**NATIONAL UNIVERSITY OF SCIENCE             AND TECHNOLOGY**



**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**RESEARCH TOPIC: EVALUATING THE IMPACT OF TAXATION POLICY ON INVESTORS’ DECISION TO ESTABLISH FIRMS IN ZIMBABWE. A CASE STUDY OF THE MOTOR INDUSTRY.**

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**COURSE: RESEARCH PROJECT**

**SUBMITTED ON:**

***Submitted In Partial Fulfilment of The Requirements of The Bachelor of Commerce Honours Degree in Accounting at The National University of Science and Technology.***

**DEDICATION**

To my family, you always bring the best in me. I love you.

And to my other family members, classmates and friends, I say a big thank you for your moral, spiritual, and material support that you accorded me during my studies.

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**ABSTRACT**

Does taxation structure have an impact on investment decisions? This research analyses the effect of taxation policies on investment decisions of companies in the Zimbabwe Motor Industry. While policy makers have made effort to impose more uniformity on corporate tax policies, no empirical study exists to quantify the extent to which taxation policies have altered the structure of investment decisions. The main objective of this study was to evaluate the Impact of Taxation Policy on Investors’ Decision to establish firms and invest in Zimbabwe.

The study employed face-to-face and telephone interviews with key stakeholders in the motor Industry that were selected through stratified and random sampling methods. Questionnaires, distributed online were also used in situations where interviews were not feasible. Secondary data was used as a bedrock for detailed analysis.

Data analysis was done using JASP where the regression analysis, ANOVA and correlation coefficients were generated. T-test was done to prove the relevance of the study. It was observed that there is a relationship between taxation and investment decisions. An inverse relationship was established, that is if tax is reduced it has an effect of increasing investment. The government of Zimbabwe should consider reviewing the current tax policy. Taxation was seen to have an impact on investment by this study. If the tax policy is reviewed to lower rates and to include tax incentives which investors find to be beneficial for business, then the motor industry might be able to boost its operations.

**LIST OF ACRONYMS**

**ANOVA-----------------------Analysis of Variances**

**AVM--------------------------- Amalgamated Vehicle Manufacturer**

**CGE---------------------------- Computable General Equilibrium**

**CIT -----------------------------Companies Income Tax**

**FDI------------------------------ Foreign Direct Investment**

**GDP------------------------------ Gross Domestic Product**

**GM-------------------------------- General Motors**

**GST-------------------------------- Goods and Services Tax**

**HDI-------------------------------- Human Development Index)**

**ITC --------------------------------Income Tax Credit**

**JASP-------------------------------Jeffreys’s Amazing Statistics Program**

**NSE--------------------------------- New York Stock Exchange**

**OECD------------------------- Organisations for Economic Cooperation and Development**

**OLS---------------------------- Ordinary Least Square**

**PAYE--------------------------- Pay As You Earn**

**PIT------------------------------- Personal Income Tax**

**PTI--------------------------------- Petroleum Tax Income**

**RTGS------------------------------ Real Time Gross Settlement**

**SPSS-------------------------------- Statistical Package for Social Sciences**

**TATA------------------------------ TATA Motors Limited**

**TCR-------------------------------- Total Consolidated Revenue**

**USD-------------------------------- United States Dollar**

**VAT-------------------------------- Value Added Tax**

**ZIMRA----------------------------- Zimbambwe Revenue Authority**

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**CHAPTER ONE**

1. **Introduction**

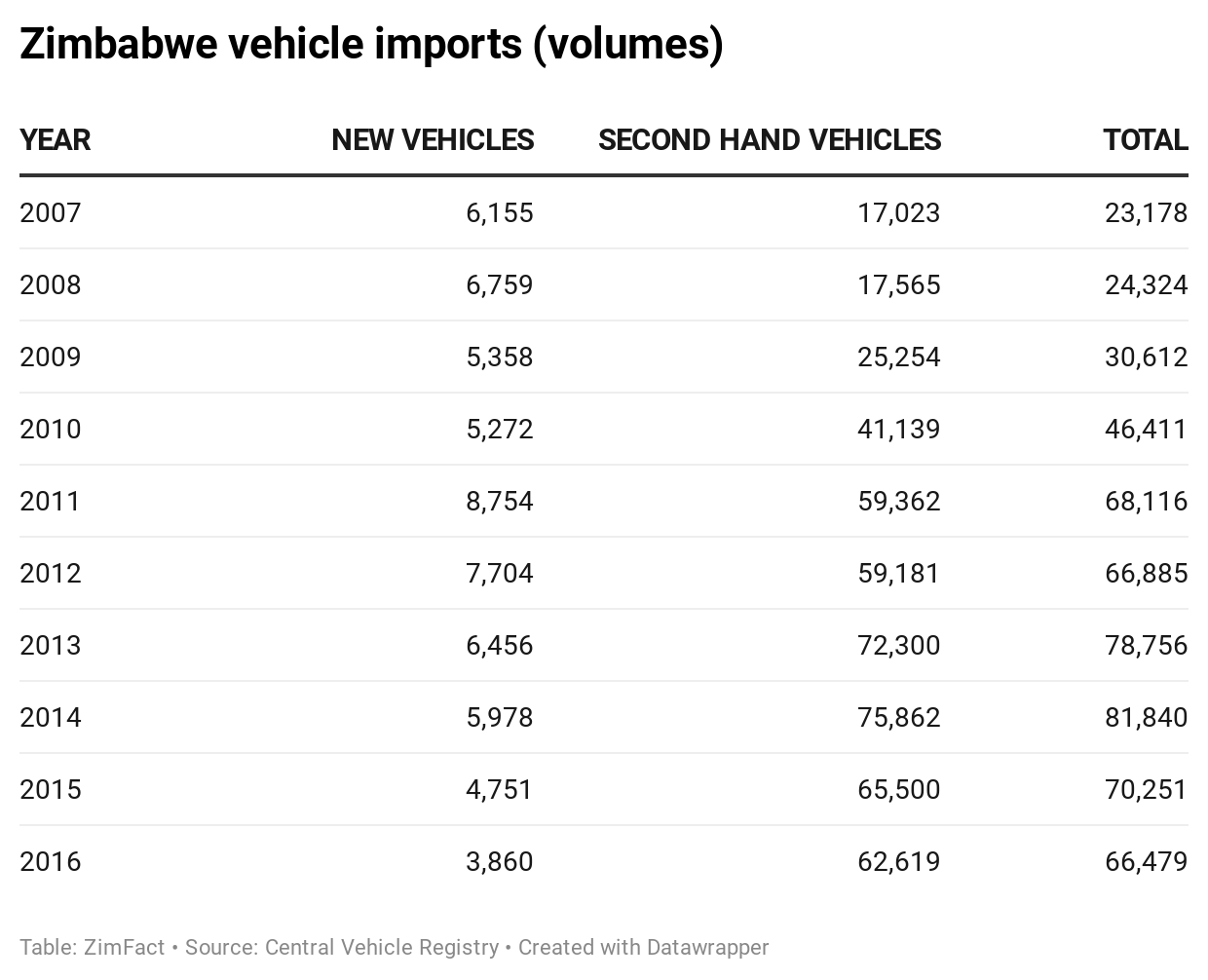
Investment decision is defined, as the company decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. There are various factors that influence the decision to invest in another country, for example interest rates, technology, political climate, cost of production or in general economies of scale which reduces the cost of production (Siddique, Ansar, Naeem, & Yaqoob, 2017). Another influential factor when an investor decides to invest in a country is the Taxation Policy. Tax is the obligatory charge imposed by the government on the people. The tax is levied on the people's income, properties, and other related factors (Ojong, Anthony, & Arikpo, 2016). Taxation is central to   development and provides governments with the funding they require to finance economic development and growth. Taxation creates an environment in which business is carried on and plays a role in shaping the way in which the activities of government are carried out. Muzurura and Sikwili (2018) argues that the high taxation in Zimbabwe is fostering price instability, discouraging savings and investment.

Economists and policy makers believe that Zimbabwe taxation policy is in serious need of reforms as evidenced by the press address made by the Minister of Finance and Economic Development that “Zimbabwe needs a Simplified Tax System”. The theoretical connection between taxation policies and economic growth has been clearly demonstrated in Zimbabwe literature (for example, Mhizha,2015; Muzurura and Sikwili ,2018,Munyanyi and Chiromba, 2015), However the impact of taxation on investors’ decisions  has not been extensively interrogated in Zimbabwe .There is no empirical evidence that has been able to directly estimate the impact of  tax rate and investment decisions  in the establishment of firms in the Zimbabwe Motor Industry.

**1.1 Background of the Study**

In Zimbabwe about US$1.3 billion was spent on imported buses, light commercial and passenger motor vehicles from 2015 to September 2020. Zimbabwe has four vehicle assemblies, according to the Ministry of Industry and Commerce’s motor industry development policy.  These are passenger vehicle assemblers Willowvale Motor Industries and Quest Motors, and two bus assemblers, Deven Engineering and AVM Africa. Quest has also recently started assembling buses.

However, all the local firms’ capacity has been constrained by lack of investment. The reason behind lack of investment has been attributed to rigid economic policies. The domestic market is also dominated by purchasers who cannot buy expensive new cars and opt for cheaper, used cars. Willowvale Motor Industries was forced to shut down in 2012 and only reopened in 2017 under a partnership with China’s Beijing Automobile International Corporation (Baic), was reported to run at a production rate of 1,000 cars per year between 2018 and 2020. Quest Motors, on the other hand, has installed capacity to produce between 12,000 and 15,000 annually. However, the company is currently operating at 5% of its capacity, suggesting output between 600 and 750 cars annually. In 2017, AVM Africa reported it was operating at less than 15% of its capacity.



Zimbabwe’s domestic new vehicle market collapsed from a peak of 20 000-unit sales per year in 1997 to less than 3 500 units in 2016, according to the motor industry development policy document published in 2017. Over that time, second hand vehicle imports rose sharply. Second hand car imports jumped 346% from 17023 in 2007 to a high of 75862 in 2014, before easing to 62619 in 2016. Zimstat data shows that Zimbabwe imports vehicles worth US$348,5 million annually, while Central Vehicle Registry data shows an average of 55,685 vehicle imports annually between 2007 and 2016.

The motor industry is seen as strategic in economic development in Zimbabwe given its invaluable impact in job creation, value addition and contribution to GDP. In addition to creating employment, the assembling of vehicles locally can have ripple effects on the economy since a substantial number of materials can be sourced locally.

In recent years, in order to encourage the transformation and upgrading of the motor industry, a series of supportive policies have been introduced. In January 2022 the government of Zimbabwe revised its Motor Industry Policy to resuscitate the once vibrant domestic motor industry. The government came up with a Motor Industry Development Policy (2018-2030) to spearhead the revival of the motor industry. This is a private sector-led initiative with the government providing an enabling environment for both foreign and domestic investors. The Motor Industry Development Policy focuses on reviewing completely knocked down kits and semi- knocked down kits, that is, SI [Statutory Instrument] 13 of 1999, SI 89 of 2021 on the control of second-hand imports, categorisation, and regulation of the motor industry.

To support the policy the Government issued a directive for line ministries to acquire locally assembled vehicles. From the newly crafted Motor Industry Development Policy it is still unclear if it is going to achieve the intended results. Although other initiatives have been put in place to lure investors, taxation policy still remains a critical issue. It is from this background that the research was formulated. The need to understand how Zimbabwe’s tax policy is affecting investment in the Motor Industry and also proffer ways to improve the operations of the Motor industry. This research looks at existing tax policies and analyses the effects and defects of policy on the transformation and upgrading of the motor industry.

**1.2 Statement of the Problem**

Zimbabwe's Motor Industry has been struggling to stay afloat as the government, which is their biggest customer, has over the years shunned locally produced vehicles preferring imports instead. Zimbabwe’s motor industry currently has no capacity to meet the demand for vehicles by locals who have to resort to imports. This is mainly because local assemblies have suffered from years of under investment. Zimbabwe has attracted less than USD 600 million a year on average in foreign direct investment over the past decade. Recently the government of Zimbabwe crafted a new Motor Industry policy in order to revive the underperforming industry. Reviewing the Motor industry policy can play a significant role in the next 10 years. It is undeniable that there are some shortcomings in the policy, Taxation which is one of the many determinants of both domestic and foreign investment was not clearly addressed. The dilemma facing Zimbabwe public sector economists is that even if country reforms its tax policy to attract Investment, there is no consensus in empirical work on the actual impact of taxation on investment especially foreign direct investment. There is little regional specific empirical research especially for Zimbabwe on Evaluating the impact of taxation policy on investment decisions, implying a possible deficiency of academic applied research. Therefore, this research contributes to filling the gap by adding empirical academic research on this topic for the region and also suggesting areas for further studies.

**1.3 Aim**

The aim of study is to Evaluate the Impact of Taxation Policy on Investors’ Decision to establish firms and invest in Zimbabwe.

**1.3.1 Research Objectives**

● To determine the impact of taxation policy on investment in the Zimbabwe Motor   Industry.

● To find the relations between tax policy and investment.

      ● To establish measures that can be adopted to move towards best government tax policy and ways to encourage investment in Zimbabwe

**1.4 Research Questions**

1. What is the impact of taxation policies on investment?
2. Is there any relation between taxation policies and investment?
3. What measures can be adopted to improve Zimbabwe taxation policies?

**1.5 Research Hypotheses**

Hypotheses below are formulated to test our model.

 Ho1: Taxation policy does not have an effect on Investment Decisions

 Ho2: Zimbabwe Taxation policy does not need Transformation

**1.6 Significance of the Study**

**1.6.1 To the researcher**

The research project is being carried out in partial fulfilment of the requirements of the Bachelor of Commerce Honours Degree in Financial Accounting at the National University of Science and Technology. The research will allow the researcher to implement some of the taught concepts to solve a real-world problem.

**1.6.2 To the University**

To a university, information is an important resource, the research project can help gather information which can be used by other scholars for future research on the similar or related topics.

**1.6.3 To the Tax Authorities (ZIMRA**)

Government tax agencies such as ZIMRA, will through this study get an insight on how tax policies they make impact on companies’ sources of funds as well as individual investors’ investments in the companies. The study will assist the authorities in formulating tax policies that can foster economic growth in the Zimbabwe Motor Industry and other sectors of the economy.

**1.6.4 To Prospective Investors**

Investor put their money in a firm with the sole objective of getting return on their investment. These returns can either be in terms of dividends or capital gains. Since this study examines the impact of tax on investment decisions, investors can predict the relationship between taxation policy and investment,

**1.6.5  To developing Countries**

Over the years, researchers have examined the effect of tax on economic growth and development in both developing and developed countries. However, existing studies devoted to examining the impact of taxes on investment decisions are scarce in developing countries and Zimbabwe in particular. This study will enable developing countries appreciate the impact of taxation policies on Investment decisions.

**1.7 Delimitation of the Study**

This study evaluates the impact of Taxation policy on Investors’ Decision to establish firms and invest in Zimbabwe. The Zimbabwe Motor industry is the main focus of the study.

**1.8 Assumptions of the Study**

The following assumptions are made in this study:

1.8.1 Respondents to both questionnaires and interviews will answer in utmost good faith

1.8.2 All respondents will totally understand the questions on the self-administered questionnaires.

1.8.3 The sample size used will be a true reflection of the target population

1.8.4 The response rate will be at least 80 percent

**1.9 Summary**

This chapter highlighted the research problem and outlined the research objectives. It was shown that there is need to evaluate the impact of taxation policy on Investment decisions. The next chapter focuses on reviewing relevant literature on Taxation policies and Investment.

**Chapter Two**

**2.0 Introduction**

The primary objective of taxation has always been to collect revenue in order to finance state provision of essential public services. At the same time, enlightened by advances in public sector economics, current taxation policies are designed to strike the difficult balance between achieving minimal disincentives to undertake productive activities and maximum social fairness.

In this context, corporate taxation is a key part of the taxation system that directly affects current and future business decisions of the private sector. Taxes impact capital and labour costs and, hence, not just current production and hiring decisions, but also the net present value of future production, which motivates corporate investment.  policy has been used as an instrument to both fine-tune investment and output fluctuations over the business cycle, and spur long-term economic growth and national welfare. In the last few decades, the importance of optimally designed, growth-friendly taxation policies have been further emphasised by the enhanced international mobility of capital in search of a lower tax burden and modest production costs to ensure competitiveness. The tax policy of a country is one of the factors which influences the decision of the investor whether or not to invest in that country. Investment decision is defined, as the company decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years.

**2.1 Overview of Zimbabwe Taxation System and Investment Climate**

The main purpose of a taxation system is to raise enough fiscal revenue that can be spent on the development and the stable functioning of the country. This includes creating a better education system with more schools, building quality hospitals to ensure better public health, building roads, railways, research institutions and industries. The revenue is also needed to pay the debt of government spending, that includes investments in the economy (Timpany and Lu, 2020). A tax is a compulsory financial charge that is levied upon taxpayers by the government to generate revenue for government spending and public welfare (Jacob, 2018).

Taxes are the primary sources of Zimbabwe government revenue in most developing countries, accounting for between 15 and 20 percent of GDP in the past few years. However, in Zimbabwe, the real tax burden is inordinately high for few businesses engaged in manufacturing or mining since most outputs from agricultural-related industries are often underrated. Furthermore, in Zimbabwe there exists a huge informal sector, hence making it an enormous challenge for the efficient collection and enforcement of tax policies. Informal sectors because of their ability to operate illegally often go untaxed. Recently, in order to mitigate or avoid the huge excess tax burden and remain competitive in the face of external competition, the formal sector has been migrating to the informal sector. The consequence has been continued reduction of overall taxation revenue and contraction in the quality of public infrastructure (Muzurura,2018).

Since the introduction of the new local currency called the RTGS dollar (Real Time Gross Settlement - a system for transferring funds electronically in February 2019, the foreign exchange control regulations are occasionally modified by the Central Bank, and currently some concessions have been made to exporters to retain and utilise export earnings in order to import goods and services. Businesses must show the prices of their goods and services in both RTGS and US dollars (USD). Payment of various taxes (VAT, PAYE and CIT) must be paid in foreign currency on earnings that are made in foreign currency. In addition, various statutory levies are dominated in US dollars.

Zimbabwe has had a troubled investment environment in the recent past. The government has been trying to attract foreign investment with limited success, whilst they are attempting to improve the country's investment policy (ease of doing business). Inflation has once again taken centre stage in the economy as the costs of goods and services increase as the value of the local currency diminishes.  Zimbabwe opposes foreign domination of certain sectors of its economy. In this regard, the investment legislation, on the one hand, prescribes local participation requirements in most enterprises and, on the other hand, provides for limited investment protection and investment incentives. The indigenisation laws that used to require 51% ownership of all foreign-owned companies have been abolished. Various tax incentives have been introduced in an attempt to grow foreign direct investment (FDI). A new Stock Exchange has recently been created at Victoria Falls where their listed shares will be denominated in foreign currency. This is still in its infancy and is designed to attract foreign investors. No other significant developments have occurred.

**2.1.1Corporate Tax**

Abiahu & Amahalu, 2017 defined corporate tax as tax levied on corporations' profits. Corporations are legal entities separate from their owners. They may be taxed as if they were persons. A corporate tax is the equivalent of the income tax for natural persons.

 Proponents of the corporate tax argue that it guards against excessive profits that may result from unethical or illegal corporate practices while opponents say that corporations simply pass on the tax to their customers. Most taxation systems tax corporations on their income. Generally, this tax is imposed at a specific rate or range of rates on taxable income as defined within the system. Some systems have a separate body of law or separate provisions relating to corporate taxation. In such cases, the law may apply only to entities and not to individuals operating a trade. Such laws may differentiate between broad types of income earned by corporations and tax such types of income differently. In Zimbabwe Corporate tax applies to both domestic and foreign corporations. Apart from Corporate tax Corporations are also subject to property tax, payroll tax, withholding tax, excise tax, customs duties, V.A.T, and other common taxes, generally in the same manner as other tax payers. In Zimbabwe as of January 2020, the corporate income tax (CIT) rate for companies in Zimbabwe (other than mining companies with special mining leases, but including branches) was reduced to 24.72% (previously 25.75%). This rate includes a base rate of 24% plus a 3% AIDS levy. Zimbabwe presently operates on a source-based tax system. This means that income from a source within, or deemed to be within, Zimbabwe will be subject to tax in Zimbabwe unless a specific exemption is available. The specific circumstances of a transaction should always be considered to determine whether the transaction gives rise to taxation in Zimbabwe.

**2.1.2 Value Added Tax**

Value added tax (VAT) is a tax levied on goods and services consumed (Fowler, 2016).  It is an indirect tax wherein the burden of the payment is borne by the final consumer of the goods and services. Value Added Tax is a consumption-based tax imposed on the supply of taxable goods or services. VAT is levied on transactions rather than directly on income or profit. The tax is levied in terms of the Value Added Tax Act [*Chapter 23:12*]. The VAT standard rate in Zimbabwe is currently 14.5% but certain goods are zero-rated which means a VAT rate of 0% is charged and other goods are specifically exempted from VAT. Zero-rated goods include exports of goods from Zimbabwe to an address in an export country and certain basic foodstuffs such as sugar. Supplies like financial services, provision of electricity for domestic use, provision of piped water for domestic use and rates charged by local authorities are exempt from VAT payment.

Tax liability to the Revenue Authority is the difference between Output tax (VAT charged by the operator on its sales) and Input tax (VAT charged on the operator on purchases).

**2.2 Investment Decision**

Investment is defined as investment activity or activity, while an investor is a person or legal entity with the money to invest or invest. Investment is the placement of a fund that we have today, hoping that it will bring benefits in the future (Nguyen et al., 2020). When we invest, at least we have planned to have a better life in the future. Investments are classified into two categories: investment in financial assets and investment in real assets. The capital market has a critical role in investment because transactions occur between owners of capital and companies that issue investment products (Sarsour & Sabri, 2020). Investment products, such as stocks, can provide substantial returns but are always directly proportional to considerable risks. Investors should first know some of the information needed before investing, such as information such as company’s financial statements, inflation, prevailing interest rates, taxes or several supporting letters for the existence of assets (Oehler et al., 2018). This is important because when investors do not see any information about investments, especially stocks and taxes, it could be an investor’s loss. There is always risk when investing, so a lot of accurate information is required before making investments. Investor Decision is an investor’s action to invest funds in several investment options, both in the financial and real assets

**2.3 Tax and Investment Decisions**

A country’s tax regime is a key policy instrument that may negatively or positively influence investment. Tax Policy in the Policy Framework for Investment relates to the formulation of a tax strategy which is supportive to investment. A balanced tax system is capable of meeting the twin goals of offering a tax system attractive to investment, while at the same time raising revenues to support the key pillars of a business-enabling environment, such as infrastructure. A poorly designed tax system, where the rules and their application are non-transparent, overly complex or unpredictable, may discourage investment adding to project costs and uncertainty, (OECD,2015). Systems that leave excessive administrative discretion in the hands of tax officials tend to invite corruption and undermine good governance objectives fundamental to securing an attractive investment environment. Policy makers are therefore encouraged to ensure that their tax system imposes an acceptable tax burden that can be accurately determined, and which keeps tax compliance and tax administration costs in check.

Muzurura (2018) agrees that a host country tax burden that is very high relative to other countries generally discourages investment and could, in certain cases, be a deciding factor for not investing or reinvesting in a particular host country. Taxes influence investment decisions in an economy. The cost of capital is the required rate of return that an investment project must earn, at least, for the project to break even. The tax system of an economy can influences the cost of capital in several ways: it may lower the rate of return of the project; change the cost of different forms of finance and change the cost of the investment. Because of this it is prudent that decision makers in corporations, must be able to manage any complexity in the existing tax system. This is because the complexities of taxes in business have the tendency of endangering investment decisions at every point in time, if such complexities are not strategically managed (Ibanichuka, Akani, Ikebujo, 2016).  Depending on the nature of tax, taxation may have either a negative or positive effect on an individual and an organization at large. With a high marginal rate of tax, in excess of 50%, tax will be a hindrance to work; while a low marginal rate of tax will be an incentive to work (Olaleye, Riro & Memba, 2016). When Tax it is deductible on an investment return, it tends to influence to a greater extent, the pattern and nature of investment transactions or decisions taken by investors. This is because tax often reduces the profitability of an investment to the degree of the tax rate in operation. For an investment project to be worth carrying out, it must be expected to earn a rate of return which is at least as high as the cost of capital. The significance of tax as one of the key determinants of investment decisions largely depends on government policies. The place of tax in the discourse of investment decisions has been analysed on empirical grounds and there is an established interconnection between corporate taxation and investment, especially when measured in terms of capital formation (Ahiabor, Amoah, 2015).

Tax positively impacts on the economy because it is a source of revenue, but it can also inversely impact on manufacturing sectors, if not properly managed to encourage their investment opportunities. Empirical studies on the connection between taxation and investment decisions at corporate level are present and how taxes affect investment behaviour of firms is, indeed, a question of great importance. It is well understood that company taxation can have large effects on firms’ investment decisions. Taxes (such as information communication tax, education tax and company income tax) impinge directly on the incentive to accumulate capital and to perform research. To tackle this issue, starting from the mid-80s many organisations for economic cooperation and development (OECD) countries have undertaken significant reforms of their business tax system under the general objective of reducing the distortionary effects of taxes on investment, in way to foster firms’ competitiveness and attract foreign investments (Okeke et al.,2018). There are contrasting views on whether taxes affect corporate investment. Traditional models of dividend taxation assume that the cost of capital of firms, and thus corporate investment, depends on the level of taxation (Ohrn 2018; Fama & French, 2015). The relationship between tax and net investment has produced mixed, inconsistent results, providing

no conclusive evidence whether the relationship is positive, negative or neutral (Fazzari et al., 2016; Oliveira & Fortunato, 2016) thereby constituting variable gap and sectoral gap. In order to fill the observed gaps in literature, this study considered corporate income taxation and the investment decisions of motor vehicle manufacturing firms in Zimbabwe, with a focus on how tax expenses measured in terms of income tax and value added tax influence the prospect of future investment of motor vehicle manufacturing firms, as represented by their retained earnings. So, tax (proxied by value added tax and company income tax) as against prior studies that considered only company tax) closes the variable gap, while the sectoral gap was

resolved by concentrating on the Manufacturing sector as majority of the study on this subject focused on non-manufacturing sectors (to the best knowledge of the researcher). Hence, the need to ascertain the impact of tax on investment decisions of Motor vehicle manufacturing firms in Zimbabwe.

**2.4 Empirical Review**

Manukaji (2018) study the effect of tax structure on investor decisions in Nigeria.  The author made use of time series data from 1994 through 2016.  The regression result of the study revealed that all the tax components studied (Value added tax revenue, personal income tax revenue, petroleum profit tax revenue and company income tax revenue) has significant effect on economic growth in Nigeria. The study recommended that tax administrative loopholes should be plugged for tax revenue to contribute immensely to the development of the economy. Also, on the subject of tax and its relationship with investor decisions, Ljungqvist, Zhang and Zuo (2017) concluded that the response to changes in taxation policies is not symmetric. In fact, the results suggest that a tax increase is accompanied by a reduction in R&D, among other activities. The authors also conclude that only low financial leverage firms react to tax cuts when it comes to risk-increasing investment decisions.

Afonso and Jalles (2015) evaluated the impact of taxation policies on investment for a large panel of 95 countries, during 38 years. While the authors found out that private investment evidences a negative correlation with social security spending, they also found that interest payments and subsidies have detrimental effects on both public and private investments. It is thus clear that the study of taxation structure and investment dynamics can provide new insights leading to the promotion of the latter without hampering government in its implementation of fiscal policies.

Oliech (2016) analysed the effect of corporate income tax on the investment decisions of companies listed at the NSE. The following variables: corporate tax, depreciation tax, control variable and interest tax represented an independent variable and investment the dependent variables in the model structured for the study. Secondary data were sourced from the financial statements of companies listed at the NSE. Regression analysis, ANOVA and correlation analysis were done in the study. The findings from the study revealed that all the corporate tax variables affect the dependent variables, the depreciation tax shield has a very small negative value; the interest tax shield, after tax cash flow and corporate tax, all affect investment.

Oloidi (2017) examined the effect of Company Income Tax [CIT] on the investment decisions of companies in Nigeria, with the objectives of finding out the effect of CIT on the rate of return, the appropriate rate accepted, the investment decision criteria and assessing tax relevance in investment decisions. The study employed a descriptive survey design with a universal set of all the small scale and medium scale enterprises in the south west zone as the population. A descriptive statistic was used to evaluate the research questions. The results showed that company income tax influences the investment rate of return, as well as investment evaluation.

The Indian automobile industry is one of the emerging industries in the world. It produces large variety of vehicles such as two wheelers, three wheelers, tractors, cars, and other light and heavy motor vehicles. The complexity of tax law and cascading of taxes and surcharges in earlier tax regimes resulted in increased price of vehicles in India. However, with the implementation of GST (Goods and Services Tax), many taxes are subsumed, and it simplified the tax structure and paved the way for increased efficiency in supply chains across India. Availability of Input tax credit (ITC) and reduced cascading of taxes led to reduced price of vehicles. GST provided benefits to the automobile sector in eliminating tax arbitrage opportunities and encourage investment (Mohan, 2020).

Charumathi S. et al., (2019) empirically examined the impact of GST on sales of TATA motors. It is found that after GST implementation the sale of commercial, passenger, and exports of vehicles have increased. There is huge demand for automobiles in India it possesses the threat of entry of foreign automobile companies to reap the benefits of huge demand for automobiles by Indian people. Therefore, the reforms like GST are very beneficial for auto companies to boost their sales and growth of the company. Togadiya and Oza (2020) conducted event study analysis to analyse the impact of GST on share returns of the Indian auto companies. It made an assessment of reaction of share returns of companies before and after announcement of GST rate for automobiles. It is found that there is no statistically significant difference between share price returns of Maruti Suzuki, TATA motors, Bajaj Auto Ltd, Mahindra Ltd. It noticed that in the short period Eicher motor Ltd.’s share prices increased because of they passed on the benefits of reduced prices to consumers. It is opined that GST will increase the revenues to most of the consuming states. Achyut Telang and Souvik Roy (2016) discussed about how Hyundai is challenging to Indian Maruti Suzuki in the dynamic automobile sector. Opined that the dynamics of auto sector are challenging because of government policies such as changes in excise duty and customs and implementation of GST. Nalla roopa and S. Aruna (2020) analysed the impact of GST on automobile industry. Noticed that the tax rate applicable to various segments of automobiles reduced from pre-GST to post GST therefore, it led to reduced prices for purchasers and there is a certainty in tax to be payable by dealers and automobile manufacturers.

Ofoegbu et al. (2016) examined the effect of tax revenue on the economic development of Nigeria. The study used annual time series data for the period 2005-2014 to estimate a linear model of tax revenue and human development index using ordinary least square (OLS) regression technique. Findings show a positively and significantly relationship between tax revenue and economic development. The result also reveals that measuring the effect of tax revenue on economic development using HDI gives lower relationship than measuring the relationship with GDP thus suggesting that using gross domestic product 50 (GDP) gives a painted picture of the relationship between tax revenue and economic development in Nigeria.

Adegbite (2015) assessed the effect of corporate tax on revenue profile in Nigeria and also examined the impact of corporate tax revenue on economic growth in Nigeria. Secondary data was obtained from Central Bank of Nigeria Statistical Bulletin from 1993 to 2013 and multiple regressions analysis was employed to analyse the relationship between the dependent variable (Gross Domestic Product (GDP)) and independent variables (company income tax, value added tax, petroleum profit tax and inflation). It is therefore concluded that corporate income tax has positive significant impact on revenue profile in Nigeria with the Adjusted R2 of 95.3% which directly enhanced growth in Nigeria. Madugba et al. (2015) worked on corporate tax and revenue generation: The study tested the relationship between Petroleum Tax Income (PTI) on Total Consolidated Revenue (TCR) and the relationship between Companies Income Tax (CIT) on Total Consolidated Revenue. Pearson correlation and simple regression was used to analyse the data gotten from Central Bank of Nigeria Annual Statistical Bulletin of various years. The result of the correlation showed a positive significant relationship between Petroleum Tax Income and TCR. Also, it showed a positive significant relationship between Companies’ Income Tax (CIT) and Total Consolidated Revenue (TCR). The regression result revealed a negative significant relationship between Petroleum Tax Income and Total Consolidated Revenue and Companies Income Tax and TCR.

Chude and Chude (2015) ascertained the impact of taxation on the profitability of companies in Nigeria. The study used secondary sources of data and a time series econometric technique with an error correction model tested the variables most likely to impact on profitability of companies in Nigeria. The study revealed that the level of company tax has significant effect on the profitability, that company income tax (CIT) has significant effect on profitability. Ezejiofor et al. (2015) seek to assess whether tax as a fiscal tool affect the performance of the selected manufacturing companies in Nigeria. Descriptive method was adopted and data were collected through the use of six years financial accounts of the selected companies. The hypothesis formulated for the study was tested with the ANOVA using the Statistical Package for Social Sciences (SPSS) version 20.0. It was found that Taxation as a fiscal policy instrument has a significant effect on the performance of Nigeria manufacturing companies.

 Edame and Okoi (2016) examined the impact of Taxation on investment and economic growth in Nigeria from 1980-2010. The ordinary least square method of multiple regression analysis was used. The data was sourced from the Central Bank of Nigeria statistical bulletin and National Bureau of statistics. The result of the analysis showed that the parameter estimates of Corporate Income Tax (CIT) and Personal Income Tax (PIT) appears with negative signs. This means that there is an inverse relationship. Implication of the result is that a one percent (1%) increase in (CIT) will result in decrease in the level of investment in Nigeria. Consequently, an increase in PIT will result in decrease in the level of investment. Therefore, it shows that taxation is negatively related to the level of investment and the output of goods and services (GDP) and is positively related to Government Expenditure in Nigeria.

**2.5 Tax incentives**

Countries that are most successful at attracting automotive investment have experienced growth in production and employment through government intervention in taxation policy making (Aspares, 2017). Investment incentives are commonly used to attract foreign direct investment in these countries like United States of America, China, Thailand and India. The incentives are being offered in number of ranges such as cash incentives, tax credits on corporate, sales or income tax and tax holidays. According to (Yates, 2015), there are a number of factors which can attract the automotive investments, these factors are; one stop clearance for foreign direct investment proposals in automotive sector, tax deduction of hundred percent of exports products and concession of import duty on machinery for new plants or capacity expansion. Government can intervene through funding, grants, partnership arrangements or incentives design.

Tax incentives have traditionally been used by governments as tools to promote a particular economic goal. They are preferential tax treatments that are offered to a selected group of taxpayers and take the form of exemptions, tax holidays, credits, investment allowances, preferential tax rates and import tariffs (or customs duties), and deferral of tax liability. The generalized use of tax incentives has been justified by the need to:

1. correct market inefficiencies associated with the externalities of certain economic activities;
2. target new industries and mobile investments that are subject to tax competition;
3. generate a form of agglomeration economies, or concentration externalities; and
4. subsidize companies during their sector’s downturn.

As a matter of fact, developed countries normally use tax incentives to promote research and development activities, export activities, and support the competitiveness of their enterprises in the global market; while developing countries use them to attract foreign investment and foster national industries. Although at first, tax incentives appear to be costless because they do not seem to affect the current budget, they may entail significant costs, such as revenue loss, low economic efficiency, increased administrative and compliance costs, and excessive tax planning and tax evasion, which may exceed their benefits and considerably erode the general tax base. Given that costs and benefits of tax incentives vary from country to country, the impact of tax incentives on the economic growth and expansion of the overall tax base is not uniform. While in some cases, tax incentives may clearly play an important role in attracting new investments that contribute to substantial economic growth and development of the country, in others, a particular tax incentive scheme may result in little new investments, with a significant cost to the government. For this reason, the theoretical positive effect of tax incentives has been questioned and thus some governments have used different models, such as the computable general equilibrium (CGE) model, to conduct a cost-benefit analysis focused on their economic and revenue impact. This could ensure that a tax incentive program is worth pursuing and clear policies and laws delineating its scope, requirements and administration might be elaborated. Unfortunately, such a sophisticated model is often not an option for developing countries due to budget and resource constraints. However, in such cases micro-simulation models can be built. They are more easily accessible, since they are based on companies’ financial statements and tax returns submitted to the tax authorities.

Thailand has been a stronghold for automobile manufacturing for decades. It's currently the 12th most industrious auto manufacturer in the world, and the largest in Southeast Asia. For three decades, Thailand has imposed an 80% import tariff on cars and 60% on motorcycles, to keep manufacturing within the country. The government offers land ownership rights for foreign investors and smooth visa and permit processes for foreign auto advisers.

Meanwhile, Thailand's government introduced various tax incentives favourable to foreign investors. Companies relocating to Thailand are exempt from corporate income tax for eight years. In some areas of the country, such as automaking hub Rayong, where GM and Ford are based, Thailand reduced corporate tax rates by up to 50%. Thailand is also well located geographically with convenient ports and airports, allowing exporting ease. Unlike in Indonesia and other competing markets, most auto parts are made and sourced internally with around 1,500 suppliers in Thailand today so there's little need to import them. And a free trade agreement with the nine other countries of the Association of Southeast Asian Nations is another bonus: Automakers in Thailand pay zero or highly reduced tariffs for exporting autos within the region.

In the Year 2021 the Indonesian government gave a 50% discount for luxury tax payments and the following three months, the discount will be halved, and the scheme is evaluated every three months. Car sales in Southeast Asia’s largest economy have recovered after a dramatic plunge at the beginning of the Covid 19 pandemic, but have yet to return to pre-pandemic levels. Total sales in 2020 were just over 532,000 units, about half of the previous year. According to the economics ministry, the auto industry is important for Indonesia’s economy, with car makers, dealers and workshops providing employment for 1.5 million people. The tax incentive could boost production by 81,752 units, the ministry said. Indonesia’s gross domestic product contracted for the first time since the 1998 Asian financial crisis last year, by 2.07%, as the pandemic dealt a blow to household consumption and investment. The car market in Indonesia is dominated by Japanese brands, with Toyota, Daihatsu, Mitsubishi and Honda leading sales. The automobile companies are always pushing the government for months for tax breaks to entice buyers. (Reuters,2021). This is a clear indication that taxation policy plays a significant role in investment decisions.

**2.6 Conclusion**

There have been conflicting results from the previous studies carried out on the effect taxation policy on investment decisions. Some of these findings showed negative relationship between taxation and investment. Other studies reported a positive relationship between taxation and investment. This study is therefore important in resolving the differences revealed by the above studies. Moreover, most of these prior studies were carried out overseas and the few studies that are carried out in Zimbabwe were conducted in determining the effect of taxation policy on manufacturing firms in Zimbabwe, but no research evidence that studies the effect of taxation policy on investment decisions in the manufacturing firms in Zimbabwe. This study therefore, seeks to evaluate the effect of tax on investment decisions of vehicle manufacturing firms in Zimbabwe

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

The previous chapter reviewed literature both theoretical and empirical on the concepts of taxation and investment. This was done in an effort to identify a gap this research intended to fill and it was clearly identified that there is need to evaluate the impact of Zimbabwean Taxation policies on the investor's decision. This chapter focuses on the research methodology that the researcher used for the study.  Focus is particularly given on the research design, the nature of population studied, sampling techniques applied, instruments used, their reliability and validity and the procedures used during data collection as well as the tools of analysis of data.

**3.2 Research Design**

According to Burrell, G. and Morgan, G. (2016) research philosophy pertains to the development of knowledge as well as the characteristics of the knowledge. The research philosophies include but are not limited to pragmatism, positivism, realism and interpretivism.  Positivism and interpretivism fall under the term epistemology which is about what is acceptable knowledge in a field of study. This study therefore adopted the positivism philosophy since, positivism places greater emphasis on numerical analysis, objectivity, reliability and replication of findings.  The research study is mainly qualitative in nature but adopted a number of descriptive statistics which are the quantitative aspects of the study. The research design made use of quantitative and qualitative analysis data. A descriptive research design is also adopted.  In this design companies in the Motor industry were studied by collecting and analysing data through the use of questionnaires and oral interviews. The advantage of this design is its ability to provide large amounts of data within a short space of time.

**3.3 Population of the study**

Murphy (2016) defined the population as a full set of items from which a sample is taken.  A target population is the entire number of units under study. For this study, the target population was made up of 15 Top level management employees from Quest Motors and 20 from Willovale Motor Industries. The staff were categorised so as to assist the researcher in objectively finding out how Zimbabwean taxation policy affected the company’s decision to invest. The researcher decided to choose these target population elements as they would provide various data given that these personnel would attend financial review meetings and would also bear some taxation burdens in doing their work.

**3.4 Sampling Frame**  
Ames (2019) defines purposive sampling as a non-probability sampling method and it occurs when “elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which will result in saving time and money”. In this study purposive sampling was employed so as to allow the researcher to deliberately choose the sample population elements who would frequently attend financial review meetings at the company and also those who were involved in both the preparation of financial statements and ensuring that all legal requirements are complied with. The following table summarises the distribution of the sample from targeted population to those who comprised the sample:

**Table 3.1 Population and Sample Size**

|  |  |  |  |
| --- | --- | --- | --- |
| **Company** | **Target Population** | **Sample** | **Sample (%)** |
| Quest Motors | 15 | 10 | 66.6 |
| Willovale Motors | 20 | 12 | 60 |

As shown on Table 3.1 a total of 35 employees were chosen as the target population and then after purposive sampling was employed, only 22 employees were selected as the sample population from which the researcher obtained the data from resulting in an average of 63% of the target population being the sample population.

**3.5 Sources of data**

These refer to the origins of data used in the study.  The research used mainly primary data supported by secondary data.

**3.5.1 Primary data**

Primary data is original data obtained from the study and collected by the researcher solely for the research in.  The advantage of using primary data is that it is not summarized and contains all the data relevant for the study since it is sought specifically for the current study. The disadvantage of using primary data is that it is expensive to gather and it is time consuming. Structured and non-structured questions are designed to get information from the chosen sample. Primary data was collected through the instruments discussed below from Motor vehicle manufacturers and assemblers.

**3.5.2 Secondary data**

Data collected from a source that has already been published in any form is called as secondary data, Kabir (2016). The review of literature in any research is based on secondary data. It is collected by someone else for some other purpose (but being utilized by the investigator for another purpose). Secondary data is essential, since it is impossible to conduct a new survey that can adequately capture past change and/or developments. Secondary data used was mainly from ZIMRA, Company Financial Statements and the Internet. The major advantage of using secondary data is that it is readily available and therefore obtained at a lower cost.  However, secondary data’s main disadvantage is that of sometimes being too summarized which could have resulted in some important original facts being lost. The secondary data may not adequately meet the needs of the present study since it was collected for something else.

**3.6 Data collection instruments**

These are tools used to gather primary data from respondents.  This research used the questionnaires and the structured interview guide to gather data.

**3.6.1 Questionnaires**

The most common instrument used in research is the questionnaire. A questionnaire is a research instrument consisting of series of questions for the purpose of gathering information from respondents (Saul McLeod, Updated 2018). Therefore, a researcher can convert directly data given by respondents into information by the use of the questionnaire.  Questionnaires with structured, semi- structured and open-ended questions were emailed to the respondents of the study. The structured questions consist of close ended questions also referred to as forced-choice questions.  The researcher used questionnaires to collect data from the targeted sample.

**3.7 Validity and Reliability**

Reliability is a measure of the consistency of a metric or a method (Jeff Sauro, 2015). A test is considered reliable if we get the same result repeatedly.  For example, if a test is designated to measure a trait (such as honesty), then each time the test is administered to subjects, the result should be approximately the same. It is vital for a test to be valid in order for the results to be accurately applied and interpreted. The instruments were therefore tested for both reliability and validity.

**3.7.1 Validity**

Validity refers to whether the measuring instrument measures the behaviour or quality it is intended to measure and is a measure of how well the measuring instrument performs its function (Surucu, 2020). Validity is determined by the meaningful and appropriate interpretation of the data obtained from the measuring instrument as a result of the analyses. Whiston (2012) defined validity as obtaining data that is appropriate for the intended use of the measuring instruments.

In order to incorporate validity in this study, the questionnaires were tested in a pilot study to be carried out. A direct result of the pilot study pertaining to validity of all the instruments was the correction of the questionnaires used for both accountants and investors. These were found to be valid instruments for purposes of the study; however, the use of personal interviews was found not to be valid given the time constraint under which the study was carried under. Due to Covid 19 face to face interviews were not possible. Therefore, the researcher adopted the use of virtual meetings to gather information from foreign companies about their perspective of Zimbabwean taxation policy and its effect on investment decisions whilst for the rest, the researcher would continue to ask the same questions but rather on a different forum that is making use of emails. Therefore, the instrument was not changed but the way of gathering the data was altered accordingly.  The maintenance of the instrument was meant to achieve instrument triangulation.

**3.7.2 Reliability**

Lymar (2015) define reliability as “the extent to which a specified procedure such as a measure yields consistent observation of the same facts from one tune to another”. To ensure that the research instruments are reliable and valid the researcher formulated questions that cover the contents of each objective. The questionnaires were pilot tested in an effort to reveal ambiguities, conflicting items and items that are not relevant to the purpose of the study.  Straightforward questions were asked to avoid ambiguity.  Related questions followed each other in sequence. The aim is to ensure coordinated responses. Reliability of results was achieved by administering the same questionnaire many times to the same class of respondents but at different organizations and making necessary adjustments until the similar results were obtained, when the respondents are from a different set of respondents.

**3.8 Data Presentation and Analysis Procedures**

**3.8.1 Tools of Data Analysis**

Data from questionnaires was coded and presented in tables, graphs and descriptive statistics is also used to analyse the data using JASP.

**3.8.2 Analysis Procedures**

Data collected is presented in chapter four using both quantitative and descriptive tools. Itemised form of analysis was also employed because both opinion and factual questions was analysed. Descriptive statistics makes use of percentages, frequency distribution, graphs, bar charts and pie charts. This method of analysis is suitable because some of the information from questionnaires was difficult to quantify and because some consisted of counts or frequencies. In order to find the relationship between the dependent variable that is Investment Decision and the independent variables, corporate tax and income tax the researcher employed Linear regression technique. Linear regression attempts to model the relationship between two variables by fitting a linear equation to observed data. One variable is considered to be an explanatory variable, and the other is considered to be a dependent variable.

Therefore, an analysis of both quantitative and qualitative information was imperative in drawing out the impact of tax policies on investment decisions.

**3.8.3 Model Specification**

Model specification is the process of determining which independent variables to include and exclude from a regression equation. In our case the dependent variable is the Investment Decision and the independent variable is the corporate tax as illustrated by the following Linear regression model:

**Y=a+b**X1**+ E**

Were

Y= Investment was measured by growth in amounts of fixed assets net of depreciation and disposal done in each year.

X1 = Corporate tax which was measured by calculating tax paid each year divided by earnings before interest and tax.

a= Intercept

E =error term

**3.8.4 Assumptions of Linear Regression**

* **1. Linear relationship:** There exists a linear relationship between the independent variable, x, and the dependent variable, y.
* **2. Independence:** The residuals are independent. In particular, there is no correlation between consecutive residuals in time series data.
* **3. Homoscedasticity:** The residuals have constant variance at every level of x.
* **4. Normality:** The residuals of the model are normally distributed.
* If one or more of these assumptions are violated, then the results of our linear regression may be unreliable or even misleading.

**3.9 Ethical Considerations**

The participation of respondents in this study was purely voluntary.  The researcher simply furnished respondents with the information as to what the study entails, and then they choose whether or not to participate in the study.  The researcher also assured respondents that their responses were not be publicised.  The ethical position of the instruments was reviewed by colleagues at the researcher’s own work-place, as well as fellow class mates.

**3.10 Summary**

This chapter clearly showed how the researcher collected and obtained the data by concisely explaining the research design, the selection of the population sample from the target population, the research instruments used and why they were used, the proof that the researcher is satisfied that the research was reliable and valid and finally how data collected would be presented and analysed. The study sample comprised randomly selected individuals from 2 local based motor vehicle manufacturers representing 63% of the population.

**CHAPTER FOUR**

**DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS**

**4.0 Introduction**

This chapter focuses on the analysis, presentation and interpretation of the data collected by the researcher. It seeks to present respondents’ comments and views concerning the study.  The data presented was collected from both primary data and secondary data sources, that is, questionnaires and interviews and records from players in the Motor industry. Various ways of presenting data like graphs, tables and pie charts will be used to present the data. The chapter will present the data findings based on the research objectives.

**4.1 Response Rate**

22 questionnaires were distributed, with 55% for Willovale Motors Employees and 45% for Quest Motors Employees. The table below shows the response rate of questionnaires from both.

**Table 4.1 Response rate**

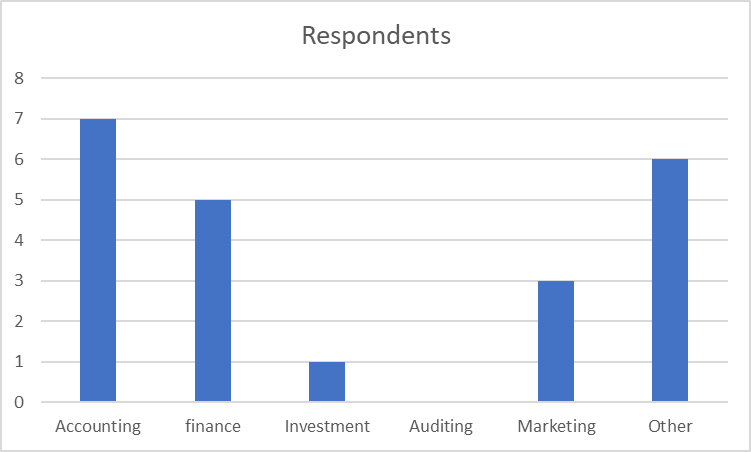
|  |  |  |  |
| --- | --- | --- | --- |
| **Respondents** | **Issued Questionnaires** | **Returned Questionnaires** | **%Response Rate** |
| **Willovale Motors** | **12** | **12** | **100%** |
| **Quest Motors** | **10** | **10** | **100%** |

Due to the nature of the Questionnaire, the respondents found it easy to complete and all the distributed questionnaires were returned indicating a 100% response rate.

A 100% response rate ensured that validity and reliability of data that was collected.

**4.2. Area of Expertise of the Respondents**

**Respondents by Department**

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**Fig 4.1**

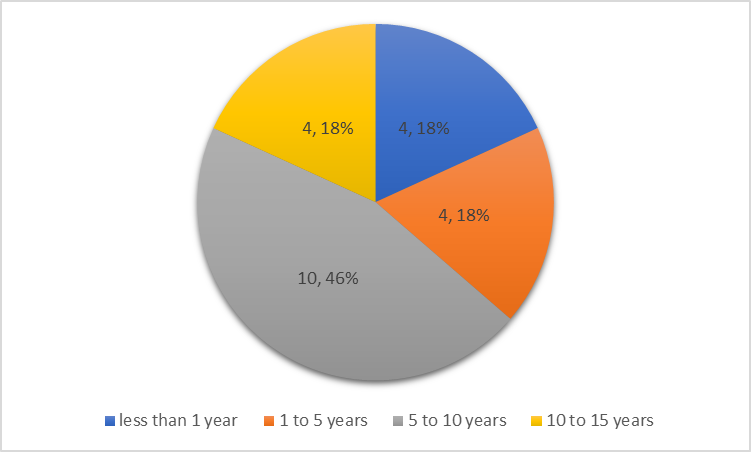
The study indicates that the majority of the respondents came from the Accounting Department

**4.3 Work Experience of the respondents**

The sample for the research included Willovale and Quest Motors Employees.  Most of the respondents indicated that they have been with the organisation for 5 to 10 years. According to the results obtained, 45.45% of the staff has been with the organisation for 10 to 15 years and 18.18% for more than 10 years to 15years.  The graph below shows the work experience basing on how long they have been with the organisation holding the positions they have.

This shows that the sample was made up of respondents who had extreme knowledge about the operations of the Motor Industry

**Fig 4.2**

****

**4.4 What is the impact of Tax on Investment?**

To determine the impact of taxation policies on Investment the respondents were asked the question: Are Zimbabwe Tax policies favourable for investment in the Motor Industry?

**Table 4.2**

|  |  |  |
| --- | --- | --- |
| **Response** | **Frequency** | **Percentage** |
| Strongly Agree | 0 | 0 |
| Agree | 3 | 13.64 |
| Strongly Disagree | 11 | 50 |
| Disagree | 6 | 27.27 |
| Not sure | 2 | 9.09 |

50% of the respondents indicated that Zimbabwe’s taxation polices are not favourable for investment and 81.82% of the respondents strongly agreed that Zimbabwe Tax policies needs restructuring.

**4.5 How would you rate the contribution of tax to your investment decision?**

Respondents were asked how they would rate the contribution of tax when making investment decisions and this gave the following results.

**Fig 4.3**

From the graph there was no consensus on the effect of tax on the company’s decision to invest .42.86% of the respondents stated that tax contributed ⅗ that is 60% to their decision to invest whereas 19.05 % indicated that tax contributed ⅘ that is 80% to their decision to invest and another 19.05% indicated that tax contributed 5/5 that is 100% on their decision to invest. 14,29% stated that tax contribute 40% and 4.76% stated that tax contributes 20% to their decision to invest

In order to fully achieve the objective of this study which was to find out if there is a relationship between (Investment decision) and tax (corporate tax), for firms in the Motor Industry, secondary data on capital investments and corporate tax was analysed and gave the following results.

**4.6 Descriptive Statistics**

Table 4.3 Showing the minimum, maximum, mean, standard deviation of the dependent and independent variable

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Descriptive Statistics** | | | | | | | | | | | | | |
|  | | **Valid** | | **Missing** | | **Mean** | | **Std. Deviation** | | **Minimum** | | **Maximum** | |
| Investment Decision |  | 86 |  | 0 |  | 4.651e+6 |  | 7.334e+5 |  | -267568.22 |  | 2.711e+7 |  |
| Corporate Tax |  | 86 |  | 0 |  | 2.807e+6 |  | 3.834e+5 |  | 240000.034 |  | 1.256e+7 |  |
|  | | | | | | | | | | | | | |

From the table above it can be seen that investment has the lowest minimum value of (-267,568.22) this implies that companies are not investing at all because the amount generated is used to pay the tax hence, they are left with nothing to invest back to the business. They may also have sold the assets to fund their working capital. The maximum value of investment is (2,711,456.89)

Corporate tax also has a higher variation meaning that corporate tax submitted to the Zimbabwe Revenue Authority at the end of the year varies from one Year to another and this depends on the source of funds that are used to fund operations.

**4.7 Is there any relation between taxation policies and investment?**

To establish if there was any relationship between investment decisions and tax, a correlation analysis was done as shown below.

**4.7.1 Correlation Analysis**

Table 4.4 Showing the correlation between the dependent and the independent variable for the study

**Correlation**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Pearson's Correlations** | | | | | | | |
| **Variable** | |  | | **Investment Decision** | | **Corporate Tax** | |
| 1. Investment Decision |  | Pearson's r |  | — |  |  |  |
|  |  | p-value |  | — |  |  |  |
| 2. Corporate Tax |  | Pearson's r |  | -0.662 |  | — |  |
|  |  | p-value |  | .0023 |  | — |  |
|  | | | | | | | |

The correlation between two variables reflects the degree to which the variables are related. The most common measure of correlation is the Pearson Product Moment Correlation (called Pearson's Correlation). Pearson's correlation reflects the degree of linear relationship between two variables. It ranges from +1 to -1. A correlation of +1 means that there is a perfect positive linear relationship between two variables whereas the correlation of -1 reflects a perfect negative correspondingly. The statistical correlation of -0.662 shows a negative and strong relationship between investment decision and corporate tax.

**4.8 Regression Analysis**

To fully address one of the research questions about the impact of taxation policies on investment, the researcher proceeded to conduct Regression Analysis which yielded the following results

Table 4.5 Table showing the R adjusted and Root Mean Square Error

**Linear Regression**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Model Summary - Investment Decision** | | | | | | | | | |
| **Model** | | **R** | | **R²** | | **Adjusted R²** | | **RMSE** | |
| H₀ |  | 0.000 |  | 0.000 |  | 0.000 |  | 733.40 |  |
| H₁ |  | 0.762 |  | 0.581 |  | 0.571 |  | 480.62 |  |
|  | | | | | | | | | |

From the results above 58.1% of the investment decisions is explained by corporate tax. This shows that there is a relationship between the dependent and independent.

**4.9 Analysis of Variance**

**Table 4.6 Anova Analysis**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ANOVA** | | | | | | | | | | | | | |
| **Model** | |  | | **Sum of Squares** | | **df** | | **Mean Square** | | **F** | | **p** | |
| H₁ |  | Regression |  | 1.282 |  | 1 |  | 1.282 |  | 15.489 |  | .0023 |  |
|  |  | Residual |  | 9.239 |  | 84 |  | 2.310 |  |  |  |  |  |
|  |  | Total |  | 10.521 |  | 85 |  |  |  |  |  |  |  |
|  | | | | | | | | | | | | | |
| *Note.*  The intercept model is omitted, as no meaningful information can be shown. | | | | | | | | | | | | | |

The analysis of variance (ANOVA) was used to test the significance of the regression model as pertains to significance in the differences in the means of the dependent and independent variable. The ANOVA test produced an f-value of 15.489, p value=0.0023 signifying significant relationship between the independent and dependent variable. From the result the researcher therefore rejects the null hypothesis and conclude that there is a linear relationship between investment decisions and corporate tax. It also shows that the independent variable corporate tax predicts the dependent variable. The regression model is lower than the residual model which means that the corporate tax accounts too much of the variability on the investment decisions. The significance level being below our threshold of 0.05 confirms that the significance of corporate tax to investment decisions is high and confirmed by the F test.

**4.10 Model Summary and Interpretation**

Table 4.7 Co-efficient of the model

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Coefficients** | | | | | | | | | | | | | |
| **Model** | |  | | **Unstandardized** | | **Standard Error** | | **Standardized** | | **t** | | **p** | |
| H₀ |  | (Intercept) |  | 4.651 |  | 1.132 |  |  |  | 4.109 |  | .0023 |  |
| H₁ |  | (Intercept) |  | 5.726 |  | 9.619 |  |  |  | 0.603 |  | 0.550 |  |
|  |  | Corporate Tax |  | -1.458 |  | 0.196 |  | 0.762 |  | 7.449 |  | .0023 |  |
|  | | | | | | | | | | | | | |

The study indicates that the corporate tax had a significant impact on investment decisions. From the T- test at 95% level of significance, there is negative relationship between the corporate tax of the companies and investment decisions of the companies. The model is summarised below

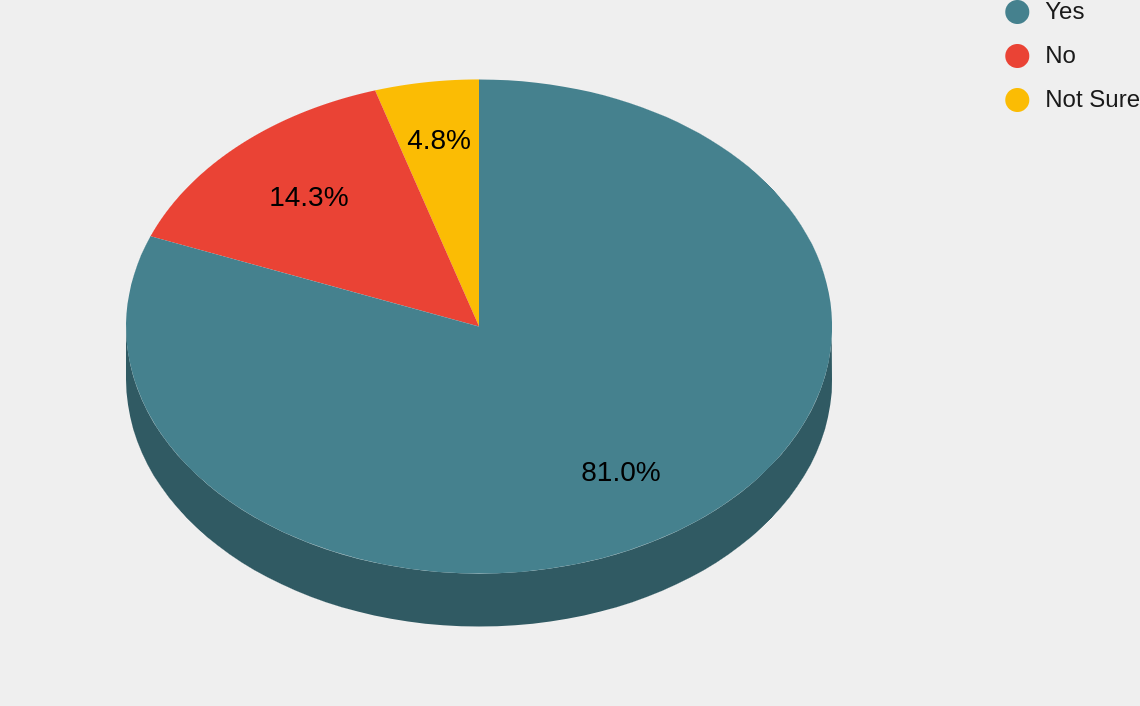
Y= a+ bX + E

Investment Decisions=5.726 -1.458\*Corporate Tax +E

A unit increase in corporate tax would lead to a 1.458 decrease in total investment

**4.11 If the government of Zimbabwe introduce tax incentives, do you think that your company can embark on investment activities?**

To investigate if the companies in the Motor industry were comfortable to the idea of tax incentives, the above question was asked and it was observed that 80.95 % were in favour of the introduction of tax incentives meaning to say they would invest if tax incentives were introduced. The graph below shows the distribution of the respondents’ responses.



**4.12. With regards to taxation policies what can be done to improve the performance of Zimbabwe motor industry?**

This was an open question to all the respondents, the majority of respondents put the following propositions:

Tax incentives-tax incentives clearly enhance returns on investment, as they are relatively easy to target and fine tune; they also signal openness to private investment. Tax incentives act as a pull of investors to the country. Yawei Qi (2020) concurs with the notion that tax incentives actually stimulates investment in the sense that without joining with other measures, that alone will create a welcoming investment climate.

Other respondents highlighted that Zimbabwe can also use tax holidays which are a common form of tax incentives used by developing countries. Tax holidays is where by the government may not collect tax to particular industries to allow them to establish or to allow them grow for a certain period of time. Another proposition which was brought up was that policy makers should ensure that there are tax free brackets especially on commercial vehicles that bring growth to Zimbabwe infrastructure and also encourage the investor to do business in Zimbabwe. Corporate Tax rates also needs to be adjusted down, even though tax is the revenue generator of any country’s economy but there is need to strike a balance between business growth and economic growth. In summary respondents were of the view that tax policies in Zimbabwe need restructuring.

**4.13 Chapter Summary**

Data analysis was done and answered all the research questions which were indicated earlier in Chapter One. It was observed that there is a relationship between taxation and investment decisions. An inverse relationship was established, that is if tax is reduced it has an effect of increasing investment. The government of Zimbabwe should consider reviewing the current tax policy. Taxation was seen to have an impact on investment by this study. This therefore shows that taxation is very important. If the tax policy is reviewed to lower rates and to include tax incentives which investors find to be beneficial for business, then the motor industry might be able to boost its operations.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

This chapter concludes the results of the study by giving the summary of the study. Summary of the findings, what the research has concluded, policy recommendations, limitations of the study and suggestions for further research are discussed in this chapter.

**5.2 Summary**

The objective of this study was to establish the relationship between corporate tax and investment decisions of the companies in the Motor Industry. In addressing this relationship, a research question was postulated as to whether corporate tax impact investment decisions? From Table 4.6, significance level of 0.023 shows that the model is a strong predictor of the outcome, since it is below the threshold of 0.05. The negative relationship which exists between the dependent and independent variables for the study implies a direct and related link between the two variables. Corporate tax and investment decisions are the major factors that managers have to deal with when managing the company. Corporate tax is a requirement by the law that all companies must submit the taxes at the end of each year failure to which it will be subjected to penalties. A company must also make wise investment decisions to facilitate growth to enable shareholders value maximization. Thus, the study gives an explanation to the effect of corporate tax and the investment decisions. The study will enable managers to understand the relationship and be able to balance the effects thus maximizing the shareholders’ value.

**5.3 Conclusion**

The research was carried out using both primary and secondary data. The research’s main aim was to evaluate the impact of taxation on investment decisions; to determine whether the tax policies in Zimbabwe impacted on a company’s decision to invest; and to establish measures which can be adopted to ensure that taxation does not hinder business growth. The study found that tax policies have an impact on investment. If high corporate tax rates are set, the cost of production will increase thereby reducing the profit to the investor. This is undesirable to the investor.  Investment is impacted by tax policies- higher tax rates are unattractive to investors whereas lower rates are desired by investors. There are other factors that also influence investment decisions such that, even if taxation is reformed in Zimbabwe, the Motor Industry will still find it hard to operate in Zimbabwe. The hypothesis of this study which had stated that taxation has no impact on investment decisions was rejected.

**5.4 Policy Recommendation**

For tax policy makers, it is essential to strike the right balance between designing an attractive tax regime for investment and growth, and securing the necessary revenues for public spending. Tax policy is central to domestic resource mobilisation. When transparently and effectively designed and implemented, it provides an essential financial platform for sustainable development. A balanced tax system is capable of meeting the twin goals of offering a tax system attractive to investment, while at the same time raising revenues to support the key pillars of a business-enabling environment, such as infrastructure. A poorly designed tax system, where the rules and their application are non-transparent, overly complex or unpredictable, may discourage investment adding to project costs and uncertainty.

When crafting tax policies, it is recommended to ensure that tax system imposes an acceptable tax burden that can be accurately determined, and which keeps tax compliance and allow business to be profitable and contribute positively to the economy.

Policy-makers are encouraged to reflect on the disappointing experience of economies that have attempted to rely on a low tax burden typically targeted at foreign investment to boost investment. Where framework conditions or market characteristics are weak, first consideration should be given to addressing the sources of a weak investment environment. Realistic expectations should be made of how much additional investment a reduced tax burden would bring forth and the scale of tax-planning opportunities created. Where a low tax burden is to be achieved through the use of special tax incentives, evaluations of their potential to attract investment ought to take into consideration the possibility that tax incentives may discourage investment by contributing to project cost and risk and induce a misallocation of resources

The Goods and Services Tax that has been employed by India can also be adopted in Zimbabwe. GST is a comprehensive indirect tax that was designed to bring indirect taxation under one umbrella. More importantly, it eliminates the cascading effect of tax. Cascading tax effect can be best described as ‘Tax on Tax’.

GST is a transparent tax and also reduces the number of indirect taxes.

* GST will not be a cost to registered retailers or companies therefore there will be no hidden taxes and the cost of doing business will be lower.
* Benefit people as prices will come down which in turn will help companies as consumption will increase.
* Separate taxes for goods and services, which is the present taxation system in Zimbabwe, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs.
* In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
* GST will be levied only at the final destination of consumption based on the VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market and hence encourage investment
* Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.
* The researcher also suggests that tax incentives have a more apparent effect on investment decisions. Many low-income countries use costly tax holidays and income tax exemptions to attract investment. Tax incentives targeted at sectors producing for domestic markets or extractive industries generally have little impact, while those geared toward export-oriented sectors and mobile capital appear to be relatively effective. Tax incentives clearly enhance returns on investment; they may be justified by positive externalities stemming from investments; they are relatively easy to target and fine tune; they signal openness to private investment; they are useful in a world of capital mobility; they are necessary for responding to tax competition from other jurisdictions; and they compensate for other deficiencies in the investment climate.

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