



CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Management, Extractives and Human Development.

TODAYS TOPIC

REFLECTION ON ZAMBIA'S MID-YEAR REVENUE PERFORMANCE - 2022



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THIS week's Monday Opinion focuses on the country's domestic revenue performance as the second quarter (April to June) and first half (January to June) of 2022 ended. This comes after the Zambia Revenue Authority (ZRA) released its quarterly statistical bulletin last week.

Revenue mobilization is an essential process which must happen if any government is to meet the expenditure components of its national budget. Resource mobilization is most desirable through taxes but also non- tax measures such as fees that are not debt in nature. To finance Zambia's K173 billion budget, the country's resource envelope includes domestic revenue, foreign financing, and grants. For the 2022 fiscal year, government targets to raise K91 billion from domestic revenues which comprises of tax and non-tax revenues including fees and fines. In quarter one, the Zambia Revenue Authority (ZRA) exceeded its revenue collection target by K1.3 billion compared to K2.9 billion for the corresponding period in 2021. This week's feature focuses on the performance of domestic revenues in the first half of the year.

It is commendable that ZRA has registered a 10.6 percent increase in revenue collections for the second quarter. Consequently, exceeding its collections targets for the year thus far. The authority has collected revenues in excess of K761 million of the target for the second quarter and K2.1 billion of the mid-year target. According to a statement issued by ZRA, this has been attributed to the strong performance of direct taxes which was driven by sustained high copper prices on the global market. Comparatively, in 2021, the authority collected K7.3 billion and K10.2 billion in excess of its corresponding targets.

Mining and quarrying, wholesale and retail trade, and manufacturing remained the top three performing industries, contributing 67.3 percent and 64.1 percent of gross tax collections in 2021 and 2022, respectively, during the period under review. With regards to contributing tax types, company tax, Pay-As-You Earn (PAYE), and VAT on imports were the top contributing taxes in both the second quarter and first half of the year as shown in the figure below. Income taxes including company tax, PAYE and rental income tax have registered an increase in the quarter under review relative to the same period last year. Hence, accounting for approximately 50 percent of net collections which is an indication that the country still heavily depends on income taxes.

Granted that both the second quarter and mid-year revenue collection targets for this year were higher than those for the preceding year, the authority's collected surpluses have

shrunk by K6.6 and K8.1 billion respectively. Nonetheless, it is interesting to note that revenue collections for the second quarter have registered a 12.25 percent improvement from the previous quarter. To add on, ZRA has so far collected 53 percent of its annual revenue collection target. This is a sign of enhanced collection efforts and strategies by the authority. It obviously gives a positive revenue performance outlook for the remaining six months as it is expected that this year's collection target will be met.


However, despite the commendable performance in revenue collections, VAT collections on domestic goods had registered a 25 percent decline in the second quarter relative to last year. This could be pointing to potential loopholes in VAT collections. For instance, it was recently reported that Government lost K10.7 million due to the alleged fraudulent recovery of VAT by four companies and their directors. This could be an indication that compliance levels are still low among business owners registered for VAT. Others include mineral royalties that showed a decline of 23.8 percent in the period under review relative to last year. Export duties also declined by 52.4 percent in the same period under review relative to last year.


Therefore, ZRA's efforts to enhance revenue collections despite the numerous economic challenges exacerbated by the rising prices of oil and the geopolitical tension between Russia and Ukraine remain uploaded. It will be critical for ZRA to continue improving its performance by implementing the key strategies outlined in its Corporate Plan on a consistent basis. However, addressing the country's challenges in terms of tax revenue mobilization will be critical. In as much as the good performance of direct taxes is laudable, it is also a call to expedite efforts of developing processes and technology that will aid the efficient collection of indirect taxes. The under-performance of VAT calls for strengthening enforcement and surveillance to ensure that businesses that are registered for VAT remain compliant by making use of electronic fiscal devices. Tax compliance remains significant in the fight against tax evasion, and it may encourage greater formalization of small enterprises by enhancing access to credit opportunities, creating a degree of predictability, and reducing losses incurred from harassment by law enforcement officers.


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