Inside the Digital Society: Electronic Commerce Tax Barriers in Zimbabwe

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***Abstract*: Technology as in electronic commerce is now allowing businesses to penetrate the global markets. Electronic commerce involves trading online using the internet as a conduit. The objective of this study was to investigate the barriers to electronic taxation in Zimbabwe. A qualitative approach was adopted for this study. The researcher deployed a descriptive survey design. Purposive sampling was used to select a sample of 60 participants. Virtual interviews were used to generate data from the participants. It was found that electronic commerce tax is very difficult to collect in Zimbabwe due lack of proper infrastructure and failure by Zimbabwe to implement policies on electronic commerce. Therefore, it is recommended that Zimbabwe invest in electronic tax infrastructure and establish a strong legislative system that support digital collection of taxes.**

***Keywords*: E-commerce, electronic tax, digital tax, taxation, ZIMRA, VAT**

I. INTRODUCTION

Technology is opening a world of possibilities previously unavailable to businesses and consumers. In today's digital economy small and big companies compete for services and markets on the global terrain. The Organisation of Economic Cooperation and Development (OECD) in 2021 defines electronic commerce (e-commerce) as trading online using the internet as a conduit. In support [1] propounds that e-commerce communicates and collaborates emerging technologies such as IOT, big Data, Virtual Reality, Electronic Data Interchange, and Electronic Funds Transfer. International Telecommunication Union [2] defines electronic commerce as a system of trading that primarily uses the internet as the main conduit of interaction with customers. E-commerce includes other functions such as customer service, collaborating with business customers or partners and conducting transactions through the internet ([3] [4] [5] [6]).

Reference [7] supports that the emergence of e-commerce promotes organisation to trade anywhere anytime. Globally, electronic business holds tremendous potentials as a formidable source of governmental revenue in the light of globalisation and increasing automation of commercial transactions. With e-commerce a wide array of commercial activities are carried out online and this enable trade without the confines of geographical boundaries. As such the paying of digital tax is insignificant as compared to brick-and-mortar business. This study sought to unpack the barriers of electronic commerce tax in Zimbabwe.

Reference [8] posits that e-commerce took root after the advent of the internet in the 1990s. Research by [9] discovers the benefits of e-commerce as reduced operational costs, expanded customer base, increased visibility and the opportunity to collect customer data. In the same vein [10] argues that e-commerce enables the transmission of voice, data, images and video information to take place in cyberspace by using the Internet.

E-commerce cut across territorial borders, creating a new realm of human activity and undermining the feasibility and legitimacy of laws based on geographic boundaries. Because the Internet ignores international boundaries, "place" has little meaning in the networked world [11]. This makes it difficult to establish international norms for identifying the source of the taxpayers' income. It is feared that e-commerce may change the distribution of taxable activities, alter the balance of taxing authority and result in the erosion of countries' tax bases [10].

Reference [12] argues that the internet and other digital networks are increasingly making it difficult for nations to tax global commerce effectively. He further pointed out that the anticipated growth of new communications technologies, including the internet and other digital networks is making it increasingly difficult for states to tax global commerce effectively. The principal difficulty in developing an electronic commerce taxing regime is that the internet is a complex medium whose full ramifications are not close to being fully understood [8]. In agreement [13] echoes that due to the complexity and lack of trust of the internet many countries in developing worlds are not investing in the infrastructure that promotes digital tax collection on electronic commerce. Furthermore, the countries can enact a policy but lacks execution and implementation [3].

Digital tax is charged on companies involved in digital activities, primarily online advertising, and digital marketplace such Amazon, Alibaba, Google and Facebook [13]. Similarly, World Trade Organisation in 2021 says digital tax does not target the consumer but the electronic marketplaces and online advertising platforms. The EU in 2021 stipulates that electronic commerce tax should be charged in the countries where the customers are consuming the products and, in the country, where the company is physically located to avoid double taxation. In the same vein, OECD in 2021 states that digital tax must be charged in a country that is creating value from the sales of goods.

France introduced digital tax in 2018 but there was an outcry from USA saying it was targeting its technology giants such as Amazon, Facebook, and Google [7]. In reiteration USA increased prices of goods from all the France products by 100% to include the tax component. This indicated that electronic commerce business was being discouraged due to lack of universal policies that guide its operation among the trading global nations.

Zimbabwe is one of the countries suffering from the fate of non-taxation of electronic commerce transactions. There is no greater harmonisation and coordination of national tax policies on electronic business [5]. According to Reserve Bank of Zimbabwe Report, taxation is a critical tool that is used by nations such as Zimbabwe to raise revenue. The Zimbabwe Revenue Authority (ZIMRA) appears to have adopted electronic commerce tax, but the implementation of the tax is still in its infancy stage [9]. There is a low adoption rate despite the significant benefits which can be realised for Zimbabwe by ZIMRA. However, the ability of ZIMRA to successfully adopt and utilise electronic tax is fundamental in ensuring an increase in revenue collection [14]. Growing evidence suggests that electronic commerce tax adoption by Zimbabwe is not optional but a prerequisite [5].

While much of the study regarding barriers to electronic commerce tax adoption has been conducted in developed worlds, little or no research has been carried out in developing countries [2]. The study therefore endeavours to fill this apparent gap by unpacking electronic commerce tax barriers within the context of a developing country like Zimbabwe.

II. STATEMENT OF THE PROBLEM

Globally, the taxation of transactions generate fiscus revenue for countries which facilitates the development and implementation of capital projects. In Zimbabwe, besides the companies and individuals being involved in online business in advertising, content creation and trading there is no, or little digital commerce tax being collected from the transactions. As such this research investigated the impediments leading to low or no electronic commerce tax adoption by the revenue authorities in Zimbabwe.

III. RESEARCH OBJECTIVE

The objective of the study was to assess the barriers of electronic commerce tax collection in Zimbabwe.

IV. SIGNIFICANCE OF THE STUDY

The study plays acritical role in promoting the development and adoption of electronic commerce tax system which are solid and can assist in the taxing of digital transactions such as advertising and content development in developing worlds such as Zimbabwe.

In addition, the research is a catalyst in contributing to the body of knowledge on electronic commerce taxation. Other researchers can use it as references in their studies or for further research.

Furthermore, the study is important to government policy developers in that it can be used to craft new policies that will assist in online trading. These new taxation policies can be used to generate revenue that is used to finance capital projects in Zimbabwe.

V. SCOPE OF THE STUDY

The study covered companies that are trading virtual and doing business in Zimbabwe using electronic commerce only.

VI. STUDY LIMITATIONS

Some of the companies involved in the study were not willing to share their information on their electronic commerce payments. The research had to explain to the management of the company how the information was important for academic research. The researcher further assured them of confidentiality and anonymity.

VII. LITERATURE REVIEW

The cross-border electronic commerce was modernised in the European Union (EU) whereby anyone in the electronic commerce supply chain is affected, from online sellers and marketplaces or platforms both inside and outside EU, to postal operators and couriers' customs and tax administrations, right through to the consumers [15]. In order to facilitate electronic tax collection in Europe, on July 2021 the countries changed the Value Added Tax (VAT) rules on cross border business to consumer (B2C) electronic commerce activities. The rationale of these changes was to overcome the barriers to cross border online sales and address challenges arising from VAT regimes for distance sales of goods and for importation of low value consignments [8].

The new rules on electronic tax stipulates that electronic VAT on all goods entering the EU, studies and experience have shown that exemption of goods valued at below 22 Euros by non-EU companies was abused by sellers who mislabelled consignments of goods in order to benefit from the exemption [16]. This loophole was allowing companies who were non-EU members to undercut their EU competitors and costs EU treasurers an estimated €7 billion per year in fraud leading to a bigger tax burden for other taxpayers [15]. The EU member countries created an electronic portal called “One Stop” where members countries register to promote a holistic approach to online tax collection. The common EU threshold for registration was pegged at €10000 and above [15]. The EU import on stop shop allows non-EU sellers to register easily for VAT in the EU. This is of benefit to the country and the consumer. Firstly, the correct amount of VAT will be channelled to the member state in which it is finally due. Secondly it is transparent to the consumer in that the VAT is inclusive of the price paid to the seller. There is no payment of VAT twice [8].

The VAT on e-commerce bring untold benefits on the ease of doing business, cutting down on fraud and improving consumer experience for online shoppers ([15] [8]).

In European countries it is not complex to establish the electronic tax regime because of the availability of advance technology which is cheaper and accessible [13]. The technology is a solid cog that gather, manipulate, and process the consumer and business data automatically [16]. Furthermore, in the European states they use available ICT systems that are fully supported by the power of robotics, automation, artificial intelligence, machine learning and big data [2]. All these are the features that can make companies easy to adopt electronic commerce tax.

According [13], the benefits of electronic commerce tax to the European business community are that the VAT is paid where consumption of goods takes place. In addition, [16] states that with electronic commerce tax the European Union commission businesses will be able to grow in a simplified fairer environment and overcome the barriers to cross border online sales.

Reference [8] articulates that the European community set up the European Digital Single Market which aims to make technology work for people in a fair and competitive digital economy. In contrast, Africa does not have a Digital Single market, where all countries converge and share digital data. This is an indication that the African countries Zimbabwe inclusive are not taking great strides to adopt electronic commerce holistically. The European Commission on Taxation and Customs Union in 2021 reiterates that digital tax on electronic commerce is increasing public revenues due to increased VAT payments and less VAT frauds. In congruency, [13] stresses that the digital tax simplifies cross border e-commerce and introduces greater transparency for EU traders concerning fair pricing and consumer choice. The new normal of doing business that prompted due to Covid 19 pandemic has shifted the way of doing business to digitalisation. It accelerated the boom in online cross border trade.

In America, in 2018, a technology giant, Amazon never paid VAT deliberately because there was never a law that promoted digital tax [8]. This also applied to technology companies such as Amazon, Google, Facebook, and Apple which were also not paying tax as done in the brick-and-mortar system. This is indictive of the fact that lack of a strong legislation system that supports the digital collection of electronic commerce can led to noncompliance by companies.

The middle class has shifted to spending their money online. It is difficult for smaller markets such as Mozambique to persuade suppliers in Europe, United States of America or China to register or declare online tax regularly. In Africa obtaining information from payment services providers which is essential for tax control is not always easy in these (USA, China, EU) jurisdictions because there is no tradition of tax administration accessing financial information or there is fear of misuse [1].

Reference [16] carried out studies in Africa and pointed out that for electronic tax to be critical in Africa, it is necessary to perfect VAT place of supply rules, set up simplified registration schemes, strengthen new rules and publicise the new regimes. In the same vein [1] researched and discovered that the difficulty Africa online tax system stems from the fact that extant national laws governing income taxation are premised on the assumptions of physical presence of parties to business transactions. Most African countries suffer from current legal, fiscal, and regulatory incapacitation [17].

Kenya introduced digital service tax in 2019 but it was hurriedly conceived because it was not clear on who was to bear the burden of the tax (the consumer or the seller) [4]. The digital service tax law imposes a 1.5% on any income accrued from the internet platform. This is a heavy weight for struggling start-ups which are using the digital space for business. E-commerce in Kenya suffers from incompatibility between e-commerce software and customer devices. In addition, Kenya suffers from insufficient infrastructure to support electronic commerce tax collection. Reference [18] found out that legal and regulatory challenges in Kenya are the most formidable barriers in the collection of digital service tax. These obstacles are compounded by lack of initiatives on the part of Kenyan government. Kenya lacks robust and strong legislation and regulatory regime relating to e-commerce [4]. Kenya faces the challenge of traditional principles of basing taxation require physical presence in a state where tax is being collected but e-commerce is virtual and makes it possible for one to earn income from a particular state without having physical presence in that state [11]. The same challenge is being faced in Ethiopia where e-commerce users face difficulties in getting legal redress on breach of contract, refunds, or compensation of wrong or poor-quality products because of huge distance between trader and buyer [8].

South Africa is suffering from e-commerce jurisdiction in the collection of digital commerce tax ([1][12]). Because e-commerce is a global phenomenon, there is no standardised legal approach that is applicable to all countries involved in the transaction, South Africa included. This is also compounded by the fact that internet is ubiquitous without territorial limitations [8]. The fact the countries have different tax codes applicable to e-commerce is a disabler to digital collection in South Africa. The differentiation in codes is a subject to arbitrary taxation and double taxation due to inconsistent tax codes. These affect cross border transactions.

Reference [17] in Nigeria conducted research on e-commerce taxation challenges. He found out that Nigeria suffers from the challenges of deplorable infrastructural deficiency, obsolete legislations, lax implementation of existing laws, hydra headed corruption plus widespread ignorance on e-commerce tax. Reference [18] discovered that in Nigeria the tax authorities are struggling to find mechanisms to collect the anticipated significant revenues derived from taxing e-commerce profits because the existing tax regime was set up to handle exchange of only physical goods and services. He further highlighted that the Nigeria authorities are entirely oblivious of the prospects of revenue flow from e-commerce. Reference [18] recommended that the Nigerian tax authorities requires training on how to collect digital tax as a government revenue generation scheme. Reference [19] argue that Nigeria's major challenges of digital taxation on e-commerce has been the law governing direct taxes that are inadequate and out of date and they are premised on the concept of permanent establishment as defined in the double tax treaties.

Covid 19 pandemic increasingly turned Zimbabwe into e-commerce space to conduct business, pivoting on use of international gateways such as Pay Now, Pay Plus and use of virtual global credit and debit cards to facilitate payments [16]. E-commerce is also being driven by the fact that 60% of the population in Zimbabwe is made up Millenniums or digital natives who enjoys being served on digital platforms than brick and mortar platforms [9]. Therefore, their appetite for digitalisation is very high and the new generation is quick to embrace the new technological ecosystem.

Reference [19] stipulates that due to the Covid 19 pandemic companies in Zimbabwe are failing to remit tax for 2019 to 2021. This is because business was negatively affected by Covid 19. Zimbabwe in 2021 introduced electronic commerce tax on betting, crypto currency, and online cross border trade. The new tax revenue collection targets advertising companies such as Google, Facebook, and YouTube ([5][11]). Furthermore, to facilitate the collection of digital tax, the Zimbabwean Ministry of Finance and Economic Development set the taxation threshold for electronic commerce transactions to 500 000 USD$ per annum [19]. In addition, because of lack of solid infrastructure to support the collection of the online tax [14].

RBZ Report in 2021 opines that electronic commerce is a key source of revenue generation but its viability in Zimbabwe is affected by many factors. Firstly, it is very difficult for E-commerce operators in Zimbabwe to raise the revenue threshold of five thousand United States Dollars (500 000 USD$) because the foreign e-commerce operators are unlikely to generate that high level of revenue in Zimbabwe and Zimbabwe suffers from acute shortage of forex [19]. Also, Zimbabweans acquire their foreign currency on the black market as such their electronic commerce transactions are either officially monitored nor legitimately documented anywhere. The Zimbabwean parallel is unregulated and unpredictable [14]. Finally in Zimbabwe there is no infrastructure that can officially control the activities of the E-commerce operators. These lack of monitoring mechanisms cannot give a clear sheet of how is operating in Zimbabwe and how much is being generated ([5][14]).

Due to lack of infrastructure and electronic commerce expertise, the republic of Zimbabwe signed a Public Private Partnership with Daedalus World Limited, whose mandate is to collect online revenue through taxing all qualifying companies who are involved in e-commerce, cloud computing, digital advertising, gambling, and online content creation. The company qualifies into this bracket if it can raise 500 000 USD$ per annum through provision of products online ([19][20]). The revenue is subject to tax at a rate of 5%. The fact that Zimbabwe is partnering with a foreign company in online revenue collection shows that it does not have the infrastructure muscle to do the job.

VIII. RESEARCH METHODOLOGY

A qualitative approach was adopted in order to gain an understanding of reasons and opinions why Zimbabwe is sluggish in the adoption of electronic commerce taxation. The research instituted a descriptive survey design to capture the behaviour of the sample population. Purposive sampling was used to select a sample of 60 participants. Online interviews and Microsoft Teams were used to gather data from the participants. This facilitated virtual discussions with the participants. This was also a convenient method of gathering data since most of the people are now used to virtual meeting because of adhering to Covid 19 protocols. In order to protect the identity of the participants, the research had to promise anonymity and confidentiality. The researcher promised that the names and companies of the researcher are not published anywhere in the research.

IX. FINDINGS AND DISCUSSIONS

The research found out that lack of proper information communication technology systems and inadequate infrastructure and electronic legislative policies are challenges which are faced when collection of electronic commerce taxes in Zimbabwe. This was revealed by ZIMRA officials who said in Zimbabwe there is no ICT systems that support electronic commerce taxation collection.

Officials revealed that electronic tax is very difficult to collect on electronic commerce due to lack of the infrastructure that facilitates the implementation of the new tax regime. This was so because there is not much investment that was done on the tools that are proper in the collection of tax.

ZIMRA employees lacks the digital skills to institute the process. This is supported by UNCTD which says most countries in developing countries do not invest in electronic tax infrastructure that facilitates collection of electronic commerce tax. This was also supported by Musau (2018) who opines that most government organisations that collect taxes do not equip their staff with the intended skills.

Most of the activities done on the internet by some organisations does not warrantee the collection of tax because they are far short from reaching the recommended thresholds of 500 000 USD per annum by the Zimbabwean Government authorities. Companies involved in electronic commerce illegitimately obtain their foreign currency from the black market where it is not documented.

Zimbabwe lacks a strong legislative system to support digital collection of taxes. Zimbabwe fall short of policies that make it imperative to pay electronic commerce taxes. This was highlighted by [5] who says digital taxation is very difficult to enforce in many developing countries because of lack of supporting infrastructure. Similarly, a study is East Africa community says that digital taxation is a challenge because of lack policy by authority to facilitate the collection of the e-commerce [1].

X. RECOMMENDATIONS

Zimbabwe through ZIMRA enact a strong legislative system to support digital collection of taxes. This will avoid companies trading online to suffer from double taxation.

Zimbabwe should invest in electronic commerce infrastructure that facilitates digital tax collection. And also, the Zimbabwe Ministry of Finance and Economic Trade should promote greater harmonisation and coordination of national tax policies is required to address global taxation collection.

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