

ZIMBABWE



TAX CRIMES NATIONAL RISK ASSESSMENT

2024



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List of acronyms and Abbreviations

CFT	Counter Financing of Terrorism
CIT	Corporate Income Tax
FDMS	Fiscalised Data Management System
FIU	Financial Intelligence Unit
ML	Money Laundering
NPA	National Prosecuting Authority
NRA	National Risk Assessment
PAYE	Pay As You Earn
PIT	Personal Income Tax
PRT	Payroll Tax
TaRMS	Tax and Revenue Management System
VAT	Value Added Tax
ZACC	Zimbabwe Anti-Corruption Commission
ZIMRA	Zimbabwe Revenue Authority
ZIMSTAT	Zimbabwe National Statistics Agency
ZRP	Zimbabwe Republic Police

Executive Summary

The National Risk Assessment of tax crimes provides a comprehensive analysis of the threats, vulnerabilities, and risks associated with tax crimes in Zimbabwe covering period January 2019 to December 2023. The assessment provides an understanding of the risks posed by tax crimes and serves as a foundation for formulating effective strategies and guiding policy initiatives and coordination mechanisms to enhance the ability to combat money laundering (ML).

The NRA underscores the importance of a proactive and risk-based approach to combating tax crimes, emphasising the value of ongoing monitoring, evaluation, and adaptation of strategies to address emerging threats. By implementing the recommendations outlined in this assessment, the resilience of the country’s tax system, effectiveness of anti money laundering /counter financing of terrorism (AML/CFT) combating ability, and protection of government revenues can be enhanced.

The overall tax crime risk was assessed rated medium. This was a combination of a medium level of threat as well as a medium low level of vulnerability as shown by the heat map below.

Table 1: Heat-map for overall tax crimes findings

Overall Threat	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M*	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		Overall Vulnerability				

Note: L = low; ML = medium-low; MH = medium-high; H = high

* The assessed tax crime risk

The tax crime threat was assessed to be medium low, with outgoing perceived money laundering risk posing significant risk.

The NRA identified tax crimes as posing significant risk, with individuals and businesses underreporting income, suppressing sales, non-registration,

non-filing, non-payment, offshore schemes and engaging in fraudulent schemes to evade their tax obligations. High risk sectors that were identified include cash-intensive businesses, informal sector businesses, formal businesses, self-employed individuals, and offshore entities that conceal income and assets to avoid detection. Tax crime was found to be linked to ML activities, with proceeds from tax evasion being laundered through legitimate financial channels to conceal their illicit origins.

The NRA identified vulnerabilities in tax administration processes, such as gaps in compliance monitoring, statistics collection system, data accuracy cross checking against other data of tax administration and limited tax laws and dissuasive sanctions on offshore schemes that create opportunities for tax offenders to exploit the system.

The assessment made the following recommendations:

- a) Enhance compliance monitoring processes by expanding coverage of high-risk taxpayers, implement automated risk-based selection criteria system for audits, and conduct regular compliance checks to detect discrepancies and anomalies.
- b) Implement a data collection system whereby each tax crime as per the tax law is accounted for independently. The need to account for each tax crime will assist tax authorities to use the risk-based approach where resources will be deployed to the tax crime with the highest risk.
- c) Automate the process of cross-checking data accuracy with other tax administration data.
- d) Continually streamline and simplify the registration processes for informal sector businesses, to encourage voluntary compliance and formalization.
- e) Enact a tax legal framework to register offshore assets, income, entities, and apply dissuasive sanctions for non-compliance.
- f) Enhance collaboration between tax authorities, law enforcement agencies (LEAs) and Financial Intelligence Unit (FIU) to detect and disrupt money laundering activities associated with tax crime.

CHAPTER ONE

1. Overview

1.1 Introduction and background

Tax crime refers to any illegal activity involving the deliberate evasion of taxes through intentional acts or omissions that unlawfully deprive a tax authority of revenue. These crimes pose significant threats to national tax systems, resulting in revenue losses, facilitating money laundering, and distorting economic activity. Tax crime encompasses a wide range of illicit activities including tax evasion and related ML that undermine the fairness and effectiveness of Zimbabwe's tax system and jeopardize the country's economic and social well-being.

To effectively combat tax crime and enhance compliance, Zimbabwe has recognised the need for a proactive, risk-based approach. Conducting NRA is therefore essential for identifying and prioritising key tax crime threats and vulnerabilities, and for developing targeted strategies to mitigate them. The NRA serves as a critical tool for understanding the nature and scale of tax crime threats, assessing systemic weaknesses, and guiding resource allocation, preventive measures, and stakeholder collaboration. In 2019, Zimbabwe conducted its second NRA, identifying tax evasion as one of the top five predicate offences. This highlighted the interconnected nature of financial crimes and the need for a more comprehensive and focused response to tax offences. Building on these findings, the government and relevant authorities have prioritised a dedicated NRA on tax crime, marking Zimbabwe's first targeted assessment in this area.

This initiative reflects the growing recognition that traditional compliance measures alone are insufficient to address increasingly complex and cross-border tax crimes. By gaining a deeper understanding of the specific threats and vulnerabilities within the tax system, tax authorities can tailor their strategies and interventions to address the most pressing risks and improve overall tax compliance.

1.2 Zimbabwe tax context features

Zimbabwe tax collections largely come from formal businesses. Tax base of the informal sector is not being fully captured in traditional tax bases, such as corporate income tax, value added tax, and payroll income tax. The informal sector has many players that compete with established formal businesses.

The prevalence of cash transactions in the informal economy makes it challenging for tax authorities to monitor and track income and financial transactions. Cash-based activities are less traceable and more susceptible to underreporting or non-reporting, leading to tax evasion. The country has a multi-currency regime with the United States Dollar being the dominant currency. The use of multi-currency has been a pull factor for foreign traders who operate informally on a cash basis.

The high level of cash transactions within the economy is also being attributed to high bank charges and general low trust levels in the banking sector. A high reliance on cash transactions in the country is a risk factor for tax crimes, as it makes it easier for individuals and businesses to conceal income and avoid tax reporting requirements.

The prevalence of individuals and businesses using offshore accounts in tax havens, to hide income and assets from tax authorities. This trend could indicate higher risk of tax evasion and ML activities in the country.

The expert perceived opinion rated the country corruption index moderate within the tax administration which also increase the risk of tax crimes in the country. This could lead to preferential treatment for certain taxpayers and allowing them to evade taxes.

1.3 Tax environment

Zimbabwe operates on a source-based tax system. This means that income from a source within or deemed to be within the country will be subject to tax unless specifically exempted from tax. Income earned by foreign entities will only be taxed in Zimbabwe if it is from a source within or deemed to be within the county. As a result, Zimbabwe has entered into double taxation

agreements (DTAs) with some jurisdictions where the foreign entities reside to agree on tax treatment.

Therefore, the country is a signatory to many double taxation treaties with countries including Botswana, Bulgaria, Canada, China, France, Germany, Malaysia, Mauritius, Netherlands, Norway, Poland, Serbia, South Africa, Sweden, Switzerland, United Kingdom, United Arab Emirates and Zambia.

1.4 Taxpayer population

The country's taxpayer population is 437,837. The current population of Zimbabwe is around 16.7 million. However, in Zimbabwe payroll taxes is not recorded individually, that is the taxpayer may not be a single person. The system is designed such that an entity becomes the taxpayer, for example a corporate with 2,000 employees would remit the Pay as You Earn (PAYE) for its employees, hence the recorded taxpayer would be one, representing 2,000 taxpayers for PAYE. The 437,837 thus represents corporates, trusts, non-profit organisations, and personal income taxpayers.

1.5 Tax crime environment

Zimbabwe tax environment encompasses tax laws, regulations, compliance requirements and enforcement mechanisms. Most of the tax crimes fall under the Income Tax Act [Chapter 23:06] and VAT Act [Chapter 23:12]. The tax crimes in the country were identified as follows:

a) Non-registration

Non-registration related offences are committed by any person who, without lawful excuse, refuses, fails or neglects to apply for registration in the prescribed form and manner as required by Income Tax Act. Tax registration related tax offences are sanctioned with criminal tax penalties in terms of Income Tax Act and VAT Act.

b) Under-reporting

Underreporting tax offences are committed by any person with intent to defraud and evade tax in respect of any given taxable period, knowingly or wilfully makes any declaration or return which is false or fraudulent. Underreporting related tax offence are criminalised in terms Income Tax

Act and VAT Act. Accessories to underreporting offences are sanctioned with administrative tax penalties only in terms of Income Tax Act and VAT Act.

c) Non-filing

Non-Filing tax offences are committed by any person who without lawful excuses refuse or fail to deliver a complete and correct return in respect of a taxable period. Non filing related tax offences are criminalised in terms of Income Tax Act and VAT Act.

d) Transfer pricing

Transfer pricing related tax offences are committed by corporate taxpayers that knowingly or wilfully fail to comply with transfer pricing rules and contravene the transfer pricing regime which includes the arm's length principle, comparability, definition of related parties among others. Transfer pricing related tax offences are sanctioned with criminal penalties where contemporaneous transfer pricing documentation does not exist in relation to the transaction giving rise to the amended assessment, a penalty of 30% of the shortfall amount in terms Income Tax Act. Where contemporaneous transfer pricing documentation exist in relation to the transaction giving rise to the amended assessment, a penalty of 10% of the shortfall amount and 100% of the shortfall tax liability in case of tax evasion.

e) Record keeping

Record keeping related offences are committed by any person who, without lawful excuse refuse or fails to comply with record keeping obligations. Record keeping related tax offences are criminalised in terms of Income Tax Act and VAT Act. Accessories to record keeping related offences are criminalised in terms of aforementioned Acts. It does not cover people who offer accessory in the other forms.

f) Falsehood

Falsehood related tax offence is committed by a person that knowingly or wilfully gives any false evidence to tax authorities. Falsehood related tax offences are criminalised in terms of the Income Tax Act and VAT Act. The administrative penalties are charged in terms of the above Acts. Accessories to falsehood-related offences are sanctioned with tax penalties.

g) Non-payment

Non-payment tax offences are committed by any person with intent to defraud and evade tax in respect of any given taxable period, refuse or fails to pay in whole or in part, any amount of tax due and payable in respect of a taxable period. Non-payment related tax offences are criminalised in terms of Income Tax Act and VAT Act.

h) Fraudulent Schemes

Fraud related tax offences are committed by any person with intent to defraud and evade tax in respect of any given taxable period. Fraud related tax offences and their accessories are sanctioned with criminal tax penalties in terms the Income Tax Act and VAT Act.

1.6 Main structural factors that are impacting tax crimes

Unethical behaviour by tax advisors, accountants, and legal professionals, enable tax crimes through, aggressive tax planning, and the misuse of corporate structures. The informal sector is characterized by high prevalence of cash transactions, which are less traceable and more susceptible to underreporting or non-reporting. This makes it easier for individuals and businesses to conceal income and assets from tax authorities, contributing to tax evasion. The high level of cash transactions within the economy makes it difficult to ensure that taxes are accounted for correctly or at all.

It is mostly the formal sector that bares the compliance of the tax laws. The informal economy often operates without formal documentation, making it difficult for tax authorities to track and regulate economic activities. The lack

of the formal records hinders the ability to assess tax liabilities and enforce compliance.

1.7 Tax authority (resources, focus on tax crimes)

The tax authority's resources and focus on addressing tax crimes are critical for maintaining effective tax system and promoting compliance. Listed below are some of the strategies implemented to handle the constraints faced by tax authorities.

Tax authority prioritizes efforts to address high-risk areas such as large-scale tax evasion, fraud, and non-compliance by high-net-worth individuals and businesses.

Tax authority coordinates efforts with LEAs, FIU and other relevant agencies to enhance the tax authority's ability to combat tax crimes.

It is important to note that, tax authority persists in its efforts to offer adequate funding to effectively address tax crimes to support enforcement efforts, technology upgrades, and capacity building.

The tax authority has skilled personnel, including investigators, auditors, tax accountants, economists, and legal professionals for detecting and assisting in investigation and prosecution of tax crimes.

CHAPTER TWO

2. Methodology

The methodology for conducting the tax crimes NRA involved a structured approach to identify, assess, and prioritize the risks associated with tax crimes within a country. The assessment of the tax crimes in Zimbabwe, was carried out covering the period 1st January 2019 to 31st December 2023.

The World Bank tax crimes assessment tool considers the threats and vulnerabilities to deduce the overall tax crimes risk. Threats and vulnerabilities were assessed separately. The threat toolkit had six segments which are; order and magnitude of tax crimes, tax crimes threat, ML threat, typologies, qualitative analysis, and case studies. The vulnerabilities toolkit analysed nine variables namely; non-registration, inaccurate record keeping, falsehood/obstruction, non-filing, under-reporting, non-payment, transfer pricing, fraudulent schemes, and offshore schemes. Assessment of the vulnerability variables produced reports, charts and country's vulnerability rating level. Assessment of tax threat quantitative and qualitative data produced country's tax crime threat and related ML rating levels.

Participants were drawn from various stakeholders in the tax crimes prevention and detection value chain. Institutions involved were the Zimbabwe Revenue Authority (ZIMRA), Zimbabwe Republic Police (ZRP), National Prosecuting Authority (NPA), Financial Intelligence Unit (FIU), Ministry of Finance, Economic Development and Investment Promotion (MoFEDIP), Zimbabwe Anti-Corruption Commission (ZACC), and the Zimbabwe Statistical Agency (Zimstat).

For effective data collection, ZIMRA, ZRP, NPA and ZACC were compelled to populate an excel sheet on enforcement data on tax crimes. The excel sheet shows for each year, the total number of incidences and values per each offence and highlights the number of successful prosecutions. To

complement sections of the tool which required expert opinions, a questionnaire was designed to collect data from various experts who included registered audit firms. Further data sources used were credible open sources.

2.1 Limitations

The tax crimes NRA was the first of its kind for Zimbabwe hence it was inevitable not to face some few challenges. One of the major challenges faced was related to the tax crimes statistics. The tax crime statistics were not structured to fit the categories prescribed by the World Bank tool. Prior to the assessment, ZIMRA, ZRP, NPA and ZACC recorded cases of tax crimes in formats which were only necessary for their future use. As a result, in some instances cases could not be broken down as per specific offence but rather as aggregates.

For the revenue streams, in Zimbabwe personal income tax (PIT) refer to income earned from being self-employed, small startups and other income which does not qualify under payroll tax. The country, tax crime proceeds and cases related to personal income tax were therefore being recorded under corporate income tax which resulted in the category having nil values. This NRA will therefore help ZIMRA, ZRP, NPA, ZACC to record tax crimes statistical data in forms which would make it easier to extract data for future risk assessments and evaluations.

CHAPTER THREE

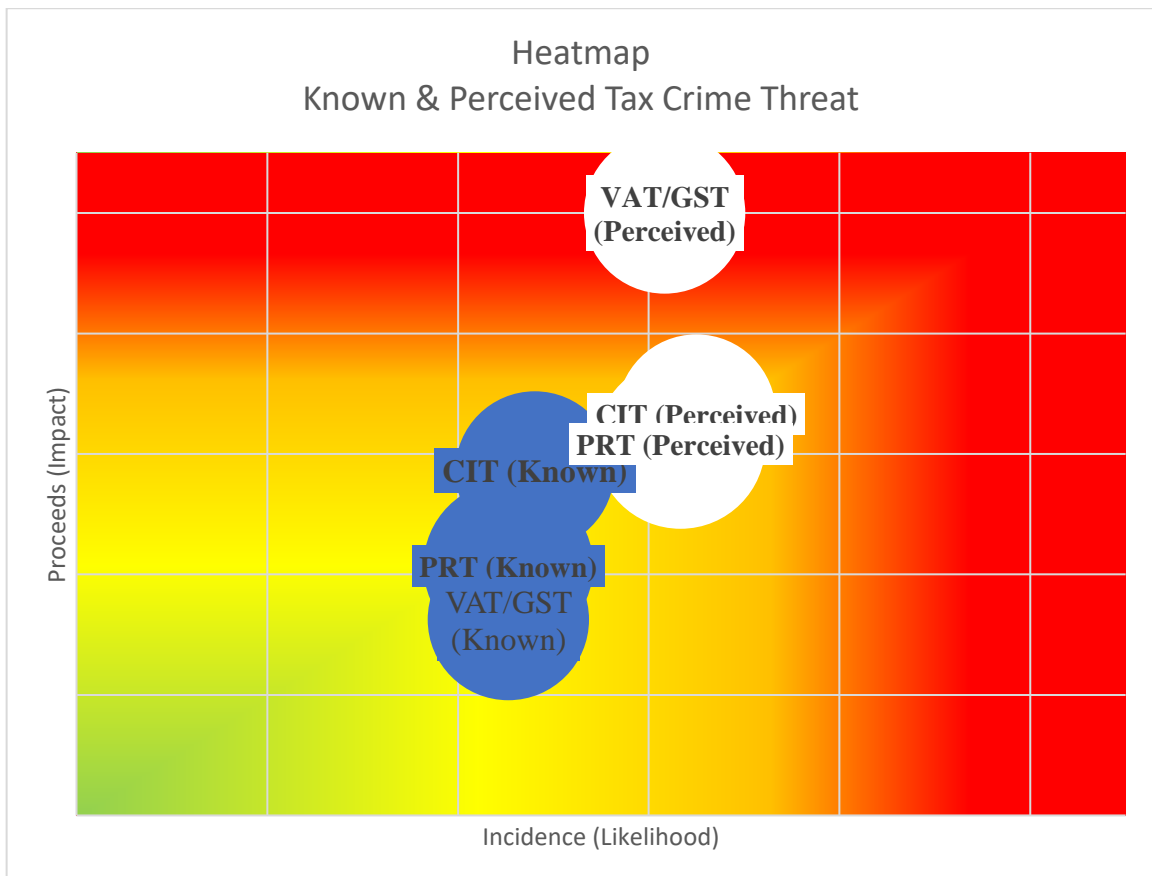
3. Threats Assessment

3.1 Tax crime threat

The overall tax crime threat risk was assessed to be medium level. This was a combination of medium rating of incidences and a 12.81% revenue loss. Statistics for personal income tax and corporate income tax were consolidated and recorded under income tax.

The tax crimes NRA identified several main threats and underlying drivers that pose significant challenges to tax compliance and enforcement efforts in Zimbabwe. These threats and drivers are critical to understanding the landscape of tax crimes and formulating effective strategies to mitigate risks and enhance the country's tax system. The findings are as shown in the figure below.

Fig 1:Tax threats results summary



3.1.1 Overall known tax crime threat level

For the period assessed 01 January 2019 to 31 December 2023, the total amount of taxes owed by taxpayers amounted to US\$ 11,714,595,637.19. Total tax crimes cases recorded were 1,811 with a value of US\$1,500,135,529.47. The percentage loss of revenue resulting from known tax crimes was 12.81%.

Table 2: Order of magnitude

	CIT (US\$)	VAT (US\$)	PAYROLL TAX (US\$)	TOTALS
Total Liability	3,691,984,337.64	3,808,506,609.19	4,214,104,690.36	11,714,595,637.19
Revenue Loss (Known Crimes)	1,105,661,267.21	360,577,558.79	33,896,703.47	1,500,135,529.47
Number of Cases	715	860	236	1811
Non or Under reporting	1,092,581,819.20	290,265,440.75	32,892,132.25	1,415,739,392.20
Non or Under filling	143,571.41	45,033,834.94	153,550.23	45,330,956.58
Non or Underpayment	765,827.19	-	-	765,827.19
Non or Under reporting (Cases)	628	809	227	1664
Non or Under filling (Cases)	9	51	17	77
Non or Underpayment (Cases)	70	-	-	70

Main Tax Crime Threats: In terms of revenue streams, corporate income tax (CIT) had the highest value of revenue losses through known tax crimes at US\$1,1 billion, followed by value added tax (VAT) at US\$361 million. Out of

the US\$1.5 billion revenue loss, US\$1.4 billion was a result of under-reporting. Under-reporting cases totalled 1,664 during the period against overall cases of 1,811.

3.1.2 Main tax crime threats identified

Underreporting of income, is prevalent in the informal economy, where many economic activities go underreported, leading to a significant loss of tax revenue for the government. Individuals and businesses operating in the informal and formal sectors are not fully disclosing their income to tax authorities. The period under assessment, non or under reporting of income total known cases were 1 664. A case example for underreporting of income offence, Company Y under declared income which was obtained from projects for value added tax and income tax purposes. Further, it was discovered that the expatriates working in Zimbabwe were earning salaries in local currency and had a foreign currency component which was being paid by the holding company in foreign jurisdiction. Pay as you earn was not withheld for the foreign currency remuneration earned by expatriates. The value of tax loss was ZWL 8.9 billion.

The country's retail and wholesale corporates to some extent deliberately manipulate or falsify sales records to underreport taxable income and evade the payment of VAT. Some corporates are failing to account for VAT on imported or smuggled goods, as well as failing to remit taxes in the currency of trade or receipt. A case example of under declaration of output tax which is sales suppression, company X in the business of mining claimed for refund but had undeclared income from bank statements and a variance was noted and taxed. This resulted in amounts being raised and the VAT refund became payable. The value of tax loss was USD 156 521.74.

With regards to non-filing, individuals and businesses taxpayers, failed to file their tax returns without lawful excuse resulting in tax evasion. The period under assessment, non-filling of tax returns cases was 77. A case example for non-filing offence, a company into provision of rental space in the form of fabricated containers and lodges turned into shops at low density

shopping centres in Harare. The shops amounted to 56 units. The value of tax loss was USD100 000.00.

Non or underpayment: This involves taxpayers with the intention to evade tax or failing to pay whole or in part of tax due and payable. This includes business taxpayers' schemes such as payment diversion for electronic payments on goods and services to a separate bank account not registered under the company name. During the period under assessment, non or underpayment cases were 70.

Non-registration for tax purposes as required by law is largely committed by informal business players as well as, non-registration of some tax heads by formal sector. A case example of non-registration offence; company M was observed that it sells all sorts of hardware including electricals, kitchenware, farm implements and borehole pumps. The client was making an estimated income of plus USD5,000 per day and was not registered with ZIMRA where US\$20,000 was recovered. In another example, a family trust was formed for the benefit of six children. The trust comprised of five properties where rental income was received and managed by X lawyers. The trust beneficiaries received monthly allowances of USD300 to 1000 and it was not registered with ZIMRA. The value of tax loss was USD 28 372.95.

Fraudulent schemes, taxpayers are creating fake documents, such as receipts or invoices, to support false deductions or expenses on their tax returns and keep multiple sets of financial records to hide income or expenses from tax authorities. Case example of fraudulent offence; company B which manufactures cigarettes entered into an agreement with foreign company of cigarettes for toll manufacturing. Investigation of the agreement and operations revealed that, the scheme was fraudulent. The value of tax loss was USD 19 967 975.52.

Offshore schemes; related tax offences are being committed by individuals, formal and informal sector. The expert perceived opinion noted high prevalence of hawala in the country. The cross-border nature of hawala

transactions is being used as a tool to transfer funds offshore without proper documentation or reporting, making it easier for individuals and companies to conceal income and assets from tax authorities. The threat is resulting in unreported offshore secret bank accounts, real estate properties, investment income, trusts, as well as ownership of secret offshore companies.

Transfer pricing refers to the pricing of goods, services, or intangible assets transferred between related entities within a multinational enterprise. Transfer pricing related tax offences are being committed by multinational corporations and it is impacting on the allocation of profits and tax liabilities among different jurisdictions. Companies are shifting profits to low tax jurisdictions through transfer pricing manipulation. A case example for transfer pricing offence; a multinational mining company with a parent entity outside local tax jurisdiction. The local company was paying management fees to the parent as a percentage of turnover. This was against the local legislation where client is required to prove the nature of the expense. Failing to differentiate mining income from non-mining income (ring fencing of income) resulted in tax loss was USD 9 177 918 .00. This is attributed to Zimbabwe being regarded as a high tax jurisdiction.

3.1.3 Tax crime threat underlying drivers

The prevalence of cash transactions in the informal economy makes it easier for businesses and individuals to underreport income and evade taxes without leaving a paper trail.

Companies and individuals are using offshore schemes to hide or conceal income and assets from tax authorities leading to potential tax evasion and underreporting of taxable income.

Multinational corporations are engaging in transfer pricing manipulation to shift profits to low tax jurisdictions and reduce their overall tax liability. By manipulating transfer prices, companies can artificially inflate or deflate profits in different jurisdictions to maximise their overall profits.

The informal economy often operates without formal documentation, making it easier to engage in tax crimes. Formal companies engage in tax crimes to maximise profits and financial gain by underreporting income,

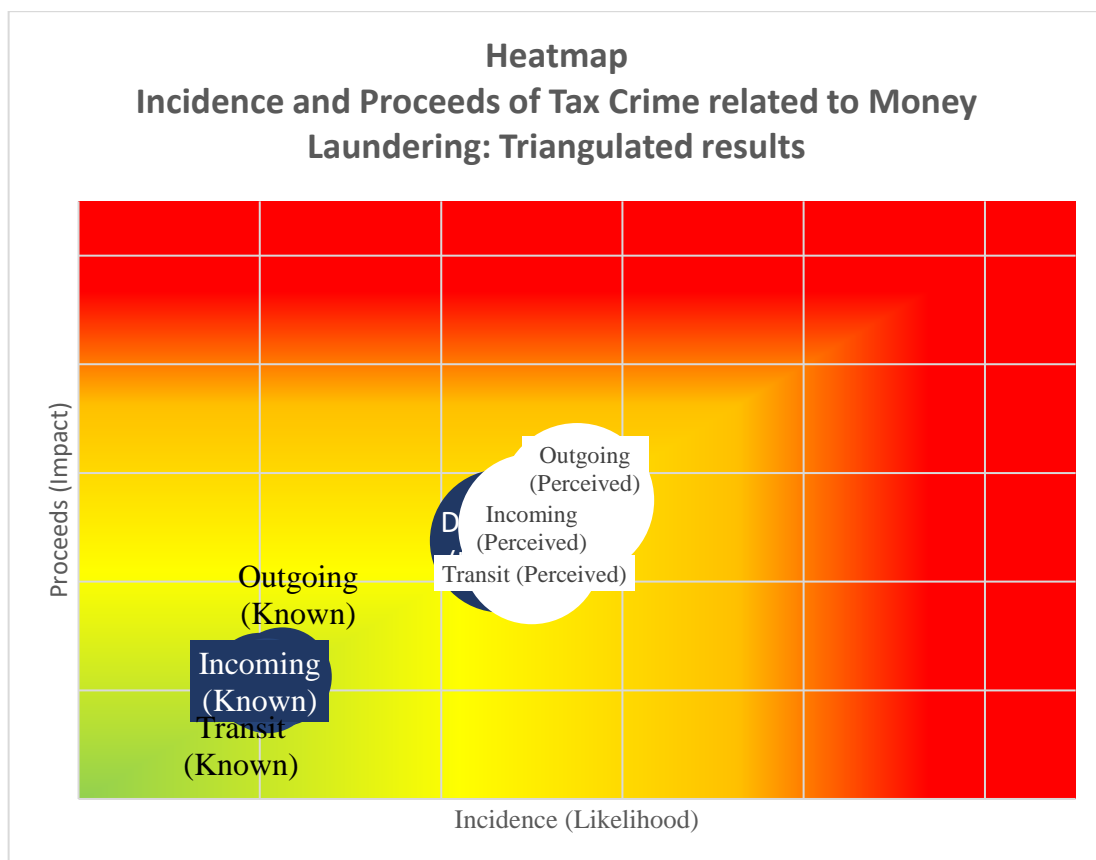
overstating expenses, and engaging in fraudulent activities. In addition, lack of transparency in financial reporting and accounting practices is facilitating tax crimes.

High compliance costs such as the cost of fiscalisation for VAT purposes, can be a significant burden on small to medium enterprises. The informal economy is associated with a low level of tax compliance culture, as individuals and businesses may not fully understand or acknowledge their tax obligations. This is leading to widespread underreporting of income and assets.

3.2 Money laundering threat

Money laundering poses a significant threat to tax crimes as it enables individuals and corporates to conceal the proceeds of tax crimes. The overall money laundering threat risk was assessed to be medium low.

Fig 2: Summary of threat results



The country's outgoing perceived ML threat was rated medium. Money laundering schemes enable taxpayers to transfer tax crime proceeds from the

source country to offshore accounts or destinations to obscure the source of the money. It was noted that businesses and high networth individuals are keen on finding tax havens where they can conceal income and assets from tax authorities. The expert perceived opinion noted high prevalence of hawala in Zimbabwe. Illicit taxpayers are using an informal platform, hawala to transfer funds offshore without legal documentation or reporting to conceal transactions from tax authorities.

Trade based money laundering is prevalent in formal businesses where it is being used in conjunction with tax crimes to move money across borders. Trade based money laundering involves manipulating trade transactions such as over or under invoicing of goods and services to move illicit funds across borders and disguise the proceeds of tax crimes as legitimate trade income.

Cash intensive businesses in both informal and formal sectors are being used to launder money derived from tax crimes. The smuggled cash is being deposited in foreign jurisdictions banks, restocking companies supplies and investing in properties.

A case example of money laundering associated with tax crimes; A retail business, company Z made large cash deposits into bank accounts in foreign jurisdiction and Zimbabwe. Transactions were noted after foreign FIU shared information. The company underreported income and laundered proceeds of underreported offence. Tax prejudice was US\$ 190 362.84.

CHAPTER FOUR

4. Vulnerabilities Assessment

4.1 Tax crime vulnerability

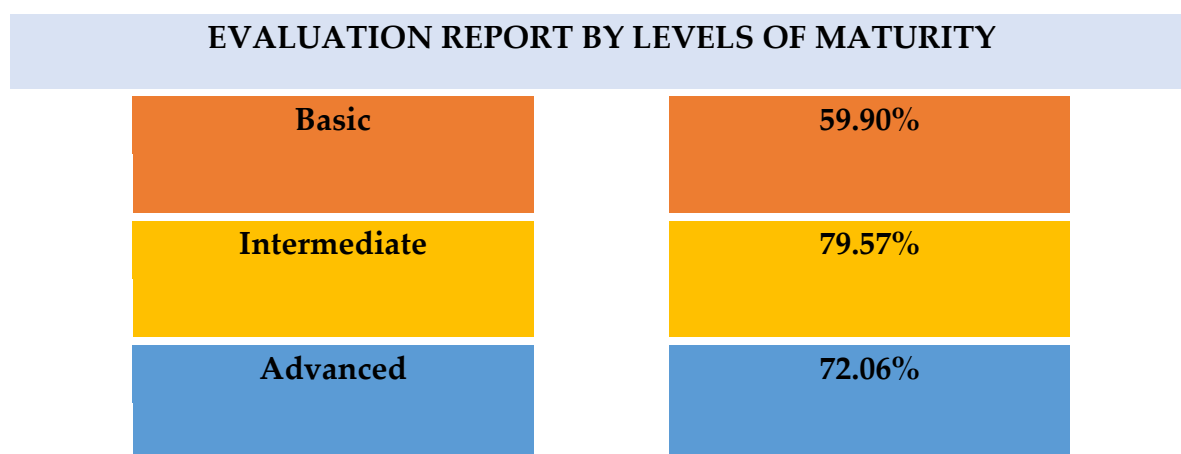
The country's overall tax crime vulnerability was rated to be medium low. Tax crime vulnerability refers to the process of identifying strength, weaknesses in tax laws, regulations and enforcement mechanisms that may create opportunities for tax crimes and money laundering to be committed.

The country's main tax crime vulnerability variables were underreporting of income, offshore schemes, transfer pricing, non-filing, non-registration, fraudulent schemes, non-payment, inaccurate record – keeping, falsehood and obstruction. The tax vulnerability assessment for the country was rated based on maturity level, benchmark, cross-functional, and functional reports.

4.1.1 Maturity level report

This refers to assessment of maturity level of tax authority capabilities, processes, practices related to identifying, assessing, and mitigating tax crimes risk.

Fig 3: Maturity level report



In terms of the practice to basic operations, the tax authority is vulnerable to some extent, with a medium rating of 59.90%. Some of the contributing factors to the medium rating is due to data accuracy cross checking against other data of tax administration which is not automated. There is limited use

of advanced emerging technology such as data analytics for data collection and analysis.

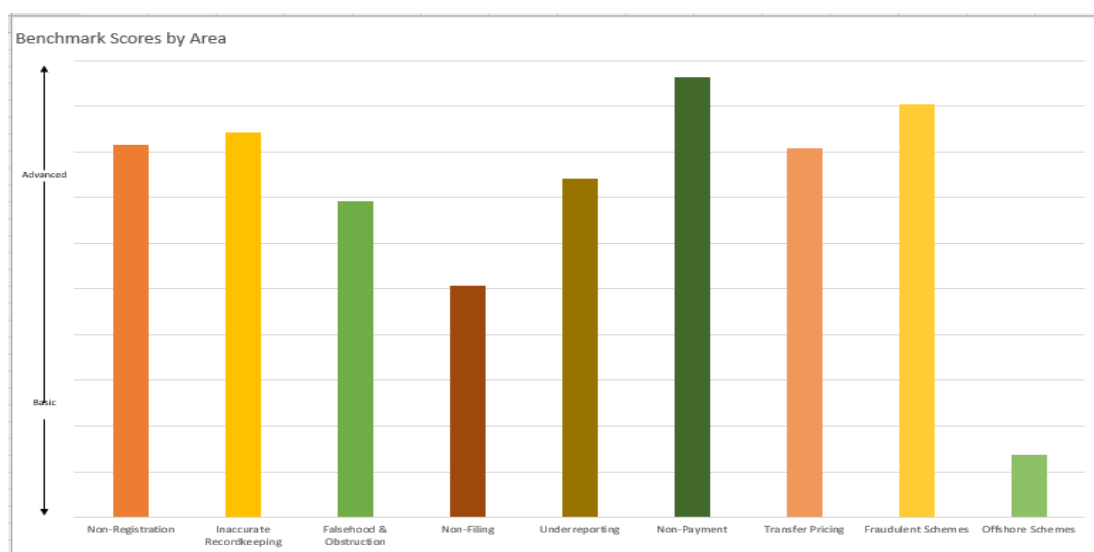
The tax authority has strength in practice for intermediate operations with a rating of high at 79.57%. The tax administration operations are largely standardised and consistent with defined procedures and tax laws in place. The tax administration has laws to deal with tax crimes which include non-registration, inaccurate record keeping, non-filing, underreporting, non-payment of tax, falsehood, and obstruction. Also, mechanisms of monitoring, auditing and enforcement are in place.

The tax authority has further strength in practice for advance operations with a rating of high at 72.06%. It has laws in place to deter tax evasion and prosecution of offenders. It also has enacted domestic tax laws to deal with transfer pricing, e-commerce, and illicit financial flows. The tax administration laws consciously adapt over time aligning with international standards. However, there is need to improve the offshore schemes legal framework.

4.1.2 Benchmark report

Benchmark report provides an analysis of tax crime vulnerabilities and mitigation strategies based on comparison with World Bank assessment tool. The report serves as a reference point for evaluating the effectiveness of Zimbabwe tax administration in addressing tax crimes and provides insights into areas of improvement and enhancement.

Fig 4: Benchmark scores



Analysis of the bench marking scores chart

Offshore schemes were rated low, due to inadequate tax legal framework to register offshore assets, income, entities, and sanctions. The expert perceived opinion rated offshore schemes medium high. Corporates and individuals are using hawala as a tool to transfer funds offshore without proper documentation or reporting, making it easier for corporates and individuals to conceal income and assets from tax authorities. This enables tax crimes by allowing individuals and corporates to hide taxable income in offshore bank accounts, investments, and properties.

Zimbabwe joined the Global Forum on transparency and exchange of information for tax purposes, which is still in its initial stages with the aim of being able to exchange information with other jurisdictions. However, it is still to join the Multilateral Competent Authority Agreement. Legal statutes were being reviewed to align with information exchange requirements with other jurisdictions. Currently the country is making use of bilateral agreements for exchange of information.

Non-filing was rated medium low, which is being attributed to low effectiveness in detecting and sanctioning non-filing tax offenders. The tax administration makes follow-ups on taxpayers for filing returns and

payments, carries out audits and investigations as well as enforcing debt collections such as the use of garnish orders. The tax authority is always reviewing the legislation to close any loopholes.

To mitigate the vulnerabilities of non-registration, non-payment, non-filing, underreporting, inaccurate record keeping, the tax authority introduced a revenue accounting system, TaRMS which is linked to the Department of Deeds, Companies and Intellectual Properties and banks.

4.1.2.1 Non-benchmark report

This refers to a report that does not focus on comparative analysis with international best practices, standards, or experiences. However, it focuses on the specific internal assessment, domestic context of tax crimes within Zimbabwe.

Tax crime data collection and statistics are not recorded as per each individual tax crime in accordance with the tax law. Instead, data collection and statistics as per tax law is accounted for independently as well as each tax law breach is charged independently. Tax authority combine corporate income tax and personal income tax under the Income Tax Act.

4.1.3 Cross functional radar

Refers to a collaborative and integrated approach to identifying, analysing, and addressing risks related to tax crimes.

Fig 5: Cross functional radars



The Tax Authority has a collaboration with other agencies, which includes LEAs, FIU, Department of Deeds, Companies and Intellectual Properties, Civil Registry and other relevant agencies to enhance the tax authority's ability to combat tax crimes.

The transfer pricing chart highlights significant vulnerabilities, this is attributable to the fact that local group companies generally do not fully comply with transfer pricing because of the prohibitive costs involved in coming up with benchmarked prices and preparing the requisite documentation that is required by the tax authorities. Monitoring and enforcing transfer pricing rules require specialised expertise and resources, and tax authorities face difficulties in detecting and addressing transfer pricing abuses effectively.

Offshore schemes also indicate significant vulnerabilities because of inadequate tax laws on offshore schemes, insufficient international cooperation that create opportunities for tax offenders to exploit the system. It was noted that businesses and high networth individuals are keen on finding tax havens where they can conceal income and assets from tax authorities. The cross-border nature of hawala transactions, which is prevalent in the country, can complicate efforts to enforce tax laws and regulations across different jurisdictions. Individuals and corporates are using hawala to move funds offshore and commit tax crimes in Zimbabwe, taking advantage of the lack of coordination and information sharing between tax authorities internationally.

Under-reporting vulnerabilities can be attributed to low number of audits and investigations carried out on informal businesses. The tax authorities' resources are focused on high-risk areas or corporates, hence there is minimal supervision of small to medium enterprises. Most informal traders are not fiscalised and do not have proper accounting records, as a result it is also difficult for the tax authorities to verify, audit and monitor their activities.

The tax administration has laws to combat fraudulent schemes which are being enforced with deterrent penalties. These include employment tax evasion schemes, fraudulent tax offences, tax official subversive behaviours and abusive tax avoidance schemes. The tax authority also has in place mechanisms to detect sales suppression schemes such as forensic audits,

investigations, third party verifications and lifestyle audits amongst many others.

The tax administration has in place laws to deal with non-registration, inaccurate record keeping, non-filing, underreporting, non-payment of tax, falsehood, and obstruction. Mechanisms of monitoring, tracking and enforcement are also in place.

4.1.4 Functional radar

Involves examining tax crimes risks from the perspective of distinct functions or departments within the tax authority such as tax enforcement, legal, audit, compliance, intelligence, policy, and international co-operation units.

Fig 6: Functional radar



Tax Authority has a dedicated investigation division and audit sections. All of investigations staff and 90% of the domestic taxes' officers were trained on audit techniques for under reporting income. However, only a fraction of the reported cases is audited each year, due to resource constraints.

The tax administration has in place laws to deal with non-registration, inaccurate record keeping, non-filing, underreporting, non-payment of tax, falsehood, and obstruction. Mechanisms of monitoring, tracking and enforcement are also in place.

Inaccurate record keeping increases audit workload for operational units to identify non-filers, conduct audits and investigate cases of non-compliance. In 2023 a total of 2197 audits were conducted.

Operational units responsible for compliance and enforcement indicated moderate effectiveness in monitoring both manual and electronic sales suppression. Therefore, the fiscalised data management system was introduced to address the issue of underreporting of sales.

Operational units for transfer pricing faced difficulties in detecting and addressing transfer pricing abuses effectively. Monitoring and enforcing transfer pricing rules require specialized expertise and resources to ensure compliance with arm's length principles.

The assessment noted that, tax authorities have inadequate legal framework to enforce offshore schemes such as when seeking more information on unreported offshore accounts and more details on offshore trusts. Hawala transactions operate outside of formal financial regulations and oversight, making it challenging for tax authorities to monitor and regulate these activities effectively. This enables tax crimes by allowing individuals and corporates to hide taxable income in offshore bank accounts, investments, and properties. Against this background, tax authorities operational units require capacitation to implement offshore schemes requirements. Nevertheless, by joining the Global Forum on transparency and exchange of

information for tax purposes, it is expected that there will be an improvement in the exchange of information.

The assessment revealed deficiencies in data analytics capabilities within the tax administration. The absence of advanced data analytics tools and techniques limits the effectiveness of risk-based compliance strategies and enforcement activities.

4.2 Vulnerability underlying drivers

The prevalence of informal economic activities in form of cash transactions created opportunities for tax crimes. Individuals and business owners in the informal sector did not report their income or pay taxes.

Cross-border transactions, the global nature of business, combined with challenges in international cooperation, created vulnerabilities in monitoring and regulating cross-border transactions, allowing for potential tax evasion and illicit financial activities.

Tax regulations and filing procedures, to a certain extent were deterring taxpayers from fulfilling their obligations, especially the informal sector which lacks the resources or expertise to navigate the tax authority online system.

CHAPTER FIVE

5. Recommendations and Conclusions

5.1 Recommendations

1. Implement a data collection system whereby each tax crime as per the tax law is accounted for independently. The need to account for each tax crime will assist tax authorities to use the risk-based approach where resources will be deployed to the tax crime with the highest risk.
2. Strengthen tax legal framework to register offshore assets, income, entities, and apply dissuasive sanctions.
3. Automate the process of cross-checking data accuracy with other tax administration data.
4. Enhance international collaboration with foreign jurisdictions, strengthen information exchange mechanisms, and participate in international initiatives to combat cross-border tax crimes effectively.
5. Continually implement targeted outreach and educational programs to raise awareness among informal sector businesses and individuals about their tax obligations, the importance of accurate reporting, and the consequences of non-compliance.
6. Upscale tax administration and enforcement capabilities of tax authority specialised units who focus on transfer pricing and offshore schemes to effectively combat tax crimes and possible money laundering.
7. Streamline and simplify the registration processes for informal sector businesses to encourage voluntary compliance and formalization, making it easier for them to register and fulfil their tax obligations.
8. Strengthen compliance monitoring processes by expanding coverage of high-risk taxpayers, implement automated risk-based selection criteria for audits, and conduct regular compliance checks to detect discrepancies and anomalies.
9. Continually provide adequate funding, staffing, and training for tax enforcement personnel to enhance the capacity of tax authority to investigate tax crimes, implement preventive measures, and respond to emerging risks.

10. Invest in technology-driven solutions, such as advanced data analytics and digital reporting systems, to improve the detection of tax crimes.

5.2 Conclusion

The NRA on tax crimes has provided valuable understanding into the complex and evolving landscape of illicit activities that threaten the country's tax system. Through a comprehensive assessment of tax crimes vulnerabilities, and threats, the country have gained insight of the challenges facing tax authority and the implications for compliance, revenue collection, and money laundering.

The findings of the NRA underscore the urgent need for a proactive and coordinated response to combat tax crimes effectively. Addressing the identified vulnerabilities, and threats requires a multi-faceted approach that encompasses automating the process of cross-checking data accuracy with other tax administration data, improved tax crimes statistics collection system, strengthened compliance monitoring processes, and strengthen offshore schemes legal framework.