Faculty of Commerce

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AN INVESTIGATION INTO THE CAUSES OF TAX EVASION IN THE INFORMAL SECTOR IN ZIMBABWE

BY

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ABSTRACT

The continuous growth of the informal sector indicates potential in the development of the country as more revenue can be collected from it. However, it has been a very challenging issue to collect tax from the sector due to cases of tax evasion. Tax evasion is not only an issue being experienced in Zimbabwe but by the world at large and it has been in existence for several of years. This study aimed to investigate the causes of tax evasion in the formal sector in Zimbabwe. A quantitative research design was used and data was collected from Bulawayo’s central business district using a sample of 150. Stratified and random sampling techniques focusing on informal traders was used to compute the sample size. Questionnaires were administered to three sites (City Hall, Egodini Bus Terminus & TM Hyper) in order to collect relevant data in relation to the research objectives set-forth. 150 questionnaires were issued out and 108 were returned, signaling a response rate of 72%. Microsoft Excel was used for data presentation and SPSS regression analysis was used to determine the relationship between the dependent and independent variables. The findings show that the major causes of tax invasion include corruption, tax rates, penalties and tax knowledge. However, the informal traders do not trust the government when it comes to service delivery and they believe that the tax system is corrupt. They want to benefit from public goods offered by the government as a result of tax expenditure in order for them to see the need to comply. Recommendations of the study indicate that, the government the government should encourage and support the informal traders which are in the same line of business especially those in manufacturing to work together in achieving their common goal and it should assist in equipping the informal traders on basic finance and accounting skills in order for them to understand the need for book keeping which would also be of an advantage to the authority ZIMRA.