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A strategic analysis of revenue generated by churches, in relation to possible tax loss in Zimbabwe.

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Abstract

Churches are now in the practice of lavish spending and are competing stiffly with the corporate world in property acquisitions. Pastors (also fashionably called prophets) are now living lives beyond those of executives of blue chip corporates. The research was carried out with the main aim of analyzing revenue generated by churches in Zimbabwe. The main thrust was to establish the possibility of introducing tax on revenue generated by churches in a developing country like Zimbabwe which has a budget deficit and a dearth of funds to improve the economy, yet pastors and their churches spend lavishly without being taxed like other citizens. The study adopted the qualitative and quantitative approaches in order to undertake an in-depth analysis of revenue generated by churches. This concentrated on the use of primary data collection method (questionnaires, interviews and participatory observation).The findings of the study were used to ascertain the impact of religion (churches) on social, political and cultural factors of any society, mainly because churches are drawing huge number of followers (devotees) from the society. The taxation of churches may immensely improve revenue collection for the state and also deter abuse of funds of congregants.

Keywords: churches, revenue, taxation, Zimbabwe

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INTRODUCTION

Government income hinges on taxes. Its budgets, expenses, short and long term plans are determined by what is collected in form of taxes as taxes form the bedrock of government income. Collection of tax revenues is done by the Zimbabwe Revenue Authority (ZIMRA) in the case of Zimbabwe. According to Jhingan (2004), the main sources of public revenue are taxes, fees, fines, rentals obtained from state property special assessments, deficit financing and loans (Ddumba-Ssentamu, 2004; Saleemi, 2001). While there are many sources of raising funds, Gberegbe (2007) and Madeo et al (1995) agree that taxation is the most reliable source of government funding. This research will deliberately focus on a possible area of taxation which may be used for widening the tax base.

Gberegbe (2007) contends that a good tax system constitutes taxes that conform to dictates of equity, certainty, convenience and economy. Saleemi (2001) supports Gberegbe (2007) by positing that a good tax system maintains economic stability, equalizes the distribution of income, and increases the rate of economic growth. This in essence implies that a good tax is progressive and leads to happiness to citizens as they receive benefits from their own government.

In Zimbabwe, all registered companies pay income tax to the government agency responsible for its collection, called, the Zimbabwe Revenue Authority (ZIMRA). Zimbabwe's Income Tax Act Chapter 23:06 has a group of income tax exempt organizations for example charitable, educational and religious institutions of a public character (3rd Schedule of the Income Tax Act, Chapter 23:06). Therefore, churches being religious institutions are exempted from paying income tax.

Many countries exempt religious institutions like churches from paying income tax. Churches are earning huge sums of revenue than what can be earned by once flourishing companies, which have been affected by the economic downturn experienced over the past decade and they do not pay tax whereas the underperforming companies are expected to pay tax.

There are basically three groups of churches in Zimbabwe namely Traditional, Pentecostal and Apostolic faith churches. All these categories share congregants and although their theme and mission is one, the difference is in their approaches.

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Table: 1. Categorization of churches in Zimbabwe

Traditional	Pentecostal	Apostolic
Roman catholic	United Family International Church	Johanne Masowe WeChishanu
Anglican church	Spirit embassy	Johanne Masowe Wenguwo Tsvuku
Methodist church	Celebration church	Mugodhi Apostolic Faith
Salvation army	Apostolic Faith mission	Habbakuk
Reformed church in Zimbabwe	ZAOGA FIF	Zvanza ZvaJehovha

Categorization of some of the churches (relzim.org, 2013)

The Herald of July 12, 2013 reports that of late there has been a new trend of entrepreneurs and defines them as *gospreneurs* and defines them as man or woman of cloth who use the word of God in order to make money. The paper states that these are the latter day businessmen, entrepreneurs or gospreneurs, using the bible to line their pockets, while milking the sick and the suffering of their hard-earned cash. It is evident that religion provides the much-needed smokescreen behind which these men hide their *gospreneurship*. It is now the biggest and fastest growing industry in Zimbabwe and beyond. The problem faced by the sick and suffering in all instances is that they are characterized by desperation and in a bid to change their status quo they do anything in order to get to safety zone.

The revenue categories are varied and it includes among others tithes, offering, donations, pledges, pastors upkeep allowance and non-financial benefits (fuel, housing, medical aid, funeral policy, mobile communication, gardener/maids bills, security (bodyguards) all of which must be deemed income for tax purposes). Modern church organisations now have other activities that are not recorded in proper accounting systems such as sales of head gear, dukes, bandanas, stickers (car and other), CD's, T-Shirts, wrist bands, bibles, ornaments, musical instruments, ball points, *holy water* and other valuables.

The tax system in place has also shown that it is conservative to church organisations but harsh to the corporate regardless of the fact that they operate in similar environments and

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that they use similar models and tools in decision making. This is illustrated diagrammatically in figure as below:

Equality of Pentecostals and Businesses towards paying tax: The General View

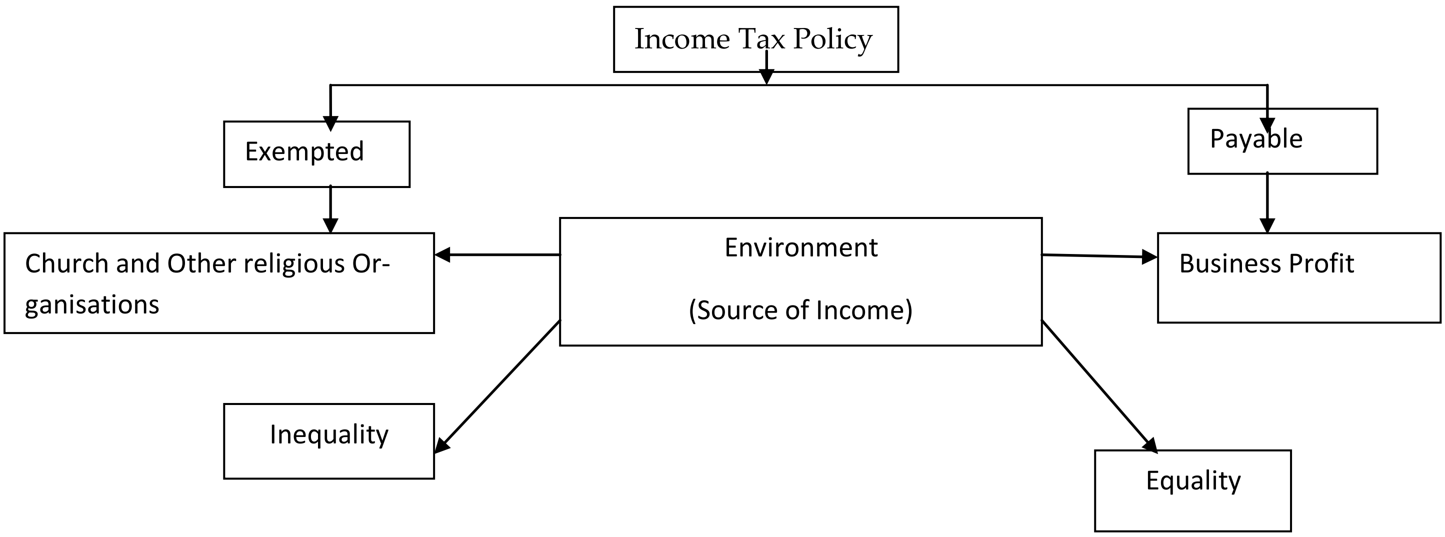

Figure 1: Adapted from Research Concepts (2007).

The above figure shows who qualifies to pay tax and who does not. The dichotomous diagram may need some revisiting due to the evolving nature of modern churches with relation to their vast incomes.

The research objectives therefore are:

1. To identify sources of revenue generating activities that churches are engaging in.
2. To examine the extent to which churches are competing with taxed corporate business.
3. To determine whether revenue generated by churches in Zimbabwe should be taxed.

LITERATURE REVIEW

The purpose of this section is to review literature on the key aspects of taxation in relation to revenue being generated by churches as a result of other extra cash generating activities that are not a characteristic of non-profit making organizations. Furthermore, analysis will also be done on the likely effects this might have on the country's fiscal condition. The proposed customs in which churches are to be taxed and in which type of cash generating activities

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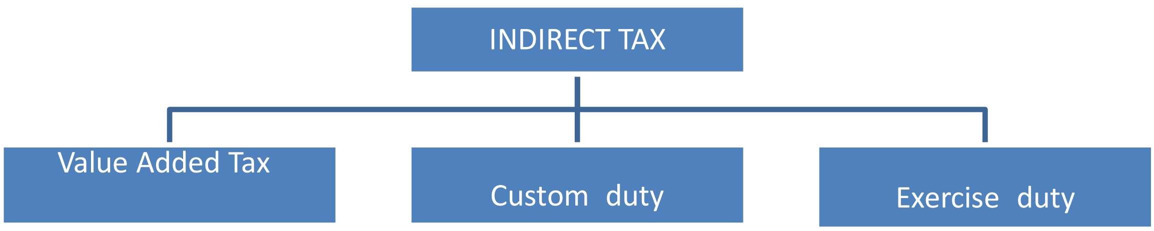
they are likely to be taxed, will be analyzed in light of the paltry volume of research that has been conducted in this regard. Both empirical and theoretical literature under the study is reviewed with the sole purpose of enabling the researcher to compare what was propounded by other past researchers and use them as a guide, providing clearly defined parameters, in carrying out this research.

Taxation in Zimbabwe

There are many definitions of taxation, but the one by Madeo et al. (1995), seems to suggest the closest explanation of what taxes are. He opines that a tax is any non - penal yet compulsory transfer of resources from the private sector to the public sector, levied without receipt of a special benefit of equal value and on the basis of predetermined criteria, enforced to accomplish some of a nation's economic and social objectives. This definition clearly differentiates a tax and a receipt from other sources of government income like penalties from civil or criminal activities (ibid). Opuene (2006) also aptly describe a tax as a compulsory levy by government on earnings of individuals, firms or communities that enable government to perform all its duties to its citizenry. Tapera (2013) defines tax as money or consideration paid to the government compulsorily and is used by the authorities as part of the public finances; and with no direct return of value to the payer. The paying subjects are individuals and companies, and it can be paid either in cash or in kind, for example by way of coupons, goods, or services. Taxation is broadly classified into two that is, direct taxes and indirect taxes, as shown below.

Illustration of the Zimbabwean taxation system



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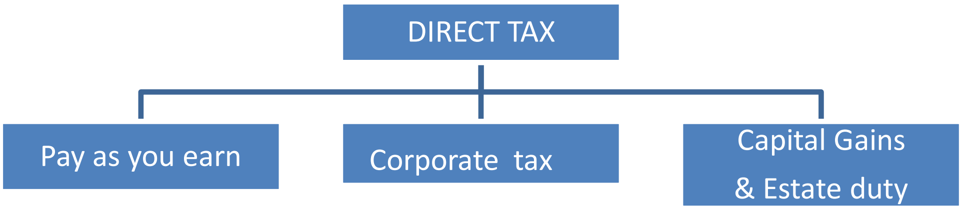

Figure 2: Adapted from Tapera (2013)

Direct taxes are charged directly on income received by individuals or incomes which accrue to organisations. The tax burden falls on the individual or the organization which makes out the tax cheque to the government. Indirect tax on the contrary is charged on goods or services and the tax is suffered on the consumption of the goods whence is sometimes labeled hidden tax. It is collected for the government by an agent who is registered. The classes of taxation may also be grouped according to the manner the taxes are administered. This is as shown below:

Table 2: Classification of taxes

Tax group	Type of items taxed	Act
Pay As You Earn	Chargeable on employment income	Income Tax Act
Corporate tax	Chargeable on trade and investment income	Income Tax Act
Witholding tax	Chargeable on passive investment income	Income Tax Act
Presumptive tax	Chargeable on income of informal traders	Income Tax Act
Estate duty	Chargeable on deceased persons property	Estate duty act
Capital gains tax	Chargeable on gains from sale of immovable property and marketable securities	Capital gains tax act
Value Added Tax Act	Chargeable on goods and services including imports	Value Added Tax Act
Customs duty	Chargeable on imported goods	Customs and exercise act

Adopted from Tapera (2013)

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These taxes are charged to varied organisations regardless of their nature or size. The taxes are all in pursuance of economic equality and ensure a level playing fiscal field. They are also all pooled into the national fiscus despite of their different forms.

Why governments levy taxes

Tapera (2013) explicitly justifies this by the four "R's" which are:

- Revenue- Tax is a source of revenue for funding public expenditure, for example health care, education and infrastructure development.
- Redistribution- Tax is used to redistribute wealth among society members to support economically disadvantaged members of the society, for example, the sick, elderly, unemployed or even just to reduce the gap between the rich and the poor.
- Repricing- Tax is used to address market failures (encourage or discourage investment in certain sectors of the economy). It is also used to address externalities for example, green taxes or emission taxes (carbon tax) and dumping tax
- Representation-Tax results in demand for accountability and governance, especially after incurring the cost.

Religion in Zimbabwe

Boyle and Sheen (2007) state that the legal system in Zimbabwe provides for freedom of religion; however there are no institutions which represent non-religious or secular beliefs. There are about three major religions in the country, which are Christianity (70%), Islamic and Traditional (relzim.org).

Church and its Relation to Business

Bronstein (2009), in his paper "the God Business Gets Away with Being Tax Free", strongly argues that churches are businesses. He further elucidates that churches are indeed selling services that is, salvation, prayers, hope, heaven, forgiveness of sins, rituals and trinkets. In his thoughts, churches offer intangible services, such as a psychiatrist who can make someone feel better, for a fee.

Ferguson (2010) enunciates that Pentecostal churches in Australia have become an industry that is turning over $500 million a year and growing at high speed, extending to changing politics influencing business, and turning their founders into millionaires. He goes further to say that they are increasing in numbers, breaking or fragmenting by each day as leaders keep on moving forming new congregations as and when they feel that they no longer have financial benefits. In view of the above thoughts, it can safely be said that, churches are in business, as they are being involved in profit making activities. They are clearly competing

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with business and they have the added advantage of being tax free or better said they have "preferential tax treatment."

Church Tax Exemption View

White (2010) suggests that taxes are paid in relation to income whereby high income earners pay more than low income earners and he further suggests that churches that are earning huge chunks of money should be taxed rather than taxing a struggling company, although it has an obligation to pay tax. A church that runs a "soup kitchen" (restaurant) but requires its beneficiaries to pay for their supper should have to pay tax on the portion of its income used to run that soup kitchen (http://www.livereal.org/tax/churches). A church that owns its building and uses the facility for both worship services and charitable deeds should be taxed according to a formula, the same way a person can deduct home office expenses from his income taxes.

On the other hand Kelley (2009) contends that other entities which are not in the wealth producing category do not need to explain why they are not taxed just like the birds of the air or the rivers that flow to the sea. Taxation would be pointless since they are not in any meaningful sense producers of wealth. He further opines that to tax them again for participation in voluntary organizations from which they derive no monetary gain would be double taxation indeed, and would effectively serve to discourage them from devoting time, money, and energy to organizations which contribute to the up building of the fabric of democracy. His idea can be summarized as, taxing revenue that has been subjected to tax as the churches derive revenue from members who would have been taxed in the process of them getting their income.

METHODOLOGY

In this study a questionnaire, personal interviews and observation of churches in Harare were used. The research population under study was the people of Zimbabwe, with a particular case study of the capital city, Harare. The study used a total sample of 160 people drawn from both taxable church members and taxable non-members of four Districts in Harare, namely Glen-Norah, Highfield, Borrowdale and the CBD. Purposive sampling was used to gather data from church members who were conversant with tax issues. Data was collected mainly by self-administered questionnaires, participatory observation, and interview guides. Questionnaires were administered to the entire membership structure of the sample.

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RESULTS AND DISCUSSIONS

All 160 questionnaires were returned, representing a 100% response rate. The gender composition of the respondents showed 60% were males and 40% were females. 78% of respondents were in the twenties to forties age group. The rest were children and the aged. 66 % of the respondents were married and the rest were single, widowed and divorced. Follow up interviews revealed that there was equal participation by all the categories in the church activities. It was also verified by observation that generally most congregants had marriage rings to communicate the same and they moved in couples when entering or leaving the sermon. Interviews further revealed that most of these couples were newlyweds who were starting life as couples, starting their careers and were very ambitious and hoped that they would be blessed and prosper in life.

The research established that the church raises its own revenue (94%). Interviewees also conceded that the modern church was more effective than the traditional church and more strategic in terms of financial self-sustenance. The research established that the founders of the churches determined the expenses of the church and interviews corroborated this position as the research established that some founders considered the church as personal property and thus had a free hand in its administration. The research established that church members were obliged to pay 10% of their tithes every month. Given the attendance of Pentecostal churches, it results in huge amounts every month.

The research revealed that 69% of the respondents agreed that their churches had revenue contribution thresholds from members. The respondents also said that every congregant contributes despite their financial status, and that they meet the minimum thresholds set. Interviews revealed that a fixed percentage was due to the church on all income that one receives every month. The respondents were hesitant to disclose the percentage but those that did said it was 10% fixed per month besides the other offerings and pledges one makes.

It was also established that income is supplemented by selling items like pieces of cloths, groceries and other items. Observation evidently made it clear that the church does sell ornaments to supplement revenue. The range of ornaments seen by the researcher ranged from CDs, head gear, wrappers (also called *zambias*), stickers, wrist bands, *anointed* water, newsletters, calendars, pens and portraits. The prices set for all these ornaments were commercial because they were above cost and compared favourably with those charged by commercial entities. On being interviewed about that issue, respondents confirmed awareness of the competitiveness of the prices and said they did not mind since this was an issue to do with the welfare of the spiritual leaders and that they found remorse and pride in

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knowing that the ornaments they had were not earthly things. Interviews also established that congregants participate in revenue generating activities. The interviewees highlighted that the Pentecostal church had more efficient revenue collection methods than the traditional churches (e.g. Catholic and Apostolic Churches). The respondents emphasized that the Pentecostal churches were financially sound and had much fund raising potential, with some citing that the reason why two prophets once met the Governor of the Reserve Bank (RBZ) was that they were being requested to fund ailing firms.

On the prevalence of a Finance committee, it was established that congregants were not aware of that committee but the fundraising committee. The respondents of interviewees who confirmed the presence of a finance committee said the finance issues are presented at least once every month and at times when need arises not necessarily continuously. The respondents said that it was only the church leadership that was privy to such information, and that the other congregants could only know about it only in communicating fundraising strategies and not after expenditure. This they said would remove them from their core activity which is worship since the congregants knew that there was need for upkeep and maintenance of the house of God. They also cited the issue of restrictions of such to the existence of the church doctrine.

The research revealed that the church should not supplement income by engaging in business activities (82%). Interviewees highlighted that if anyone was to conduct business then they might as well leave the “God business” and pursue the “earthly corporate business”. Observation revealed that the churches were engaging in business although the respondents did not want to classify it as such. On being probed why they did not want to perceive it as business the respondents said it was against the church doctrine and would result in one being dismissed from the church. Some respondents cited that their churches were rearing chickens and would sell them at market rates and at market prices.

The research established that most churches own assets which are more than those of some established companies (61%). Interviews revealed that some churches now own residential properties in the leafy suburbs like Borrowdale Brooke and were letting them out to tenants. The respondents also stated that some of the churches own commercial complexes in town which are also leased out. Interviews also revealed that farming was not a preserve of individuals or corporates as their churches were also now practicing it. The researcher also observed that some church leaders had executive top of the range vehicles and on probing through interviews it was stated that the cars were owned by the ministry but allocated to

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individuals and registered in their names. The assets are used as per the custodians' discretion and the founder is the ultimate custodian. However respondents were of the view that churches were not investment vehicles. Interviews revealed that the respondents could not openly concede due to the undertaking and restrictions imposed by the church doctrine. The researcher observed emotional discomfort on the faces of the respondents and the respondents were hesitant to comment. Most of the interviewed respondents however acceded to the fact that the modern church is now an investment vehicle. Some respondents said that it was a thriving tax free business which if one was fortunate would see them through in life. The respondents expressed lack of knowledge on the purposes for which excess funds were used.

Interviews revealed that surpluses are used to acquire personal assets for use by the leaders of the church. They also said that any assets or property acquired is used by the founder and he is its custodian when a physical person is required for registration purposes. The researcher observed that the founders and leaders had expensive top of the range vehicles and on further probing by interviews it was cited that they were all bought by the church from abroad. Respondents generally were aware that the church at times has surpluses. They said that the surpluses would accumulate and would be used at the discretion of the founders of the church. The respondents said that there was no standard procedure on how to use the surplus.

The respondents indicated that where there is profit realization then the church is showing a characteristic of business (87% believed that it is a characteristic whilst 13% perceived it as otherwise). They said that business can collect revenue as long as it is reasonable. Interviews revealed that profit is the ethos of business and as long as there was an element of profiteering then the church would be discerning from its core activities. Pricing is a characteristic that was also said to evidence that there is active business (as congregants have to pay 10% of what they earn). The respondents agreed (94%) that pricing distinguishes business from church while 6% disagreed. Observations during selling of ornaments revealed that the prices set were a bit higher than market rates or equally competitive, meaning that the church had gone out of its mandate. Advertising was not a major issue although 55% of the respondents indicated that it would be a sign of business compared to the 45% who thought it would be normal for a church to advertise. Provision of services was perceived as normal by 71% of the respondents believed that it was not part of business while 29% perceived it as a characteristic for business. Interviews revealed that the question then comes on the nature of the service rendered and the simultaneous reward for the service in terms of magnitude.

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The respondents interviewed said that there is no need for an external audit in the church as any deviation from set systems and procedures would be a sin to God and breaking one of the Ten Commandments. The respondents said that in God's business there is no need for monitoring as there is a self - regulatory system that is reinforced by the bible. The interviewees also expressed ignorance on the importance and value addition by the auditors. The respondents indicated that the auditors are only there to increase costs and exist for thieves which are not found in the church. On the need for an annual audit, the majority (78%) concurred that a church must be audited. Interviews done revealed that the respondents have no problem with the audit being done as long as it has a clear scope. The respondents raised and reinforced a misconception and said they had nothing to hide in the audits as there were no thieves in the church.

The respondents interviewed did not have an appreciation on the importance of tax to a country. The respondents only lightened up when asked how government finances itself. The respondents said it would be proper to tax the church at concessionary rates for selected activities as it was not its core business to make profits/surpluses, and also the fact that they are not financed in any other way by a government or other body. On the need for keeping financial records, respondents (78%) agreed that churches must keep records of income and expenditure. Interviews revealed that there was nothing wrong with keeping records as it could better position the church in terms of control activities and for planning for the future. Some respondents also said that this would result in efficiency in operations of the entity and could increase transparency and ensure enhanced accountability. A few respondents interviewed expressed ignorance as to how the records could add value to them. On the need to remit tax returns, respondents (64%) agreed that there is need to submit tax returns by the church. The respondents interviewed said that this would help improve the country's fiscus even though the contribution was small. The respondents also highlighted that the churches must remit returns so as to enhance the country's economy. A majority of the respondents 66% agreed that when churches import luxuries they abuse the exemption facility they are given. The researcher observed that some of the leaders had several cars allocated to them for personal use outside the scope of the church activities.

The test statistic

Other than the use of descriptive statistics, inferential statistical analysis was also used to test the response data. The Z-score test was used at 5% level of significance to test the difference in the response proportions of the membership structure as follows:

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$Z = (p1-p2) / \sqrt{(p1q1/n1 + p2q2/n2)}$

Where p1 = proportion of positive (Yes) response of members of Pentecostals.

p2 = proportion of positive (Yes) response of non-members of Pentecostals.

And $q1 = 1 - p1$

$q2 = 1 - p2$

n1 = size of sample one (members of Pentecostals)

n2 = size of sample two (non-members of Pentecostals)

The denominator $\sqrt{(p1q1/n1 + p2q2/n2)}$ is the standard error of the difference between the two samples proportions. In order to test the sample response on whether Pentecostals in Zimbabwe are business oriented institutions, the null hypothesis (H_0) was stated as:

H_0: there is no significant difference between Pentecostal churches and trading companies: (H_0:p1=p2), where

$n1 = 85$

$p1 = 0/150 = 0$

$q1 = 1 - p1 = 1$

$n2 = 75$

$p2 = 65/75 = 0.87$

$q2 = 1 - p2 = 0.13$

Rejection criteria: reject H_0 if $z > + 1.96$ or $z < -1.96$

The test statistic Z thus:

$Z = (0.00 - 0.87) / \sqrt{(0x0.87/85 + 0.87x0.13/75)}$

$= \underline{-22.40}$

At 5% level of significance for two tailed Z-score test, the critical regions = $\pm$ 1.96. The test statistic results (-22.40) is in the rejection region; therefore the null hypothesis (H_0) is rejected. The result establishes that there is a significant difference between churches and trading companies in Zimbabwe.

CONCLUSION AND RECOMMENDATION

This research dealt with analysis of data as well as presentation of the findings of the study on the possibility of taxing churches on their incomes. Primary data was collected from questionnaires, interviews and observations. Recommendations discussed below are results of findings of the research.

Based on the findings of the study, the researcher stands to make these suggestions and recommendations to the authorities, that tax planning in the country as suggested by Christine (2006), should not focus on the economic benefit but should be done after taking into consideration other factors like political stability, cultural benefit and religion. It is also recom-

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mended that the country should provide legislation that would make churches operate in an environment of increasing regulation and scrutiny. This ensures that nobody is unfairly benefiting from church income without being taxed like all the other citizens. Finally, churches should be properly registered and monitored by proper legislation that should be in tandem with the Income Tax Act as this will ensure that no one is hiding using churches to evade paying taxes.

Areas for future research

It may be ideal to research on the possibility of taxing all non-profit making organisations. This will enable governments to decide whether to widen the tax collections by including some not for profit making organisation which raise funds through means that may be deemed taxable.

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