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PRESS STATEMENT

Compliance still a serious challenge in the use of Electronic Fiscal Devices for Revenue Enhancements

Lusaka, 9th July 2021: Revenue shortfalls are common for many Governments across the world. Zambia has in the recent years continued to run on deficit financing which has resulted in the accumulation of public debt. These shortfalls in revenues to meet government's expenditure needs are caused by many factors such as low tax base that may result from the inability of an economy to generate adequate revenues from its own activities. More common also in developing countries are issues of non-compliance by entities who may either engage in tax evasion at individual or corporate level. Tax evasion is often associated with transfer pricing and given significant attention when in reference to large companies and multi-national corporations. Evading taxes however, is a practice that is wide spread even among small businesses in the country.

One key area around taxation that suffers compliance challenges is the taxation on sales and value added tax. Indirect taxes on sales and value addition, although performed quiet well in the recent years, are still vulnerable to tax evasion. In Zambia, the use of the value added tax rather than the sales tax has provided the partial benefit of self-enforceability associated with VAT. However, evidence has revealed that there is still noncompliance by service providers to remit VAT to the Zambia Revenue Authority. In some cases, businesses can reduce good's prices by the full VAT amount in order to make the product competitive. The Zambia Revenue Authority (ZRA) sought to address these challenges by implementing the use of Tax Invoice Management Systems which is done through the use of electronic fiscal devices (EFDs). In principle, this was to improve data transfer and sharing between businesses and tax payers registered for VAT with the revenue authority while also making it easy for online auditing of businesses and tax payers.

The Zambia Tax Platform is a multi-stakeholder group that provides critical analysis of Zambia's tax policy regime, tax administration and promotes sustained advocacy on improving public finance management.

In 2015, Zambia passed a law that would mandate tax payers who are registered for certain taxes such as VAT and other levies such as tourism levy to procure for use, electronic fiscal devices. With over five years passed since the mandatory requirement of using EFDs was instituted, there are questions on how effective they have been in improving compliance levels. I.e. how effective the project has been in enhancing revenues and reducing tax evasion. Firstly, we must understand that matters of compliance on taxation require periodic checks to ensure enforcement. The challenge with EFDs has been that installation has not necessary translated into use. Businesses and firms still indulge in VAT evasion. They can to their advantage, reduce prices on goods to make products more competitive i.e. allow the customer a discount of VAT simply increase profits in which case they do not declare VAT. The challenge here is with monitoring the usage of EFDs for such transactions.

However, there are still large sales that take place in medium and small businesses which have not been given much attention. Most transactions that still utilize the traditional cash register are non-transparent and are high risk transactions that may see tax evasion practices.

The Zambia Tax Platform recommends the following to enhance the performance of EFDs and enhance revenues.

- Supporting the procurement of EFDs for businesses with monthly sales above a certain target. Although this was the plan, many businesses still do not use EFDs. It is important that in the long run, ZRA must ensure that even small businesses have installed and use the EFDs using special arrangements. Exemptions can be allowed for these small businesses to recover or share part of the cost of procuring and installing the systems.
- Government must make it a requirement for businesses and companies to procure EFDs before they can be registered as companies.
- Sensitizing people on the need to request for an invoice and receipt for any transaction. This sensitization must also focus on improving people's understanding of the importance of paying taxes. Many customers in Zambia rarely request for receipts. In some cases, it is a mutual agreement between the customer and buyer that results in tax evasion.
- Strengthen enforcement on the use of EFDs and providing stiffer penalties to those found wanting. To this effect, continued routine checks by officers and monitoring is necessary.

- There is also need to facilitate for easy reporting mechanisms for people to raise flags on non-compliant businesses.
- Furthermore, we urge the people to always use their banking cards whenever they can especially for large transactions. By doing so, they will contribute to improving revenues and will do a service to the nation.

As ZTP, we believe the implementation of EFDs provided a great mile stone in curbing tax evasion and noncompliance on VAT and other levies. To enhance revenue performance, however, there is need to address the persisting challenges to gradually achieve voluntary and self-compliance. The EFDs alone, however will not succeed in eliminating the challenges of compliance. There is need to strengthen the law around its implantation but also, to explore altnative methods that will specifically identify the risks and deploy solutions thereof to reduce administrative costs associated with exclusive reliance on EFDs. Compliance improvement should not sorely rely on improving technology but must come from a thorough and well planned strategy that identifies the unique problems affecting it and developing solutions to address them.



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