

# Journal of Economic Policy and Management Issues

ISSN: 2958-6313 Volume 4, Issue 2, 2025, pp. 49-61

## Digital services withholding tax (DSWT) and the digital economy in Zimbabwe

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### Abstract

#### Keywords:

- Digital economy
- Digital services withholding tax
- E-commerce
- Tax incidence
- Zimbabwe

*This study analyses the DSWT through an economic policy and management lens, while integrating tax law and public finance principles to assess the extent to which the design of a withholding tax collected at the point of payment reconfigures the costs of participation in the digital economy. Using qualitative documentary analysis of Zimbabwe's 2026 National Budget framework and associated fiscal policy statements, supplemented by comparative evidence from African jurisdictions that have implemented digital consumption and transaction levies, the study examines DSWT's effects on the Zimbabwe's digital economy. The findings of the study are that the DSWT risks operating as a de facto 'tax on access' rather than a targeted levy on non-resident platform rents. This is likely to raise effective consumer prices for connectivity and digital services, deepening digital exclusion and distorting incentives for start-ups, micro enterprises, creators, and e-commerce adoption. Comparative evidence from other African experiences with digital consumption and transaction levies shows that when taxes are collected directly on everyday digital behaviour, the burden tends to fall disproportionately on poorer and less frequent users and can induce avoidance and informality. The study concludes that fiscal innovation must prioritise legality, equity, neutrality, and administrative feasibility to avoid shrinking the digital base it seeks to tax, especially in contexts where digital participation is a development objective. Key recommended design elements include exemption design for essential digital inputs, de minimis thresholds, opt-in registration routes for large platforms, and transparent publication of revenue and incidence assumptions.*

### 1. Introduction

The digital economy has shifted from being a peripheral convenience to a core infrastructure of modern economic life. For households, it facilitates access to education content (Ran & Zhou, 2025), information, remittances (Abdul Mannan & Farhana, 2023), and social connections. For institutions, it shapes marketing (Conti, Camillo & Pencarelli, 2023), procurement (Trofimovskaya & Vershinina, 2022), logistics (Al-Ababneh, et al., 2023) payments, and the emergence of platform-enabled micro enterprises. For governments, most online businesses do not utilise traditional business models, thereby minimizing their contribution to public revenue (Adebiyi, 2023).

The Government of Zimbabwe (GoZ, 2025a) introduced a Digital Services Withholding Tax at 15 percent, effective January 2026. Withholding tax operates by requiring certain payers to deduct tax at source from payments made to individuals or companies for specific transactions (Anushiem et al., 2025); the DSWT extends this mechanism to digital services. The DSWT is explicitly described as 'in lieu of VAT on imported services' and applies to payments to

offshore digital platforms, including e-hailing fees, online content charges, and satellite-based internet access fees (GoZ, 2025a). The policy was framed as important for safeguarding tax rights, addressing base erosion, and correcting unfair competitive advantages enjoyed by non-resident digital service providers (GoZ, 2025a). Consequently, the collection mechanism requires banks, mobile money operators, and other regulated payment intermediaries to withhold and remit the tax at the point of payment, supported by strengthened information-sharing and reporting obligations (GoZ, 2025a; GoZ, 2025b).

This study examines how the DSWT is likely to affect ordinary citizens and the broader digital economy, with specific attention to e-commerce participation, start-up entrepreneurship, and digital inclusion. The analysis is informed in part by a contemporaneous policy critique submitted to the Minister of Finance in January 2026. The critique, while supporting domestic revenue mobilisation in principle, argued that the DSWT was ‘not well thought-through’ because it effectively taxed access, encouraged avoidance and informality, layered onto an already taxed transaction environment, and thus became regressive by design (Tsodzo, 2026).

Research shows withholding tax stands as one of the most efficacious instruments for broadening the tax base and stabilizing government revenues (Eke, Olatinsu & Uwakwe, 2025). However, the core argument advanced in this study is that the DSWT’s withholding design risks functioning as an access levy that increases the marginal cost of digital participation at the exact moment of purchase. Usman and Saha (2022) note that the popular tax avoidance practices in digital companies include avoiding withholding tax. In Zimbabwe, digital adoption, e-payment formalisation, and online enterprise growth remain fragile and ridden with barriers (Mangwanya, 2025). Such a design can produce policy feedback loops that undermine the very objectives commonly invoked to justify digital economy taxation, including objectives of fairness and equitable access (Hardika et al., 2026). The study contributes to debates in economic policy and management by integrating public finance principles, comparative African evidence, and tax law reasoning about design, legality, and administrative practicability.

Addressing the central question of whether the DSWT's withholding design advances Zimbabwe's fiscal objectives without inadvertently functioning as a tax on access requires the analysis to move through several interconnected layers. The study is therefore structured accordingly. The next section presents the background and literature review, canvassing the global and African landscape of digital economy taxation. It also covers the theoretical framework of tax incidence, equity, neutrality, and legality that structures the analysis, and the comparative country experiences that inform the study's evaluative approach. This grounding is necessary because the DSWT does not exist in a vacuum. Rather, it enters a field already populated by competing instruments, contested design principles, and documented behavioural responses that carry direct lessons for Zimbabwe's policy choices.

This study uses qualitative documentary analysis as its primary method, complemented by comparative policy review. Documentary analysis is appropriate when a policy is newly implemented (Bowen, 2009) and when the key questions concern design features, institutional mechanisms, and likely behavioural effects rather than immediate econometric measurement. The Zimbabwe specific materials analysed include the 2026 National Budget policy statement text that introduces and justifies the DSWT, the 2026 Budget Speech summary that reiterates the measure, and associated fiscal documents that illustrate the broader context of revenue mobilisation under constrained fiscal space. A contemporaneous policy response submitted to the Minister of Finance (Tsodzo, 2026) is similarly treated as a primary documentary source, given that it articulates likely incidence and behavioural responses among ordinary users and small businesses. The analytical framework applied to these documents draws on four public finance and tax law concepts, tax incidence, equity, neutrality, and legality, which are elaborated in the Background and Literature Review above and applied to the documentary findings below. The comparative cases selected are not treated as direct equivalents to Zimbabwe's DSWT but as design-relevant analogues, selected on the basis of instrument similarity, regional relevance, and availability of documented evidence on access and inclusion effects.

The rest of the paper is structured as follows: Section 2 provides a summary of the literature review, while Section 3 focuses on African approaches to digital economy taxation. Section 4 examines the effects of Zimbabwe’s digital services withholding tax policy, and Section 5 concludes the study and offers policy recommendations.

## 2. Literature review

The digital economy’s rapid expansion has fundamentally disrupted the assumptions on which the international tax architecture was built, generating a proliferation of unilateral and hybrid fiscal responses across both developed and developing countries. Understanding Zimbabwe’s DSWT requires situating it within three interconnected bodies of literature, with the first one being the global debate over how to tax the digital economy and allocate taxing rights across jurisdictions. The second one is the specific African experience with digital economy tax instruments and their documented effects on access, inclusion, and formalisation. The third and final one is the theoretical framework of tax incidence, equity, neutrality, and legality that provides the analytical vocabulary for evaluating whether any given instrument is well-designed. Each of these bodies of literature is reviewed under this section in turn as below.

### *The Global Taxation of the Digital Economy*

The foundational challenge of taxing the digital economy lies in the structural mismatch between how value is created and where tax liability is traditionally assigned. The international tax architecture developed over the twentieth century was premised on physical presence, wherein a firm that wanted to sell goods or services in a jurisdiction had to establish some tangible footprint there, which then provided the nexus for tax liability (Hu, 2025; OECD, 2021a). Digital platforms have systematically decoupled value creation from physical presence, enabling large multinational enterprises to supply services at scale to users in a jurisdiction without maintaining the infrastructure or workforce that historically triggered taxation (Adebiyi, 2023; Mpfu, 2022). The consequence has therefore been a structural erosion of the tax bases of market jurisdictions, being the actual countries where users and economic activity are located - in favour of residence jurisdictions and, in many cases, low-tax third countries to which profits are shifted (Avi-Yonah, Kim & Sam, 2022; Gelepithis & Hearson, 2022).

The political economy of this problem has been contested and slow-moving at the international level. Scholars such as Gelepithis and Hearson (2022) have demonstrated that the politics of taxing multinational digital firms in the modern era reflects deep tensions between capital-exporting and capital-importing countries, with developing countries historically disadvantaged by international tax rules that were designed without their interests in mind. Further, existing transfer pricing rules and treaty frameworks have been shown to be systematically exploited by digital multinationals to shift profits to low-tax jurisdictions, reducing effective tax payments in the countries where economic activity actually occurs (Avi-Yonah, Kim & Sam 2022). This profit-shifting dynamic is not merely a revenue concern but also distorts competitive conditions between domestic firms subject to full taxation and non-resident platforms that bear little or no local tax liability (Gelepithis & Hearson, 2022; Hu, 2025).

In response to these pressures, governments have adopted a wide range of unilateral digital economy tax instruments. Kim (2019) identifies four broad instrument families, namely (i) VAT on electronically supplied services, (ii) corporate income tax nexus reforms, including significant economic presence (SEP) rules (iii) gross revenue-based digital services taxes (DSTs), and (iv) transaction levies on digital payments or usage. Each instrument has a distinct incidence profile, compliance cost structure, and set of developmental implications (Mpfu & Moloji, 2022). The OECD's two-pillar solution represents the most ambitious attempt to coordinate this landscape internationally, seeking to reallocate a portion of the residual profits of large multinational enterprises to market jurisdictions under Pillar One, while introducing a global minimum corporate tax rate of 15 per cent under Pillar Two (OECD, 2021a; OECD, 2021b). Implementation has however been slow and politically contested, and the framework's benefits for low-income developing countries with limited negotiating capacity remain uncertain (Gelepithis & Hearson, 2022; OECD, 2021b). This has left many developing country governments, including those across Africa, to design and deploy domestic instruments while international negotiations continue, often under significant fiscal pressure and without the institutional capacity to administer complex rules (ATAF, 2019; Mpfu, 2022; UNCTAD, 2024).

### *Tax Incidence, Equity, Neutrality, and Legality*

The theoretical evaluation of any tax instrument requires a set of analytical concepts that go beyond revenue adequacy to assess distributional fairness, economic efficiency, and legal validity. This study applies four such concepts, namely tax incidence, equity, neutrality, and legality. Each of these concepts is grounded in established public finance and tax law scholarship and, as the subsequent analysis demonstrates, is directly implicated by the DSWT's design. Tax incidence refers to the economic distribution of a tax burden after prices and behaviour have adjusted, which may differ substantially from the statutory assignment of who is legally obligated to pay (Benzarti, 2024). In the context of digital services taxes, Kim (2019) argues that these levies function, at least in part, as consumption taxes. This means that even when the legal incidence falls on the platform or the payer, the economic burden tends to be passed forward to consumers through price adjustments. Scholars Kim and Shanske (2022) extend this analysis to demonstrate that the consumption tax character of DSTs means that the burden falls on users rather than on the digital advertising platforms or other businesses that may be the nominal target of the levy. The incidence problem is sharpened where the tax is collected not at the platform level but at the point of consumer payment, because the deduction is immediately visible to the consumer and directly increases the marginal cost of access at the moment of purchase. Where demand for digital services is price-inelastic, as is increasingly the case for connectivity and digital tools that have become essential to education, employment, and commerce, the burden falls more heavily on consumers, especially lower-income consumers who have fewer substitution options (Eisenhauer, 2022). Consumption levies on essential or productivity-enhancing goods and services tend therefore to be regressive unless mitigated through carefully designed exemptions, thresholds, or targeted compensatory spending (Scarpini et al., 2024).

Equity in taxation has both horizontal and vertical dimensions. Horizontal equity requires that similarly situated taxpayers be treated similarly, while vertical equity requires that those with greater ability to pay bear a larger share of the tax burden (Mpfu & Moloji, 2022). A tax that increases the marginal cost of digital participation risks violating both principles if it imposes a uniform percentage burden on transactions regardless of income, thereby requiring a

proportionally larger sacrifice from lower-income users who spend a greater share of their income on digital services. This is not a normative claim alone but rather it follows from standard public finance theory where consumption levies on goods with low price elasticity among lower-income groups are understood to be regressive, unless offset by exemptions or threshold mechanisms (Eisenhauer, 2022; Scarpini et al., 2024). Comparative evidence from Uganda and Ghana confirms that this theoretical prediction has practical force in African digital economy contexts, where digital usage taxes have been shown to reduce participation more among poorer and less frequent users, thereby creating a socio-economic gradient in access that compounds existing inequalities (Boxell & Steinert-Threlkeld, 2022; Carreras, Diouf & Niesten, 2024).

Neutrality is the principle that a tax system should raise revenue while minimising distortions to economic decisions and competitive conditions. The basic connotation of tax neutrality is that the tax system should treat different business organisation models and different forms of economic activity fairly and consistently. This is so that investment and consumption decisions are driven by economic merit rather than by tax considerations (Zhou, Liu & Wang, 2025). Mpofu and Mloi (2022) apply this principle specifically to African digital services taxes, demonstrating that non-neutral instruments can push consumers and firms toward informal or grey-market substitutes, undermine formalisation objectives, and create uneven competitive conditions between formal and informal operators. A tax collected at the point of payment through formal financial channels is particularly vulnerable to neutrality concerns because it creates a direct incentive to route transactions through informal or foreign channels to avoid the deduction. This would be an especially significant risk in economies where trust in formal payment systems is still being built and where informal sector activity remains large.

Further, legality and certainty are foundational principles of tax law. The legality principle holds that all tax obligations must derive from explicit statutory authority enacted through the legislature. In other words, no tax may be imposed other than by law (Kristoffersson & Kristoffersson, 2024). As demonstrated by Van der Vlugt (2023) this principle operates not only as a formal constitutional requirement but as a substantive constraint on the scope and precision of tax legislation. This principle requires that the categories of taxable transactions, the applicable rates, and the obligations of collecting agents to be defined with sufficient clarity for taxpayers and intermediaries to identify their obligations consistently. Where statutory definitions are broad or ambiguous, collecting agents operating in a risk-averse environment may over-withhold, shifting the burden of seeking redress onto taxpayers and creating transaction costs and compliance uncertainty that undermine trust in the tax system. Beyond domestic legality, taxes on digital services must also be evaluated against the international framework governing the allocation of taxing rights. The international framework encompasses the OECD two-pillar architecture and the principle, affirmed by the OECD (2021a; 2021b) and African tax institutions alike, that digital economy taxation should target value creation and profit extraction rather than penalising access and participation.

### 3. African approaches to digital economy taxation

African countries have experimented with a diverse range of approaches to taxing the digital economy, reflecting varying fiscal capacities, legal traditions, and development objectives. The ATAF (2019) has provided regional guidance emphasising the importance of well-designed, administrable rules that do not undermine domestic development goals, while the OECD (2022) has supported a VAT Digital Toolkit for Africa that promotes destination-based taxation through foreign supplier registration as a practically feasible approach for revenue authorities with limited enforcement capacity. Mpofu (2022) provides a comprehensive overview of the opportunities and challenges of digital economy taxation across African jurisdictions, noting that the region's diversity of tax systems, infrastructure constraints, and digital adoption trajectories means that instrument design choices carry particularly significant distributional consequences.

At the country level, South Africa has been among the most methodologically advanced in its approach, requiring foreign suppliers of electronic services that exceed a defined revenue threshold to register for VAT under a dedicated simplified category and to remit quarterly (SARS, 2022). This supplier-side registration model has attracted considerable attention as a template for other African jurisdictions because it places compliance obligations on the platform rather than on the consumer or the payment intermediary, thereby reducing the visible price impact on users while still capturing tax from offshore value flows (Mpofu, 2022; OECD, 2022; SARS, 2022). Nigeria has adopted a different approach through its Significant Economic Presence Order, which extends corporate income tax nexus to non-resident digital service providers even without a physical establishment in Nigeria, using turnover thresholds and definitional triggers to capture a range of remote digital services (KPMG, 2020; PwC, 2020). Kenya initially implemented a 1.5 per cent digital services tax on the gross transaction value of digital services supplied by non-resident providers, before policy developments moved the jurisdiction toward a significant economic presence framework. This

illustrates the iterative experimentation and instrument redesign that has characterised digital economy tax policy across the continent (BDO, 2025; KRA, 2020; Mponwana & Ndlovu, 2024).

The most extensively documented cases in terms of their effects on access and inclusion are those of Uganda and Ghana, both of which imposed transaction-level levies on digital usage or payments. Uganda introduced a daily social media tax in 2018, requiring users to pay a flat fee to access social media platforms. Boxell and Steinert-Threlkeld (2022) employed a synthetic control methodology to evaluate the impact of this levy, finding that it significantly reduced the number of georeferenced Twitter users, with disproportionately larger effects among poorer and less frequent users. This finding is important because it challenges the assumption that digital usage taxes primarily constrain heavy consumers. The evidence rather suggests that they produce a socio-economic gradient in access, with the most price-sensitive users reducing or abandoning participation entirely (Boxell & Steinert-Threlkeld, 2022). Meanwhile, Ghana's electronic transaction levy (e-levy), introduced in 2022 at a rate of 1.5 per cent on electronic transfers, has similarly attracted scholarly attention.

Carreras, Diouf and Niesten (2024) provide empirical evidence that the levy reduced mobile money usage, with implications for financial inclusion and formalisation. Studies have also examined the e-levy's merchant payment exemption design, demonstrating that exemption architecture matters significantly for determining who bears the burden and whether productive use of digital payments is protected (Scarpini et al. 2024). Scholars such as Tetteh et al. (2023) add evidence on behavioural changes in mobile money transactions following the levy's introduction, reinforcing the broader principle that taxes on everyday digital financial behaviour can reduce adoption in ways that are difficult to reverse. Evidence has also emerged from studies that citizens' willingness to pay such levies is conditioned strongly by perceived fairness, transparency, and trust in how revenue will be used (see Amoah et al. 2023). It is noteworthy that all these are factors that have direct implications for compliance and for the political sustainability of the measure.

The cumulative lesson from this comparative African literature is that instrument design is not neutral. When taxes are collected at the point of digital access or transaction rather than at the level of platform profit or gross revenue, they tend to deepen inequality in digital participation. This also incentivises avoidance through informal channels and undermines the formalisation objectives that digital economy policy typically pursues alongside revenue mobilisation (Boxell & Steinert-Threlkeld, 2022; Carreras, Diouf & Niesten, 2024; Mpofu & Moloi, 2022). To that effect, the choice of instrument and the specific design features of thresholds, exemptions, collection mechanisms, and scope therefore carry consequences that extend well beyond the immediate revenue yield.

#### **4. Zimbabwe's DSWT in fiscal and policy context**

Zimbabwe's 2026 fiscal framework is premised on bold revenue mobilisation strategies and enhanced tax administrative efficiencies, framed as necessary for fiscal sustainability and the funding of public services (GoZ, 2025a). At the same time, official debt reporting indicates elevated fiscal pressures and debt service burdens, including domestic debt service payments during January to September 2025 and continued external arrears. The public debt reporting emphasises tight fiscal space and refinancing risk, alongside the state's ongoing management of legacy liabilities and arrears clearance strategies (GoZ, 2025c). In this context, measures that promise efficient real time collection, especially those that can be implemented through regulated payment intermediaries, have clear administrative appeal.

The DSWT is introduced under the heading of enhancing taxation of electronic commerce. The budget statement argues that the current digital economy does not adequately capture income accruing to non-resident digital service providers or VAT payable on such services, creating substantial revenue leakages (GoZ, 2025a). The DSWT is therefore positioned as a remedy to protect taxing rights and promote equity in the tax system (GoZ, 2025a). Eke, Olatinsu and Uwakwe (2025) however note that withholding tax shifts some of the enforcement responsibilities onto payers, making tax collection more feasible. However, when tax deducted at source exceeds the final tax liability, taxpayers are entitled to a refund or credit. The refund process is often slow, opaque, and bureaucratic, discouraging voluntary compliance and eroding trust in the system (Anushiem, Anushiem & Emeka, 2025).

The policy design has two distinctive features. First, it is described as a withholding tax levied at a high rate of 15 per cent (GoZ, 2025a). Second, it is collected at the point of payment by banks, mobile money operators, and other regulated payment intermediaries, implying automatic and immediate deduction when a domestic payer purchases digital services from covered offshore platforms (GoZ, 2025b). This design matters because withholding on consumer payments tends to behave like a consumption tax in economic incidence, regardless of whether it is nominally framed as an imported services tax substitute. In other words, the mechanism embeds the levy directly into everyday digital consumption and usage behaviour. Eke, Olatinsu and Uwakwe (2025), however, note that in economies where digital infrastructure is lacking and audit follow-ups are limited, withholding may not necessarily bolster the overall enforcement ecosystem.

Usman and Saha (2022) note that a uniform withholding tax on digital services for companies like Amazon vs other smaller companies is inappropriate. It does not account for the varying profit margins and business models of each. At the payment step, the DSWT therefore functions as a de facto access tax, increasing the cost of digital participation at the precise moment of transaction. It anticipates behavioural adaptation including grey market subscriptions. Grey

market subscriptions are likely to emerge in retaliation as well as reliance on intermediaries, foreign cards, VPN usage, and reversion to cash-based workarounds, which would undermine financial inclusion and tax morale. Layering this tax onto an already charged transaction environment can produce an accumulated extraction effect experienced by the citizen as a chain of deductions rather than an equitable fiscal contribution. Though Kim (2019) notes that some argue that DST is designed as a turnover tax, it will be borne by consumers. Moreover, since DST is taken as a consumption tax in the real world (Kim, 2019), a major criticism of the consumption tax is its perceived regressivity, as it disproportionately impacts lower income households, who allocate a larger share of their income to taxable goods and services (Hori, 2026).

From an economic policy perspective, the key question is not whether Zimbabwe should tax the digital economy, because the literature and global practice recognise the legitimacy of taxing rights over digital value creation (Hu, 2025). In addition, according to a statement by the finance ministers of Denmark, Sweden and Finland, there were 'no reasons to deviate from internationally established principles regarding the allocation of taxing rights for the digital economy' (Gelepithis & Hearson, 2022). The deeper question is whether the DSWT's design advances that goal without undermining inclusion, e-commerce growth, and productivity. The design question is especially important because Zimbabwe's own policy documents, including gender responsive budgeting priorities (GoZ, 2024), expanding access to ICT services and broadening participation in the digital economy (GoZ, n.d.), particularly for women and marginalised groups (GoZ, 2025d). These priorities explicitly include expanding access to ICT services and broadening participation in the digital economy, particularly for women and marginalised groups (GoZ, 2024; GoZ, 2025d; GoZ, n.d.). Where fiscal measures inadvertently raise the cost of participation, they may contradict other stated policy objectives, weakening

overall policy coherence. The DSWT is vulnerable to non-neutrality because it is collected at the point of payment through formal channels, which can incentivise substitution away from formal payment rails. In the Zimbabwe context, where policy discourse frequently emphasises formalisation and inclusion (GoZ, 2024), a tax that encourages users to avoid formal rails is strategically counterproductive. Therefore, a DSWT must be evaluated not only for revenue yield, but for coherence with long run economic transformation objectives.

#### *Impacts on Ordinary Citizens and Internet Poverty*

The most direct effect of the DSWT is to increase the effective price of digital services purchased from covered offshore platforms. Kim and Shanske (2022) note that digital services tax is at least in part a consumption tax, and thus consumers rather than digital advertising platforms or other businesses could bear the tax incidence. Owing to the fact that it is withheld at the point of payment, the tax becomes a visible and immediate increment on the transaction. For households, the affected category includes subscriptions for streaming and online content, fees for e-hailing, and satellite-based internet access fees as explicitly referenced in the budget statement (GoZ, 2025a). The immediate price increase matters because digital services in low- and middle-income contexts compete with essential expenditures, and usage decisions are often made at the margin (Mpfu, 2022).

The regressive potential of the policy is amplified by the fact that withholding taxes applied to transactions do not scale with income or ability to pay. A fixed percentage on a subscription fee burdens a low-income student proportionally more than a high income professional. The Uganda social media tax experience is instructive, not because the instrument is identical, but because it demonstrates that when digital access is taxed on usage, poorer and less frequent users reduce participation more (Boxell and Steinert-Threlkeld, 2022). Using a synthetic control framework, Boxell and Steinert-Threlkeld (2022) reports that Uganda's daily social media tax reduced the number of georeferenced Twitter users, with larger effects among poorer and less frequent users. The broader lesson is that digital usage taxes can reshape participation in ways that deepen inequality, the inequality that current policymakers are trying to remove (GoZ, 2024).

For Zimbabwe, a key development concern is that digital participation is increasingly a prerequisite for labour market entry and income generation in the informal and semi-formal economy. Freelancers, creators, micro merchants, and small service providers use digital platforms not only for consumption but for earning. Mutero (2024) notes that while these platforms present unprecedented opportunities, challenges remain, including inequalities relating to digital accessibility, fleeting virality, and economic barriers that hinder long-term sustainability. When a tax raises participation costs, it can reduce the viability of marginal income generating activity. This concern that the DSWT taxes connectivity, learning, and participation rather than platform profit, is the central design critique advanced in this study (see also Tsodzo, 2026).

The policy can also weaken trust in formal payment rails. If citizens experience digital payments as 'tax traps' (Wortel-London, 2021), they may shift towards behaviours that reduce the state's visibility over transactions. The imposition of the DSWT and the public disgruntlement over the policy risks the creation of a lack of public trust. Though research says that digitalisation aids in lowering tax evasion (Amzuică Mititelu & Nişulescu, 2023), other studies also note lack of public trust as one of the factors that in fact fuel it (Shaair et al., 2023). Such avoidance behaviour is not necessarily illegal in all forms, but it undermines the policy objective of broadening the tax base through formalisation.

In public finance terms, this is a dynamic inefficiency, short term yield at the expense of long-term base growth. Consequently, as Eke, Olatinsu and Uwakwe (2025) note, the DSWT ends up highlighting structural weaknesses instead of addressing them.

#### *Impacts on Start-ups, SMEs, and E Commerce Adoption*

Zimbabwe's digital economy narrative, like many African digital economy narratives, relies on the premise that start-ups and SMEs will leverage online platforms to reach markets, reduce transaction costs, and participate in cross border commerce. In Zimbabwe, research reveals that digital transformation adoption has a significant positive impact on all four dimensions of competitiveness within SMEs (Mafukidze & Chiutsi, 2025). E-commerce adoption often begins with small experiments: a micro retailer purchasing advertising, a small firm paying for SaaS tools, a merchant using online content to learn inventory management (Kolagar et al., 2022), or a driver using platform mediation to access demand. When the state raises the cost of digital inputs, early-stage adoption can stall.

The DSWT is positioned as being aimed at offshore platforms, but its economic effects spill over to domestic entrepreneurship in at least four ways. First, start-ups and SMEs are themselves consumers of imported digital services (Kolagar, et al., 2022), including cloud tools, design software, advertising platforms, logistics platforms, and marketplace fees. Where payment intermediaries withhold DSWT on those payments, operating costs rise, reducing competitiveness. Second, start-ups that rely on digital advertising and platform reach may face reduced consumer demand if end users ration digital spending. Third, if citizens shift toward grey market and informal digital consumption, legitimate e-commerce operators may face increased competition from unregulated substitutes. Fourth, the tax may reduce incentives to adopt formal payment systems, undermining the data trails and credit scoring mechanisms often needed for SME finance.

GoZ (2025a) argues that offshore platforms currently enjoy an unfair competitive advantage over domestic service providers that are fully taxed. In principle, correcting such asymmetry can support domestic providers. However, whether the DSWT achieves that depends on the competitive landscape. Many domestic firms do not have perfect substitutes for global platforms, especially in cloud services (Mpofu & Mhlanga, 2022), global advertising, and cross border marketplace intermediation. Where substitution is not feasible, the tax becomes a pure cost increase. Where substitution is feasible, the policy might encourage use of domestic providers, but only if domestic providers are available, affordable, and reliable. In a context of constrained infrastructure and capital, this cannot be assumed.

Moreover, e-commerce adoption relies on network effects and trust (Al-Okaily, 2024). If DSWT encourages behaviour like account sharing, foreign card usage, or VPN mediated payment channels, the domestic e-commerce ecosystem can become more fragmented. Formal SMEs may face additional compliance friction while informal operators circumvent the system, producing an uneven playing field that harms legitimate enterprise development. This undermines a key policy management objective: building predictable, rule-based market conditions that encourage investment and formal enterprise growth.

#### *Gender and Distributional Effects in Digital Participation*

GoZ (2025d) highlights programmes aimed at improving access to ICT services and the digital economy for women and girls, including resourcing for ICT labs in schools, e government programmes, and ICT infrastructure expansion in marginalised areas. A study by the Cherie Blair Foundation For Women (2025) found that although 92% of women entrepreneurs in developing contexts own a smartphone, 45% lack consistent internet access due to high costs. Meanwhile, a GSMA's Mobile Gender Gap Report (2023) found that women in developing countries are 19% less likely to use mobile internet largely due to the unaffordability of smartphones and mobile data. The policy orientation disregards this reality and further perpetuates the divide by increasing the cost of using digital services.

A tax that increases the cost of digital participation can therefore have gendered distributional consequences, even if it is not explicitly gender targeted. Where women and girls already face constraints in device ownership, data affordability, and time for learning (Cherie Blair Foundation for Women, 2025), a price increase on digital services can disproportionately reduce usage among those groups. A study in Zimbabwe's capital Harare showed that many women entrepreneurs operate in informal sectors without access to online marketplaces, or e-commerce tools (Zindi et al., 2025). From an economic policy perspective, this creates a coherence challenge since on one hand, budget allocations aim to expand access, while on the other hand, a consumption linked withholding tax increases the private cost of use. Further, a study of women entrepreneurs in Mashonaland West revealed that higher cost of digital technology will result in lower usage of technology in the organisation, particularly in small to medium enterprises by women entrepreneurs (Mashapure et al., 2025). Without explicit mitigation measures, the policy mix risks producing a net negative impact on inclusion outcomes. This is not an argument against digital economy taxation. It is an argument that taxation design must incorporate distributional analysis and inclusion safeguards. Digital inclusion brings everyone to digitally participate, thereby reducing the social marginalisation, social inequalities and giving citizens the reasons to participate digitally (Nani and Maguraushe, 2022). Furthermore, the policy layered on top of the existing divide in the provision of digital financial services deepens gendered digital disadvantage. Digital financial services (DFS) refer to financial services

which are delivered through digital means, including through phones, tablets, cards, personal computers, and the Internet (Manyika et al., 2016). Globally, women lag by 9 percentage points on access to financial services (Chamboko, 2022). Moreover, evidence shows that women's access to and use of DFS is lower compared to their male counterparts due to women's limited access to cell phones and Internet (GSM Association, 2021).

### *Comparative Lessons from Africa and Global Practice*

Across jurisdictions, digital economy taxation tends to fall into four broad families of instruments (i) VAT on electronic services, (ii) corporate income tax nexus reforms such as significant economic presence, (iii) gross revenue based digital services taxes, and (iv) transaction levies on payments or usage. Each has different implications for incidence, compliance, and development (see Table 1). For African policy makers, the practical lesson is that domestic instruments should, as far as possible, target where value and rents are generated and extracted, rather than taxing the developmental inputs of connectivity and participation that expand the base over time. Zimbabwe's DSWT, as currently designed, sits closer to the transaction levy family than to the supplier registration VAT family, because it is withheld at payment by intermediaries and therefore directly increases the marginal cost of use. If Zimbabwe's policy objective is to capture offshore platform value while protecting domestic digital development, comparative practice suggests there is space for redesign towards supplier side compliance options, clearer scope limitations, thresholds, and exemptions.

**Table 1: Summary of comparative policy alternatives for Zimbabwe**

Taxation instrument	Description	Implications	Examples
VAT on electronic services	Destination based taxation, foreign supplier registration	Aligns with consumption taxation, admin feasible	South Africa VAT Framework
Corporate income tax nexus reforms	Expand tax nexus to non-resident digital providers	Captures digital services without physical presence	Nigeria's significant economic presence order
Gross revenue based digital services taxes	Tax on gross transaction value	Can be distortionary, risks discouraging access	Kenya's digital services (earlier regime)
Transaction levies on payments/usage	Tax on digital transactions or usage	Risks reducing adoption, deepening inequality	Ghana's e-levy; Uganda's social media tax

Source: Authors' own compilation

### *Legal Analysis and Tax Design Critique*

A legally grounded critique strengthens the policy evaluation by clarifying where design choices risk violating core tax law and governance principles, even if the measure remains formally valid. The DSWT raises four legal design issues that matter for economic policy management: definitional scope and certainty, proportionality, delegation and accountability in collection, and coherence with constitutional and administrative law norms.

Definitional scope and certainty are central because GoZ (2025a) frames the DSWT as applying to 'offshore digital platforms', including streaming, e-hailing, online content, advertising, e-commerce platforms, and satellite-based internet services. These categories can be interpreted broadly. For example, 'online content charges' could capture educational subscriptions and professional learning tools unless explicitly exempted. 'Advertising' could capture essential SME marketing inputs. Legal certainty requires that taxpayers and collecting agents can identify covered transactions consistently. Where scope is broad and collecting agents are risk averse, over withholding can occur, and the burden shifts to citizens and SMEs to seek redress. That creates transaction costs and undermines trust.

Proportionality in taxation is not always explicitly codified in the same way as in constitutional rights jurisprudence, but it is embedded in good tax design and in the broader public law principle that state power should not impose excessive burdens relative to legitimate objectives. A 15 per cent levy withheld on a payment for digital access, imposed uniformly without thresholds, can be disproportionate in its effect on marginal users and small firms, particularly where the underlying policy problem is tax leakage by large non-resident platforms rather than small value consumer payments.

Delegation and accountability arise because collection is outsourced to payment intermediaries. While withholding mechanisms are common in tax systems, the governance challenge is ensuring that collection is accurate,

that disputes are resolvable, and that errors do not impose prolonged harm. Payment intermediaries are not courts, and they may not be well placed to interpret borderline scope questions. Therefore, strong procedural rules, clear guidance, and accessible remedies are essential to maintain legality and legitimacy. Without them, the DSWT can become an instrument of arbitrary burden through automated deduction.

Finally, coherence with broader public law norms matters because GoZ (2025d) articulates commitments to inclusive growth and expanding digital participation, including for marginalised groups. Where a tax measure contradicts declared inclusion priorities, it can be criticised as irrational or poorly aligned within the policy framework, even if legally valid. From a governance perspective, this weakens policy credibility and increases the risk of non-compliance and political backlash. In sum, the legal analysis confirms that the DSWT's current design raises concerns across all four evaluative dimensions: definitional certainty, proportionality, administrative delegation, and constitutional coherence. A more legally robust design would include precise definitions, scope exclusions for essential services, thresholds to protect small value transactions, and a compliance architecture that targets platforms more directly.

## 5. Conclusion

Zimbabwe's introduction of a 15 per cent Digital Services Withholding Tax reflects a broader African and global trend: states seeking to protect taxing rights in a rapidly digitising economy, especially where fiscal space is constrained and offshore platforms generate significant domestic revenues. The budget justification frames the DSWT as a remedy for VAT and income capture gaps associated with non-resident digital service providers and emphasises administrative efficiency through withholding at the point of payment by regulated intermediaries (GoZ, 2025a; GoZ, 2025b). However, the policy design creates a high risk that the DSWT functions in practice as a tax on access and participation. By increasing the marginal cost of digital services at the payment step, it can deepen internet poverty, widen the digital gap, and slow e-commerce integration, particularly for poorer households, creators, and SMEs. Comparative African evidence shows that when digital participation is taxed directly, behavioural responses tend to include reduced usage among poorer and less frequent users, and shifts toward avoidance and informality (Boxell and Steinert-Threlkeld, 2022; Carreras et al., 2024). These dynamics threaten long run base growth, financial inclusion objectives, and trust in formal payment systems. The central policy management challenge is therefore to reconcile revenue mobilisation with digital development. This study argues that the solution is redesign, not abandonment. A legally robust and economically coherent DSWT architecture would protect essential digital inputs, introduce de minimis thresholds, create opt in supplier side compliance routes for major platforms, publish transparent impact assumptions, and strengthen procedural fairness. Such a redesign would align digital economy taxation with broader development objectives, ensuring that the state captures offshore digital value without inadvertently constraining the domestic digital participation that underpins long-run fiscal base growth.

### *Policy recommendations*

A redesign agenda must recognise Zimbabwe's fiscal pressures and the legitimate need to mobilise revenue from digital value flows, while minimising harm to access, inclusion, and enterprise growth. The recommendations below are framed as integrated policy management measures, grounded in the economic policy and management analysis conducted above and in comparative evidence from African and global digital economy tax reform. First, the study recommends that Zimbabwe adopts an essential digital services protection framework. This would involve defining a narrow category of essential digital inputs that are strongly linked to capability development and productive participation, including education platforms, core professional tools for micro enterprise, and possibly certain categories of public interest information services. The crucial design requirement is tight legal definition to avoid abuse. The point is not to exempt broad entertainment consumption, but to protect developmental inputs. This aligns with the budget principle that goods and services of genuine social or economic importance can be treated differently in tax design (GoZ, 2025a). Second, a de minimis threshold for small value transactions should be introduced. Without such a threshold, the DSWT behaves as a uniform burden on low value digital spending, which is precisely where poorer users are concentrated. A threshold reduces administrative costs and protects marginal participation. It also improves the perceived fairness of the tax system, which can matter for compliance and trust. Third, it is recommended that Zimbabwe creates an opt in compliance route for large platforms. Under such a route, large non-resident platforms that meet defined criteria could register under a simplified imported services VAT or digital services tax regime, remit directly, and reduce reliance on consumer side withholding. This would better target platform rents rather than access, while still protecting revenue. Comparative experience indicates that supplier side regimes, including VAT on electronic services, can be administrable when supported by clear guidance and thresholds (OECD, 2022; SARS, 2022). Fourth, the Ministry of Finance and ZIMRA should publish an impact note. The note should set out expected annual revenue, expected price effects, the assumed pass through to consumers, and proposed mitigation measures. Transparency is a governance tool: it allows the public and the business community to evaluate policy trade-offs and reduces speculation. It also builds the evidence base needed for mid-course correction. Fifth, the study recommends that Zimbabwe integrates the DSWT into a broader digital economy tax strategy rather than treating it as a stand-alone measure. Such a strategy would articulate the long run path:

the balance between VAT collection on imported digital services, corporate income tax nexus reforms for non-residents, and domestic innovation incentives. It would also clarify how the state intends to avoid shrinking the digital base while still taxing value extraction. This alignment matters because digital economy growth expands future tax bases through formalisation, increased enterprise turnover, and productivity gains. Sixth, procedural fairness should be strengthened through clear dispute resolution pathways. Where withholding occurs incorrectly, there must be a fast and accessible mechanism for correction. This protects legality and reduces the perception of automated arbitrary extraction. Finally, the state should connect revenue mobilisation to visible inclusion investments. If DSWT revenues are partly earmarked, even informally through policy statements, for data affordability programmes, school connectivity, and digital skills access, the tax may become more politically legitimate and developmentally coherent. GoZ (2025d) already recognises the importance of ICT access; linking digital tax revenue to inclusion outcomes would strengthen policy coherence. These measures do not require abandoning digital economy taxation. They require shifting from blunt withholding on access toward a balanced approach that targets offshore value extraction while protecting participation and innovation.

**Acknowledgements:** The authors would like to thank the anonymous reviewers for their valuable comments.

**Declaration of interest:** The authors declare no competing interests.

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