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 Managment, Extractives and Human Development.

TODAYS TOPIC

UNDERSTANDING GOVERNMENT'S PLANS FOR DOMESTIC RESOURCE MOBILIZATION IN 2023

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IN this week's Monday Opinion, we focus on understanding the plans that Government has for Domestic Resource Mobilization (DRM) for the fiscal year 2023. DRM is often discussed in the context of increasing tax revenue and is fundamental to country ownership and ensuring sustainable financing for social and economic development programs. Domestic revenues for Zambia are poised to increase by approximately 13 percent to K111.6 in 2023 from 98.9 billion in 2022.

In 2022 Government had proposed a K173 billion budget and the Zambia Revenue Authority (ZRA) was mandated to collect a total of K98.9 billion in domestic revenues. This implied that 57.2 percent of the budget was to be financed by domestic revenues whilst the rest through foreign financing. Statistics from both ZRA and Ministry of Finance and National Planning suggest that the country still largely depends on foreign financing to meet its budget obligations.

As at end of October 2022, ZRA had collected K98.91 billion in gross revenues and refunded K14.11 billion. As such, the net collections stood at K75.80 billion against a target of K78.26 billion. According to ZRA this underperformance was largely driven by the poor out-turn of indirect and trade related taxes which were all yielded below their respective targets. Income taxes remained the largest contributor to tax revenues which is an indication that the country largely relies on direct taxes.

Several challenges exist in enhancing DRM in Zambia. The country continues to suffer from vices such as tax evasion and practices relating to illicit financial flows. One of greatest challenges confronting Zambia is weak compliance on paying taxes and this has affected interventions such as the use of Electronic Fiscal Devices (EFDs) which has been in place for more than 5 years but still with facing challenges around compliance in their utilization. Another challenge that remains has been around taxing the large informal sector in the country.

Tax revenues (particularly income taxes) account for the bigger chunk of domestic revenue and are projected to increase to K93.6 billion in 2023 from K77.8 billion in 2022, buoyed by various reforms income taxes (mostly company tax), value added taxes (including standard rating the supply of petrol and diesel) as well as customs and excise duties (including the reinstatement of excise duty on petrol and diesel and increasing excise duties on tobacco and cigarettes). The 2023 budget presents several tax reforms aimed at increasing tax revenues. Government has zero rated and exempted various items from VAT. Additionally, there is a standard rating on the supply of petrol, diesel and selected energy saving appliances and equipment. These adjustments have the potential to raise K6.8 billion in revenues.

Other tax reforms are incentives and measures that are intended to cushion people against the high cost of living. Government adjusted the Pay-As -You-Earn tax threshold upwards to K4, 800 per month from K4, 500 and at the same time made adjustments on tax bands to reduce the rate in the second band to 20 percent from 25 percent. The tax incentives in the 2023 national budget are mainly aimed at enhancing the performance of economic subsectors such as the telecommunications and mining among others. Through this stimulation Government plans to realize better revenue performance and economic growth.

Improving revenue performance, however, is largely contingent on a good performance of the mining sector and favorable as well as stable global economic trends which affect commodity prices. Thus, if prices of copper drop, it results in decreased company revenues. This subsequently leads to reduced mining company tax and ultimately reduced revenues. To minimize risks of low revenues, in the medium term, Government has committed to enhance compliance while streamlining the tax incentive's structure to support economic transformation. Government is also considering strengthening the capacity of local authorities to enhance revenue collection. In 2023 Government envisions to keep domestic revenues to at least 20.9 percent of gross domestic product (GDP).

To achieve this, several reforms have been proposed to strengthen tax compliance and administrative capabilities by expanding the use of EFDs and interfacing ZRA's Tax Online System with the Integrated Financial Management Information System (IFMIS) and Land Management System. Government also plans to accelerate the linking of border authorities to the Electronic Single Window and implement electronic tracking of cargo. To improve service delivery and the efficiency of non-tax revenue collection, the Government also plans to introduce an additional 100 Services on the Government's Service Bus Platform.

With most of these reforms already in effect and some yet to be implemented, government must draw its attention to enhancing tax compliance. As many of the adjustments in the tax rates directly affect the private sector, it is important, however, to note that enhancing compliance is not merely a matter of lowering tax rates. Regular monitoring and auditing are critical towards improving tax administration while tax enforcement must be of top priority. To enhance tax enforcement, the tax authority should stay committed to fighting against all forms of tax evasion.

About the author
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