

# Innovative Approaches for Tackling Tax Evasion in the South African Minibus Taxi Industry: Lessons from Ghana, Zambia, and Zimbabwe

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## Abstract

In South Africa, minibus taxis are a crucial mode of public transport for many commuters and a vital informal business sector with an estimated value of R90 billion. Concerns have been raised that the South African Revenue Service (SARS) is not collecting the optimal amount of tax revenue from this industry, with estimated tax collection at only R5 million in 2021. As a result of concerns that this industry might be involved in tax evasion or massive tax avoidance, this study investigates the taxation of minibus taxis in South Africa and explores alternative tax regimes that could be implemented to improve revenue collection. The study compares the current South African turnover tax system for minibus taxi operators to other African tax systems and evaluates a viable alternative tax regime or tax collection system. To improve tax collection from the industry, South Africa could consider a tax system tailored to the industry's informal nature, utilising metrics such as vehicle seating capacity or distance travelled. A standardised tax system for small, medium, and micro enterprises may not be suitable. Consultation with industry stakeholders is essential for the proposed tax system to be acceptable. The study's findings could inform South Africa's National Treasury in creating a tax structure or collection scheme targeting the minibus taxi industry. This could increase tax revenue collection from the industry and support government expenditure, including income and wealth redistribution. This study distinguishes itself from prior publications on the South African minibus taxi industry by addressing tax compliance and collection challenges. It offers recommendations for alternative tax regimes to mitigate these challenges.

**Keywords:** informal sector; minibus taxi; presumptive tax; small, medium, and micro-enterprise; tax relief; turnover tax

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## Introduction

The South African minibus taxi industry emerged in the late 1970s to suit the needs of an expanding urban African workforce and grew at a phenomenal rate (Fobosi, 2013; Fourie, 2005; Luthuli, 2020). The 2017 records of the South African National Taxi Council (SANTACO) (as cited in Vegter (2020)) indicate that there are over 200 000 minibus taxis operating in South Africa. The industry has proven to be the heartbeat of South Africa's public transport sector as the 2013 National Household Travel Survey (NHTS' (as cited in Vegter (2020)) found that the minibus taxis accounted for 67,6 per cent of the 5.4 million daily public transportation trips made in South Africa.

It is estimated that the SA minibus taxi industry is worth R90 billion (Competition Commission South Africa, 2020). In a parliamentary response to a question by the Democratic Alliance on 21 May 2021, Tito Mboweni, then SA Minister of Finance, stated that despite this estimated revenue figure, the South African Revenue Service (SARS) only collected R5 million in taxes from the SA minibus taxi industry (National Treasury, 2021). This tax revenue collection figure equates to approximately 0.0056 per cent<sup>1</sup> of the R90 billion. Although this figure may astonish some, Mboweni pointed out in his parliamentary reply that this low tax collection by the SARS is due to taxi operators failing to report in their tax returns the full income they receive and the SARS's inability to determine the taxi operator's revenue solely from taxi operations (National Treasury, 2021).

The latter part of Mboweni's response implies that the SARS does not have accurate records about how much tax is collected from the minibus taxi industry and the actual figure could be much lower or much higher than the reported R5 million. This is unsurprising as Kundt (2017) contends that the informal sector is fraught with controversy, and estimated figures are criticised because of the scarcity of data. Furthermore, Bird (2007) and Prichard (2009) have found that developing countries in Africa do not have a proper database of taxpayers.

To avoid researcher bias, the pragmatic views of those who are opposed to the taxing of the informal sector also need to be considered. Researchers such as Bongwa (2009) and Rogan (2019) cite the high administration costs and the inability of the sector to significantly increase the country's tax revenue collections even if it does pay tax as reasons why the informal sector should not be taxed. Nonetheless, the arguments by the proponents of taxing the informal sector dominate recent literature. Meagher (2018) and Sebele-Mpofu and Msipa (2020) all argue that the failure of the informal sector to contribute to effective domestic revenue generation serves to cripple the economies of developing African countries. Consequently, the inability of these developing countries to tax the informal sector makes them unable to successfully redistribute wealth and minimise inequality (Meagher, 2018).

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1  $R5\ 000\ 000/R90\ 000\ 000\ 000 \times 100 = 0.0056\%$

The primary objective of this study is to examine feasible and effective tax regimes or tax collection systems that South Africa's National Treasury could employ to enhance tax revenue collection from the SA minibus taxi industry. To achieve this goal, this research evaluates various tax regimes and tax collection systems implemented in other African nations to tax minibus taxis operating within their jurisdictions. By drawing on these alternative tax regimes and tax collection systems, this study seeks to provide recommendations for South Africa to improve tax compliance and revenue collection from the SA minibus taxi industry. The tax systems evaluated are:

- the Vehicle Income Tax (VIT) implemented by the Republic of Ghana (located in West Africa),
- the tax on individual and minibus taxi operators implemented by the Republic of Zambia (located at the crossroads of Eastern, Central, and Southern Africa), and
- the presumptive tax system implemented by the Republic of Zimbabwe (located in Southern Africa).

A critical literature review article by Sebele-Mpofu (2021) helped in identifying the above African countries that have adopted presumptive tax measures to tax the informal sector or improve tax collection from the informal sector. These countries are suitably comparable to South Africa for the following reasons:

- They are African countries (Asiedu, 2002).
- They have developing economies (Ampaabeng, 2019; Dube, 2018; Kgatla, 2016).
- They have a similar informal taxi industry (Ampaabeng, 2019; Dube, 2018; Fourie, 2005; Haji, 2017; Heinze, 2018).

## Literature Review

### **What is the Turnover Tax?**

The turnover tax relief incentive scheme was introduced by former Finance Minister Trevor Manuel in 2008 as an elective tax system for micro businesses with a turnover of less than R1 million (Naicker and Rajaram, 2019b; Rahim, 2015; Schutte and Van der Zwan, 2019). The turnover tax system replaces several tax returns, including income tax returns and VAT returns, with the aim of making compliance easier for micro businesses (Rahim, 2015). The Sixth Schedule and Section 48A of the SA Income Tax Act regulate the turnover tax system and apply to all assessment years beginning on or after 1 March 2009 (Gluckman, 2012; Naicker and Rajaram, 2019b).

According to paragraph 1 of the Sixth Schedule, qualifying turnover is defined as the total receipts, other than capital receipts, from conducting business activities. Paragraph 2(1) states that a natural person or a company who has a turnover of less than R1 million qualifies as a micro business. Anyone who meets the criteria for becoming a micro

business is eligible to register for turnover tax (Chiromo, 2020; Van der Merwe, 2010). Under paragraph 2(2), when a business is conducted for less than 12 months during the relevant assessment year, the R1 million must be prorated based on the number of full months (Chiromo, 2020; Rahim, 2015).

Paragraphs 4 and 5 of the Sixth Schedule are unlikely to apply to minibus taxi operators who qualify for turnover tax, but they are discussed for completeness (Schutte and Van der Zwan, 2019). A person will not be regarded as a micro business if they own shares or have a financial interest in another company, or if they received more than 20 per cent of their total income from the provision of professional services during that assessment year or from both investment income and professional service income (Chiromo, 2020). In addition, turnover tax provisions will not apply to individuals who are defined as personal service providers or labour brokers (Chiromo, 2020).

Taxable turnover is defined in paragraph 5 of the Sixth Schedule as all earnings, not of a capital nature, from conducting business in the country during the assessment year (Chiromo, 2020; Hellberg, 2019). A micro business' taxable turnover includes 50 per cent of the proceeds from the sale of immovable property and assets used for trade purposes, as well as 100 per cent of its investment income, excluding local and foreign dividends (Chiromo, 2020; Hellberg, 2019; Rahim, 2015; Schutte and Van der Zwan, 2019; Van der Merwe, 2010). Turnover tax is calculated using a sliding scale based on a micro business's taxable turnover rather than its profit or net income (Chiromo, 2020; Hellberg, 2019; Rahim, 2015; Van der Merwe, 2010). The current rates are presented in Table 1, and the maximum tax payable by qualifying micro businesses can be computed using 3 per cent of qualifying turnover above R750 000.

**Table 1:** Turnover tax rates for the 1 March 2023–28 February 2024 year of assessment (no changes since 1 March 2015)

Turnover (R)	Rate of tax (R)
0–335 000	0%
335 001–500 000	1% of each R1 above 335 000
500 001–750 000	1 650 + 2% of the amount above 500 000
750 001 and above	6 650 + 3% of the amount above 750 000

Source: SARS (2023)

Using Table 1 and the assumption that minibus taxi operators have an average turnover of R684 000 (Barrett, 2003; Vegter, 2020), minibus taxi operators should at least pay R1 650 in tax plus 2 per cent of the amount above R500 000. This equates to roughly R5 330<sup>2</sup> per minibus taxi operator. If all 200 000 minibus taxi operators were registered

2  $R1\ 650 + (R684\ 000 - R500\ 000) \times 2\% = R5\ 330$

for turnover tax, SARS could collect between R1.06 billion<sup>3</sup> and R2.83 billion<sup>4</sup> in tax revenue from the SA minibus taxi industry, which is significantly higher than the current tax collection of R5 million (National Treasury, 2021). Micro businesses must register with SARS and comply with certain requirements, such as making interim payments and keeping proper records, to avoid penalties and interest charges.

Paragraph 8 of the Sixth Schedule to the SA Income Tax Act outlines the registration requirements for micro businesses, allowing them to apply to SARS for registration before the start of the assessment year or before a specified date during the year (Schutte and Van der Zwan, 2019). Micro businesses can also voluntarily deregister or be compulsorily deregistered if they meet specific conditions outlined in paragraphs 9 and 10 of the Sixth Schedule to the Income Tax Act (Chiromo, 2020). Under the turnover tax system, micro businesses must make interim payments based on their estimated taxable turnover, with interest charges applied for missed payments (Chiromo, 2020; Ssenyonjo, 2019). They must also adhere to record-keeping regulations such as tracking all amounts received, dividends declared, and assets and liabilities with sums more than R10 000 during the year of assessment (Chiromo, 2020; Hellberg, 2019).

### **Why is the Turnover Tax Suitable for the SA Minibus Taxi Industry?**

The turnover tax is suited to the informal nature of the SA minibus taxi industry for the following reasons:

- Under the turnover tax system, there is no longer a need to maintain meticulous expenditure records (Chiromo, 2020).
- The turnover tax reduces time spent on filing separate tax returns (Hellberg, 2019).
- Under the turnover tax, it is simpler to calculate the tax liability, and the overall tax burden is lowered (Hellberg, 2019; Lindeque, 2012).

### **Why is the Turnover Tax not Effective in Collecting Maximum Tax from the Minibus Taxi Industry?**

The turnover tax system allows micro-businesses to maintain simpler records than a normal tax system, but specific documentation is still required (Naicker and Rajaram, 2019b). The minibus taxi industry faces challenges due to its cash-based business model and lack of documentation (Chiromo, 2020; Lindeque, 2012; Luthuli, 2020).

Of the 100 taxi operators surveyed by Motingwe and Brijlal (2020), 80 per cent did not prepare financial statements, and 55 per cent did not even prepare cash budgets. Additionally, minibus taxi drivers are expected to accomplish predetermined financial targets. This creates an opportunity for sly minibus taxi drivers to pocket earnings once they have achieved their targets. This further exacerbates the problem because the exact

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3  $R5\,330 \times 200\,000 = R1\,066\,000\,000$

4  $R6\,650 + (R1\,000\,000 - R750\,000) \times 3\% = R14\,150$ , therefore,  $R14\,150 \times 200\,000 = R2\,830\,000\,000$

amount of fares collected from commuters may not be known, resulting in an inaccurate calculation of the taxable turnover under the turnover tax system (Vegter, 2020). Furthermore, Rothengatter (2008) pointed out that increasing voluntary compliance with tax laws in a cash economy is difficult, if not nearly impossible, which may well be the case for minibus taxis. It is possible that lack of awareness on the part of minibus taxi owners contributes to turnover tax's ineffectiveness in maximising revenue collection.

As these terms are not defined, they need further interpretations and minibus taxi operators may need to use case law to understand the terms (Chiromo, 2020; Naicker and Rajaram, 2019b; Schutte et al., 2019). Fobosi (2013a) and Ingle (2009) argue that taxi operators tend to be less educated, as a result, they may still need to consult tax practitioners (Lindeque, 2012) who will help them to understand the requirements of the turnover tax (Naicker and Rajaram, 2019b). In addition, of the 100 taxi operators surveyed by Motingwe and Brijlal (2020), only 25 per cent stated that they were effectively managing their tax affairs and fully understood tax-related issues, and only a quarter of these minibus taxi operators used tax practitioners for this purpose.

Under the turnover tax system, loss-making businesses must still pay tax, and this method is unfavourable to them. Highly profitable businesses that qualify for a small business corporation tax system in section 12E of the SA Income Tax Act may pay more tax if they use the turnover tax system (Naicker and Rajaram, 2019b; Rahim, 2015; Schutte and Van der Zwan, 2019). The reduced tax rates may, however, compensate for not considering the operating expenditure of the business.

In summary, the turnover tax system may not be effective in maximising revenue collection from minibus taxi operators due to their cash-based business model, lack of documentation, and difficulty in understanding the tax system (Schutte and Van der Zwan, 2019). The tax base may pose challenges, and loss-making taxi operators may be disadvantaged (Lindeque, 2012).

## **Method**

The research is grounded on the interpretivist paradigm and adopts the epistemological belief that reality is based on the subjective experience of the external world and the ontological belief that reality is socially constructed (Antwi and Hamza, 2015). The research assumes that administering a tax relief incentive scheme or a tax collection system that is best suited to the SA minibus taxi industry is socially constructed and is based on the subjective experience of both the taxi operators and the revenue authority, SARS.

Even though primary research collects original empirical evidence that is analysed through statistical means, secondary research which uses old data from secondary sources, such as published journal articles, is an important research method that Glass (1976:3) believes has an "importance [that] has eclipsed that of primary analysis". This

study, therefore, conducted secondary research and the method used to collect data was a systematic literature review that intentionally and purposefully used analytical methods to select policy documents, journal articles, book chapters, blogs, and publications related to the research question. There are many types of literature reviews, however, the systematic literature review was selected as it is methodical, replicable, transparent, and comprehensive.

The research tools used were Google Scholar, Emerald, and Science Direct databases. The literature search strategy was used to identify research articles by using key terms such as “taxi industry”, “informal sector tax”, “vehicle income tax”, and a combination of these terms. Snowballing aided in identifying any additional literature that is relevant to the research question under study. The first screening of the over 480 000 articles filtered by the search engines was conducted based on the scope, and any unrelated articles were removed from the selection. A second screening was conducted based on the title, abstract, and main article, and any duplicated articles were removed. Data from the final selection of articles was aggregated, interpreted, and synthesised. In the end, the research used 60 articles.

## Evaluation and Comparison of Alternative Tax Relief Initiatives and Tax Collection Systems to Tax the Minibus Taxi Industry

### **Overview**

When considering a new or alternative tax regime or tax collection system to implement for the SA minibus tax industry, it is crucial to bear in mind that the SA minibus taxi industry has been and continues to be perceived as violent (Bähre, 2014; Magubane, 2003; Venter, 2016). One of the factors that led to the collapse of the apartheid regime and the rise of the SA minibus taxi industry is the so-called African urbanisation which allowed more non-white South Africans to live in urban areas (Bähre, 2014; Vegter, 2020). The upsurge in Black South Africans who relocated to urban areas soon led to a realisation of the potential of earning a decent living from operating a minibus taxi operation and this fiercely intensified competition within the industry (Bähre, 2014). Consequently, there have been several wars between licenced minibus taxi operators and those who are unlicenced, often referred to as “pirates” (Vegter, 2020). These episodes of violence were more prominent between 1982 and 1987; an incident in 1987 resulted in 350 casualties and the death of 50 people (Bähre, 2014). During the 1997 taxi wars, however, hitmen were hired and paid R1 000 for the death of one passenger, double (i.e. R2 000) for the death of a minibus taxi driver, four times (i.e. R4 000) for the death of a minibus taxi owner and as much as R80 000 for the death of an executive member of a rival taxi association (Vegter, 2020). Even recently, violence in the industry reached crisis levels with the death of 11 minibus taxi drivers in a single incident in 2018 (Vegter, 2020).

To mitigate the number of fatalities associated with the South African minibus taxi industry, the formalisation of the industry and tax compliance may be a viable solution. Consequently, this study seeks to draw inspiration from other African countries to develop an appropriate and sustainable tax regime for South Africa's minibus taxi industry. Notably, Ghana, Zambia, and Zimbabwe have successfully implemented presumptive tax systems as a means of taxing taxi operators operating within the informal sector (Dube and Casale, 2016). Furthermore, to simplify taxi tax administration, Tanzania and Kenya have implemented block management systems and cashless fare collection initiatives, respectively (Aruho, Behrens, Mitullah and Kamau, 2021; Fjeldstad and Heggstad, 2012). The present study will thus examine the effectiveness of the presumptive taxes implemented by other African countries.

### **The Vehicle Income Tax (VIT) Implemented by the Republic of Ghana**

#### *What is the VIT?*

The VIT system, which was launched in 2003, is a presumptive tax that is collected from commercial transport operators who operate in Ghana (Dube, 2014; Dube and Casale, 2016; Ghana Revenue Authority, 2020). The VIT system requires transport operators to pay quarterly installments on the 15th of January, 15th of April, 15th of July, and 15th of October of each year (African Tax Administration Forum, 2014; Ghana Revenue Authority, 2020). All commercial vehicle operators must purchase VIT stickers from the Ghana Revenue Authority's Small Tax Office (STO) and display these on the front windcreens of their vehicles as proof of VIT compliance (Joshi and Ayee, 2009). VIT thus relies on police enforcement to ensure that transport operators who use public roads follow the VIT regulations; those who are not tax compliant are not allowed to use the roads (Joshi and Ayee, 2009).

The VIT system classifies 22 different types of vehicles into four classes—A, B, C, and D, based on their tonnage and passenger capacity (African Tax Administration Forum, 2014; Ghana Revenue Authority, 2020). The VIT stickers come in a variety of categories and at different prices depending on the vehicle's seating capacity and the vehicle's use (African Tax Administration Forum, 2014; Ghana Revenue Authority, 2020). Table 2 below only illustrates Category A, which is the equivalent of an SA minibus taxi.



**Table 2:** VIT to be paid by a person who owns a commercial vehicle

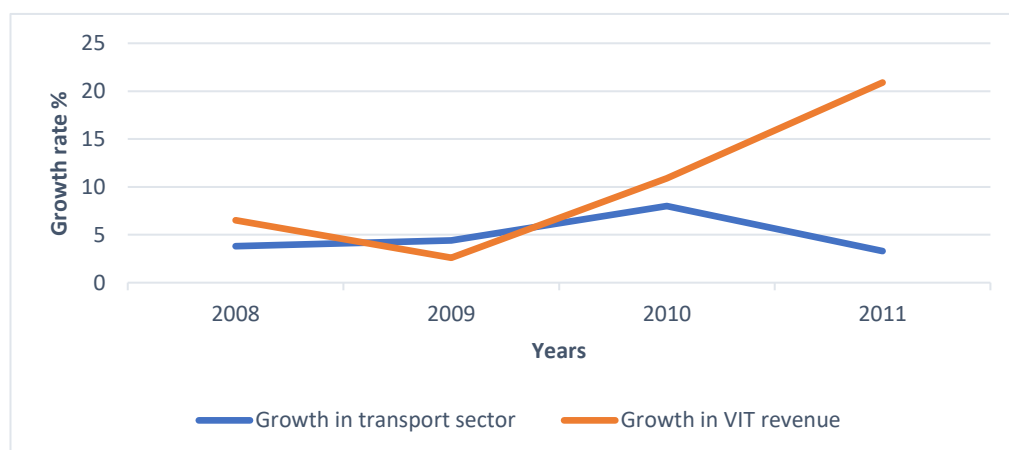
Category		Rate per quarter (Ghanaian Cedi)
A	Taxis/ private taxis	12
	<i>Trotro</i> (up to 15 persons)	16

Source: Ghana Revenue Authority (2020)

In Ghana, the term *trotros* refers to privately operated commercial minibuses that serve as the country's primary mode of transport (Tetteh, Bowen-Dodoo, and Kwofie, 2017). According to Table 2, private taxi operators must pay 12 Ghanaian Cedis every three months, while *trotro* operators must pay 16 Ghanaian Cedis to the Ghana Revenue Authority every three months (Ghana Revenue Authority, 2020).

#### *The Effectiveness of the VIT in Ghana*

In 2003, the year that the VIT system was put into place, a report (as quoted by Dube (2018)) revealed that the adoption of the VIT regime led to an increase in tax revenue received from the transport sector in Ghana, which maximised from 0.39 per cent in 2002 to 5.3 per cent in 2003. These figures suggest that the VIT system was effectively deployed during its initial phase. Moreover, as indicated in Figure 1, VIT revenue continued to steadily increase between 2009 and 2011 (African Tax Administration Forum, 2014).

**Figure 1:** Growth in VIT revenue versus growth in the transportation sector

Source: African Tax Administration Forum, 2014.

Figure 1 shows that despite a sluggish beginning in 2008 and 2009, the growth rate in revenue collection through the VIT surpassed that of the transport industry by 2010 and 2011. This trend indicates that transport operators were adhering to the VIT tax regulations and were contributing their fair share. The effectiveness of the Ghana Revenue Authority in targeting *trotro* operators may have contributed to the increase in revenue collection as shown in Figure 1. Additionally, the African Tax Administration Forum (2014) reported that in 2010, there were 312 994 registered commercial vehicles, of which 70 per cent were considered roadworthy by the Vehicle and Licenses Agency. The average quarterly sales of VIT stickers were 187 349, and the compliance rate was 85.5 per cent.

### *How Does the VIT Compare to South Africa's Taxi Recapitalisation Programme (TRP)?*

When South Africa implemented the TRP, its motivation was to regulate the SA minibus taxi industry and encourage minibus taxi operators to pay tax (Bähre, 2014; Boudreaux, 2006). Under the TRP, the SA Government allocated routes to minibus taxis and the minibus taxis had to display a big sticker on their windscreens (Walters, 2008). Minibus taxi operators who did not comply were stopped on the roads by traffic officials and fined R5 000 for this misdemeanour, and some had their minibus taxis impounded (Bähre, 2014). To avoid paying the exorbitant fines or having their minibus taxis impounded, some minibus taxi operators bribed the traffic officials, and some minibus taxi officials considered these bribes to be their fair share of taxes paid to the SA Government (Bähre, 2014; Boudreaux, 2006; Vegter, 2020; Walter, 2008).

The TRP is criticised for creating a multibillion-euro industry that was funded by minibus taxi operators and passengers and put financial pressure on minibus taxi operators (Bähre, 2014; Boudreaux, 2006). In addition, several minibus taxi operators and taxi drivers have indicated that their resistance to pay tax stems from the fact that the TRP resulted in increased control by traffic officials while also increasing corruption and bribery (Bähre, 2014; Boudreaux, 2006; Walters, 2010).

The VIT system is based on a vehicle's seating capacity and functions as a substitute for the turnover tax (Chiromo, 2020; Ghana Revenue Authority, 2020). Since the VIT system does not rely on turnover, it does not require the maintenance of documents, which is contrary to the turnover tax that requires minibus taxi operators to keep some documentation relating to their turnover (Hellberg, 2019). Moreover, VIT requires *trotro* operators to pay tax regardless of the profitability of their operations (Chiromo, 2020; Ghana Revenue Authority, 2020). In contrast, taxes will be higher for minibus taxi operators with high taxable turnover, while lower for those with low taxable turnover (Naicker and Rajaram, 2019a).

Police enforcement is used in the VIT system to monitor the compliance of transport operators (Ghana Revenue Authority, 2020). The high revenue collection in Ghana shown in Figure 1 may be attributed to police enforcement. It is likely that monitoring compliance in the minibus taxi sector is difficult because the SARS does not assign enforcement of tax compliance to other parties (Randall, 2019).

### **The Tax on Individual Minibus and Taxi Operators Implemented by the Republic of Zambia**

*What is the Tax on Individual Minibus and Taxi Operators Implemented by the Republic of Zambia?*

To integrate the informal sector into Zambia's tax system, the presumptive tax regime was implemented because traditional income taxes on earned income were too expensive to administer as a result of information asymmetry, compliance issues, and administrative costs (Nhekairo, 2014). Zambia implemented four types of presumptive taxes to target the informal sector: base tax, turnover tax, advance income tax, and presumptive motor vehicle tax (Dube and Casale, 2016; Nhekairo, 2014). Accordingly, since 2004, Zambia Revenue Authority (ZRA) has implemented presumptive taxes on transport operators in the form of the presumptive motor vehicle tax (Phiri and Nakamba-Kabaso, 2012).

Under this presumptive tax system, public transport operators who are unincorporated and are not registered for corporate income tax are subject to the presumptive motor vehicle tax, which is based on the number of seats in their vehicles (Nhekairo, 2014; Siame, 2010). In addition to factoring seating capacity, a fixed amount is used for the presumptive tax, based on the type of vehicle (Kangasniemi, Barnes, Wright, and Mpike, 2015). The rates that apply to the minibus taxi industry are presented in Table 3.

**Table 3:** Presumptive tax rates applicable to a minibus taxi operator

Type of vehicle (sitting capacity)	Amount of tax per vehicle per annum (K=Zambian currency called the Zambian Kwacha)
18 – 21	K3 600
12 – 17	K1 800
Below 12-seater (including taxis)	K900

Source: ZRA (2019)

In the event that presumptive tax is not paid at all or is paid late, a penalty is assessed at 5 per cent of the outstanding balance plus interest using the Bank of Zambia Discount Rate plus 2 per cent (ZRA, 2019). ZRA-designated agents collect the presumed taxes from minibus taxi operators (Dube and Casale, 2016; Nhekairo, 2014). These ZRA-

designated agents are appointed through a competitive tendering process, and their commissions range from 10 per cent to 15 per cent (Dube and Casale, 2016).

*The Effectiveness of the Tax System in the Republic of Zambia.*

As Zambia faces severe resource and skill constraints, as well as having to decide whether to pursue big taxpayers or small taxpayers, presumed taxes were considered a desirable solution (Nhekairo, 2014). According to Nhekairo (2014), the implementation of presumptive taxes on motor vehicles is effective in Zambia but has had limited success. Table 4 demonstrates how the presumptive tax initially increased steadily between 2004 and 2009, but then declined between 2010 and 2012 (Mwanza, 2015; Nhekairo, 2014). As a result of a 100 per cent increase in rates imposed by the Zambian Government, total revenues, however, again surged by more than 200 per cent in 2014 (Mwanza, 2015). There is, however, no published data for the period after 2014.

**Table 4:** Total presumptive tax revenue performance (K' million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turnover tax	9.9	13.1	18.8	23.1	24.1	24.5	30.1	35.0	57.16	71.33
Advance income tax	0	0	12.3	60.8	64.6	57.2	51.1	24.7	15.7	59.2
Base tax	0.07	0.09	0.04	0.03	0.03	0.08	0.01	0	0	0
Presumptive tax on transport	1.1	1.8	1.8	2.3	2.2	1.5	2.1	2.0	2.2	7.08
Total presumptive tax	10.98	14.96	32.91	86.24	90.88	83.3	83.22	61.71	75.1	137.6
Total Income tax	2,462	2,967	3,841	4,699	5,072	7,326	9,767	11,733	11,631	13,225
Percentage share of total income tax	0.45	0.50	0.86	1.84	1.79	1.14	0.85	0.52	0.6	1.0

Source: Nhekairo (2014) and Mwanza (2015)

The ZRA attributes the higher income collection to tougher compliance measures implemented since 2013. In contrast to previous years, public transport operators

(including minibus taxi operators) are now required to obtain tax clearance certificates before obtaining a licence from the country's Roads, Safety, and Transport Agency. It is believed that this strategy has forced most businesses to comply with their tax duties. (Mwanza, 2015).

Zambia has had a presumptive income tax system in place for several years, so the system's impact on revenue has been minimal. Nhekairo (2014) estimates that the presumptive tax on motor vehicles contributes less than 1 per cent of overall tax revenue. One possible explanation for the limited success of the presumptive tax on minibus taxi operators is that the agents designated to collect the presumptive tax are not always viewed as lawful minibus taxi operators and do not have the power to impose penalties on non-compliant informal sector taxpayers (Dube and Casale, 2016).

#### *How Does the Tax on Individual Minibus and Taxi Operators Compare to South Africa's Turnover Tax?*

In contrast to the turnover tax, which taxi operators pay based on turnover, the tax on individual minibus and taxi operators is based on a vehicle's seating capacity (Chiromo, 2020; ZRA, 2019). The transport industry is taxed under this system in a way that is not influenced by the turnover generated. Furthermore, in Zambia the Roads, Safety, and Transport Agency collaborates with agents to collect this tax and ensures that operating licences are granted once operators provide their tax clearance certificates (Mwanza, 2015; Nhekairo, 2014). A key distinction between this and the turnover tax is that the SARS does not delegate its collection responsibilities to the Department of Transport (Randall, 2019). Additionally, in contrast to the SA turnover tax, which has numerous requirements, this tax system is easier to understand since transport operators who fit into the right categories pay the determined tax (Chiromo, 2020). It is likely that transport operators are aware of all of the tax regulations due to the streamlined design of this tax system.

### **The Presumptive Tax System Implemented by the Republic of Zimbabwe**

#### *What is the Presumptive Tax?*

The Zimbabwe Revenue Authority (ZIMRA) adopted presumptive taxation in 2005 with the intention of diversifying its tax base in light of the rise in informal business activities (Sebele-Mpofu, 2021; Sebele-Mpofu and Mususa, 2019; Zivanai, Manyani, Hove, Chiriseri and Mudzura, 2014). During Zimbabwe's political and economic turmoil, the formal sector shrunk, and the informal sector grew (Dube and Casale, 2019). An inefficient and corrupt compliance control system, burdensome regulations, and a deficient educational system are just a few of the factors contributing to Zimbabwe's political and economic crisis (Mabwe and Chimanga, 2018; Munjeyi, Mutasa, Maponga and Muchuchuti, 2017). Several foreign-owned companies also discontinued operations in Zimbabwe due to viability concerns, resulting in a significant cash outflow and a dramatic reduction in operations for businesses that remained in the country (Mabwe and Chimanga, 2018). The industrial capacity utilisation plummeted,

forcing people to leave the formal sector, and this resulted in falling tax revenue for ZIMRA (Mabwe and Chimanga, 2018).

Zivanai et al. (2014) cite a study conducted by the Zimbabwe National Statistical Agency which reveals that 84 per cent of economic activity occurs in the informal sector, 11 per cent occurs in the formal sector, and 5 per cent cannot be classified. Based on this survey, Zimbabwe's informal sector is much larger than its formal sector (Zivanai et al., 2014). With 60.6 per cent of Zimbabwe's Gross Domestic Product (GDP) accounted for by the informal sector, it is the second largest in the world (Sebele-Mpofu, 2021). ZIMRA had difficulty collecting taxes due to the expansion of the informal sector since most of the businesses remained outside the tax system (Zivanai et al., 2014). Besides not paying taxes, some of them also increased the burden on the formal sector (Zivanai et al., 2014). It became clear to the Zimbabwean Government that it had to urgently bring this industry under taxation, hence the introduction of the presumptive tax (Sebele-Mpofu, 2021).

In nations with a history of low compliance rates, presumptive tax collections are typical methods of raising tax revenue (Thomas, 2013); Wadesango, Denford, and Wadesango 2019). Presumptive taxation is usually applied when it is not possible to calculate the prospective taxpayer's estimated income. ZIMRA has noted that informal taxpayers do not comply with their legal obligations of paying taxes, which negatively affects tax collection (Sebele-Mpofu and Mususa, 2019). As a result, the presumptive tax system was introduced to collect tax revenue from informal businesses by giving them the opportunity to pay a fixed amount of tax, which was necessary since ZIMRA has difficulty collecting income from them systematically as they are unregulated and lack adequate financial records (Sebele-Mpofu and Mususa, 2019).

In contrast to general tax laws, which are based on the taxpayer's accounting records, presumptive tax is an indirect method (Wadesango et al., 2019; Zivanai et al., 2014). Taxes based on assumed income rather than actual income enable informal sector operators to pay a predetermined amount at a predetermined interval (Dube, 2018; Wadesango et al., 2019). In 2003 and 2005, ZIMRA conducted a study on informal sector transport operators and introduced a presumptive tax system, but later included other informal businesses to increase the tax base (Dube, 2018; Dube and Casale, 2016). As a result of the presumptive tax system, informal businesses are targeted specifically, including the transport industry, hairdressing salons, cottage industry operators, restaurants and bottle stores, informal traders, and self-employed professionals (Dube and Casale, 2016; Munjeyi et al., 2017). Considering that the focus of this study is on taxi operators, Table 5 only details how Zimbabwe's presumptive tax structure operates for the transport sector. A lump-sum tax is imposed on transport operators based on the number of seats each vehicle has (Dube, 2018; Dube and Casale, 2016).

**Table 5:** Transport operators' presumptive tax with effect from 1 January 2022

<b>Transport operators</b>	<b>Description</b>	<b>Presumptive tax per month (Zimbabwean dollars (ZWL))</b>
Omnibuses	8 to 14 passengers	4 065
	15 to 24 passengers	4 875
Taxi cabs	All	4 065

Source: ZIMRA (2021)

Under Zimbabwe's presumptive tax, tax clearance certificates must be kept in the vehicle and failure to provide a tax clearance results in a 100 per cent fine (Sebele-Mpofu and Mususa, 2019; Zivanai et al., 2014). In addition, if payment is not made, the person can be imprisoned for up to six months (Sebele-Mpofu and Mususa, 2019; Zivanai et al., 2014). If the taxes are not paid on time, interest is charged (Sebele-Mpofu and Mususa, 2019; Zivanai et al., 2014).

For the purpose of collecting presumptive taxes from transport operators, the Zimbabwe National Road Administration was designated on 1 January 2015 as ZIMRA's agent (ZIMRA, 2021). A taxi operator may pay the presumptive tax monthly, but the entire amount must be paid by the 20th of the following month (Sebele-Mpofu and Mususa, 2019). Presumptive taxpayers have the option to pay in United States dollars at the prevailing auction rate on the date of the transaction (Sebele-Mpofu and Mususa, 2019).

#### *The Effectiveness of the Presumptive Tax in the Republic of Zimbabwe*

The introduction of presumptive taxes in Zimbabwe was met with a modicum of success (Dube and Casale, 2016). To determine how well the presumptive tax system works in collecting tax revenue from commuter omnibus operators in Bulawayo, Zimbabwe, Sebele-Mpofu and Mususa (2019) conducted a study. In their study, they identified that inequity between inputs and outputs, fairness of the tax system, apparent transparency and trust in tax authorities, corruption, and compliance costs contributed to non-compliance with tax regulations (Sebele-Mpofu and Mususa, 2019). Dube and Casale (2016) and Wadesango et al. (2019) further identified equity concerns as an issue that affected compliance with the tax system. Due to high presumptive tax rates, informal entrepreneurs typically pay more in taxes than those in the formal sector with similar revenues (Dube and Casale, 2016). Considering that transport operators might pay a lesser tax under the standard income tax system, transport operators view the presumed tax as unfair (Zivanai et al., 2014). Taxi operators with similar incomes are not taxed equally, which is contrary to the tax neutrality principle (Dube, 2018).

If taxpayers believe that there is widespread corruption in the nation, they are more reluctant to pay taxes because they believe that the money will not be used for the intended purposes (Sebele-Mpofu and Mususa, 2019). Among 150 informal traders surveyed in Harare between 2011 and 2013, 23 per cent said they did not have much faith in the Government when it came to transparency and lacked trust in the tax

authority (Dube and Casale, 2016). In addition, there is lack of transparency and accountability in the use of taxpayer's money, resulting in the public's mistrust of both the Government and the tax system (Sebele-Mpofu and Mususa, 2019). Moreover, according to Zivanai et al. (2014), transport operators are reluctant to pay presumptive taxes because they already pay many other taxes and levies, including toll fees, licence fees, and other levies. Presumptive tax rates are, therefore, regarded as exorbitant and unsustainable, and because others are not paying presumptive tax and owing to ignorance, taxi operators do not want to pay presumptive tax (Zivanai et al., 2014).

### **How Does the Presumptive Tax Compare to South Africa's Turnover Tax?**

In contrast to the turnover tax system which uses progressive tax rates, presumptive taxes are based on a fixed rate (Dube, 2018; Lindeque, 2012; Naicker and Rajaram, 2019b). Under the current SA turnover tax, minibus taxi operators with a taxable turnover of less than R335 000 will not be required to pay tax (Naicker and Rajaram, 2019b). However, under the presumptive tax system, they would still be responsible for paying tax (Sebele-Mpofu and Mususa, 2019). The presumptive tax system is said to violate the equity principle because taxes are only applied uniformly across the industry based on the characteristics of the business rather than the income (Sebele-Mpofu and Mususa, 2019; Zivanai et al., 2014). It also seems unfair that commuter vehicles with passenger capacities ranging from 8 to 14 should be subject to the same presumptive tax given that their capacities vary (Zivanai et al., 2014).

### **Scope and Limitations**

This study focused solely on minibus taxi operators, not employees within the industry, such as taxi drivers. This is because minibus taxi operators own and operate the taxi businesses and employ drivers to work for them, making them liable for tax on the business operations. The scope of this study was the revenue collections from the SA minibus tax industry, therefore, only turnover tax as contained in the Sixth Schedule to the South African Income Tax Act 58 of 1962 was discussed from a South African point of view. Since the turnover tax relief incentive scheme requires micro businesses with a qualifying annual turnover of R1 million or less to only pay turnover tax, rather than pay for CIT, CGT, dividends tax, provisional tax, and VAT (Fjeldstad and Heggstad, 2012; Kgatla, 2016), this study did not address VAT, CGT, dividends tax, and provisional tax. Additionally, in evaluating comparative tax systems, only the Ghanaian VIT, the Zambian tax on minibus taxi operators, and the Zimbabwean presumptive tax were considered. The general income tax provisions of those countries were not considered. Lastly, this study did not attempt to change minibus taxi operators' views about paying taxes or directly encourage them to pay taxes.

There is a limitation to this study in that it did not collect empirical evidence through interviews or surveys of taxi operators. Although collecting empirical evidence from taxi operators could have helped the researcher gain a better understanding of the



challenges faced by taxi operators, as well as their perceptions of the proposed tax systems as outlined in this report, the researcher did not conduct interviews. According to Bähre (2014), during his interview with key players in minibus taxi associations, elements of power dynamics were at play; he was threatened and intimidated by minibus taxi operators, and some questions were left unanswered. As part of the process of determining the appropriate methodology for this study, all these considerations were taken into account.

## Conclusion

This study provided an analysis of various tax collection systems and tax reforms that have been implemented in African countries to tax their minibus taxi operators. The purpose of the presumptive tax systems in Zimbabwe and Zambia is to encourage informal businesses to enter the formal sector and promote formality. This is achieved by encouraging unregistered enterprises to switch to the normal tax system by increasing the presumptive tax rate. Additionally, the presumptive tax system ensures horizontal distributional equity, where taxpayers with equal net income and assets contribute equally to the tax basket. It is claimed that the flat rate assumption of the presumptive tax treats all taxpayers equally.

Furthermore, the implementation of presumptive tax systems in Zimbabwe and Zambia has resulted in tax authorities such as ZIMRA and ZAMRA refraining from investigating taxpayers' accounting records or verifying the validity of their self-assessments. The simplicity of the VIT tax system, which involves the payment of a determined tax by transport operators falling within the appropriate categories, makes it more straightforward to pay compared to the SA turnover tax. This is because the turnover tax uses definitions that may require the use of case law for minibus taxi operators to comprehend fully. As a result, it is likely that transport operators have a better understanding of the requirements of the VIT system due to its simplified nature.

## Recommendations

### *Vehicle Seating Capacity Used as a Tax Base*

The development of specific taxes for the minibus taxi industry could be considered by South Africa's National Treasury. Despite the limited success of turnover tax in raising taxes from minibus taxis, a presumptive tax system could still be maintained. The purpose of presumptive taxes is to enhance tax collection from informal taxpayers with unclear and difficult-to-identify tax bases, which is the case with the minibus taxi industry. Examples of nations that employ a presumptive tax system to specifically tax the transportation industry are Ghana, Zambia, and Zimbabwe.

Given the challenge of estimating income in the minibus taxi industry, the National Treasury may consider exploring alternative income proxies as a tax base. Similar to the presumptive tax systems in Ghana, Zambia, and Zimbabwe, vehicle seating capacity

could be used. This would make it easier to tax the minibus taxi industry in South Africa since there is no need to maintain income records. Taxes could be levied based on the seating capacity of each taxi used by taxi operators, making tax management more straightforward.

The revenue collected from the transportation industry in Ghana and Zambia has been increasing, with a significant increase in presumptive tax revenues on motor vehicles in Zambia in 2014. The success of presumptive taxes such as the VIT and the tax on individual minibus and taxi operators in these countries has been demonstrated. Zimbabwe's unique problems, such as disparities between input and output, fairness of the tax system, transparency and trust in tax authorities, corruption, and high compliance costs have made the presumptive tax in Zimbabwe less effective. South Africa could, however, adopt a better implementation strategy than the one used by ZIMRA and learn from Ghana and Zambia, which have successfully implemented their presumptive taxes.

The use of seat capacity as a proxy would ensure that taxi vehicles pay their fair share of taxes. Like Zimbabwean transport operators, however, concerns about equity may arise in the industry, since taxes would still have to be paid even if taxis were not operating during the tax period.

#### *Distance Used as a Tax Base*

To address equity concerns, the SARS could consider utilising the distance travelled by minibuses as a determinant for tax base, instead of the vehicle seating capacity. To determine the tax liability for taxi operators, a predetermined rate based on distance travelled would need to be established. Operators would be taxed based on the distance covered during their street-based operations. Using distance as a proxy for taxation aligns with the primary business operations of minibus taxi operators, which primarily involve commuter transportation and road travel. This method of taxation promotes fairness and neutrality since a taxi that covers a short distance pays less tax than one that covers a longer distance, which can accommodate varying degrees of operations among operators.

Although some may question the fairness of using distance as a proxy for taxation in situations where taxi drivers take longer routes to avoid traffic congestion or roadblocks, the use of drones could address such concerns. The Minister of Transport, Fikile Mbalula, introduced drones in 2021 to identify traffic risks proactively. The SARS could utilise these. In addition, the SARS could use vehicle tracking devices to monitor the distance travelled and assess taxes based on the use of the taxi. Many operators have already installed Global Positioning System (GPS) tracking devices on their vehicles as a requirement by their vehicle insurers and banks that finance their vehicles. GPS tracking devices can transmit precise signals that are received by GPS receivers, which can track the position of the device, its speed over time, and distance travelled (Almomani, Alkhalil, Ahmad and Jodeh, 2011). The SARS could use these trackers to store GPS data and access it at the end of tax periods. The SARS could charge a penalty

greater than the assumed tax amount to discourage taxi operators from removing the devices to evade taxes.

The SARS could divide the year into multiple tax periods instead of having a single tax period, which would enable continuous monitoring of tax collection and compliance throughout these periods. During each tax period, minibus taxi operators would be required to pay this tax and receive a sticker as proof of payment. Operators will be required to display the sticker on the windscreens of the minibus taxis, as done in Ghana. To ensure proper implementation, the SARS could collaborate with traffic officers who already coordinate, plan, regulate, and facilitate traffic law enforcement on national, provincial, and municipal levels. Traffic officials could identify taxis without stickers for the applicable tax period by using a device that scans stickers and checks their validity.

Considering that the SARS would be receiving assistance from the traffic department, it is important to note that corruption could be rampant, specifically bribery; traffic officers could accept bribes (Faull, 2008). To combat corruption, opportunistic behaviour, and greed, the current Minister of Transport, Fikile Mbalula, has introduced the use of body-worn cameras for traffic officers (Department of Transport, 2021). The successful implementation of these body-cameras could assist in ensuring that traffic officials are not able to ask for or receive bribes from minibus taxi drivers, thus preventing corruption. Although there are no published studies that demonstrate the effectiveness of these body-cameras, this assumption could be tested to evaluate their efficacy.

#### *Consultation with Stakeholders in the SA Minibus Taxi Industry*

It is essential to consider the communication and comprehension challenges that taxi operators may face regarding the current turnover tax. In order to formulate an effective and inclusive tax policy for the minibus taxi industry, it is imperative to engage with major stakeholders. The National Treasury can establish a joint task force that includes the National Department of Transport, minibus taxi associations, minibus taxi operators, minibus taxi drivers, and committees to collaboratively develop sustainable solutions that efficiently tax the industry while advancing its growth.

Consultation processes would facilitate the understanding of demands and obligations of both industry stakeholders and the SARS. This would foster familiarity and acceptance of the new tax system by all stakeholders in the minibus taxi industry, leading to improved tax compliance. Regardless of the recommendation the National Treasury decides to implement, it is crucial for the SARS to intervene and raise awareness about tax policies among all stakeholders. The Government must be fair in applying taxes, ensure that all stakeholders are informed about them, and be certain that they are applied.

### *Key Considerations*

The imposition of taxes by the SARS on taxi operators may ultimately result in higher taxi fares for passengers. When confronted with additional taxes, taxi operators may respond by increasing their fares to compensate for the added expense. To mitigate this outcome, the Government could offer subsidies to alleviate the burden of the new taxes on taxi operators.

Several studies have explored the impact of the South African minibus taxi industry on traffic safety. The use of tracking devices recommended in these studies could serve the dual purpose of meeting tax obligations and collecting data on taxi road safety. Such data could be utilised by the traffic department for future research and to monitor and sanction drivers who violate traffic laws.

In formulating any new tax regime, it is essential to consider the minibus taxi industry's history of opposition to government interventions. Previous initiatives have been characterised by mistrust, opposition, and ineffective implementation, leading to protests, blockades, intimidation, and violence by taxi operators. Therefore, the involvement of stakeholders in the development process of a new tax system is crucial.

In conclusion, the proposed recommendations are based on the assumption that the Government will subsidise minibus taxi commuters. Currently, the minibus taxi fare structure does not take into account the fluctuations in world fuel prices or the income elasticity of commuters, resulting in significant fare increases. To alleviate the financial burden on commuters, a user-based subsidy could be implemented, enabling commuters to use vouchers to pay their minibus taxi fares. This approach could help mitigate the potential of taxi operators passing on the tax burden to commuters.

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