is limited. The focus was on taxes paid by cross-border traders who are also flea market traders. It is very likely that there are other issues than taxes that affect these specific traders. It would be useful to conduct a study on taxation focusing in more detail on these cross-border traders.

Second, this study was not able to find empirical evidence of sexual favours provided by women to tax officials in lieu of taxes. However, anecdotal evidence points to the fact that this behaviour does happen. To fully understand the impact of sexual favours on women and taxation, it would be useful to conduct ethnographic research beyond a survey. The police, or the tax administration, could provide some concrete information on this issue. However, such information would be limited to cases that have been reported to these institutions. It is very likely that most of the sexual favours are not reported, and are never discovered, as is the case with crime, bribes and other illegal acts.

Overall, whilst this study has touched on areas that have not been widely researched in detail previously, such as presumptive taxes in the small-scale sector and the gendered impact of these policies, there is still a broad scope for further investigation in this area, and for policy changes to ensure that women are not more adversely affected by government attempts to increase tax revenue from the small-scale sector.

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