



Expensive to be a Female Trader: The Reality of Taxation of Flea Market Traders in Zimbabwe

Summary of ICTD Working Paper 93 by Waziona Ligomeka

Interest is growing in taxing small-scale traders in developing countries in both the academic literature and the policy arena. This interest is due to the large and often growing portion of small-scale businesses in many developing economies, which is eroding their formal tax bases. Zimbabwe is slowly, but increasingly taxing this sector. In 2005 the country introduced a simplified tax regime targeting small-scale businesses, requiring them to pay a presumptive tax instead of the standard corporate tax. Initially, only a limited number of business types were subject to the presumptive tax. However, in 2011 additional small-scale business types were included in the regime. The interest to tax the small-scale sector emanates from the gradual but significant increase in the number of small-scale traders and the reduction in formal tax revenue as a result of a decline in economic activities. As a percentage of its total economy, Zimbabwe has the second largest informal sector in the world, with 60.6% of its economy engaged in small-scale business.

However, as the drive to tax more small-scale businesses is increasing in Zimbabwe, the reality of taxing this sector is unclear. Accordingly, this study aims 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?

Methods and data

This study used a mixed methods design involving face-to-face survey interviews, qualitative in-depth interviews and focus group discussions. The target population of the research was full-time, small-scale salesmen and saleswomen operating in 48 designated flea markets in Harare and Bulawayo. The interviews were conducted using a structured questionnaire, developed using literature reviews and previous work on informal taxation. A total of 448 small-scale business men and women participated in the survey. In-depth interviews were conducted with the Ministry of Finance and Economic Development, the Ministry of Small to Medium Enterprises, Zimbabwe Revenue Authority (ZIMRA), local authorities/councils, and residents and trader associations. Five focus group discussions were conducted – three in Harare and two in Bulawayo. The in-depth interviews, survey and the focus group discussions all took place in December 2017 and January 2018.

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Findings

The research produced five main findings:

1. Flea market traders are subject to tax-like payments other than presumptive taxes, such as storage fees, market fees and toilet fees. Thus, when considering the taxation of the small-scale sector, it is important to consider all other payments that the traders make aside from 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 renting property for their businesses.
3. Most traders who operate in flea markets have a higher tax burden compared to formally salaried individuals who are subject to personal income tax, or companies that are subject to corporate income tax. For instance, a small-scale taxpayer paying presumptive tax, whose profit margin is less than 20%, has an effective tax rate of 52% while the maximum tax rate for personal income tax (PIT) and corporate income tax (CIT) is 45% and 25% respectively.
4. The taxes flea market traders pay are regressive. Those who earn a higher income have a lower relative tax burden than those who earn less, unlike those who pay personal income tax or corporate income tax. For instance, if the profit margin of a small-scale trader is 20%, then traders whose gross income is \$200 per month have an effective tax rate of 65%, while traders whose income is \$15,000 per month have an effective tax rate of 50%.
5. Women have a higher effective tax rate than men because most women earn less than men and are therefore more adversely affected by the regressive tax system. This finding highlights the fact that in an indirect way, female small-scale traders are subject to different and more burdensome taxation practices than male traders in the same sector and area.

Policy implications

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 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 be easily addressed.

- 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.
- The process for withholding taxes is to issue a receipt to show that those taxes have been deducted. The Zimbabwe Revenue Authority (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.
- 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.

Further reading

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Credits

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