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PRESS STATEMENT

PERFORMANCE OF TAX REVENUES IN 2021 AND RECOMMENDATIONS FOR ENHANCED REVENUE MOBILIZATION IN 2022

Lusaka, 31st December 2021: The year 2021 has seen some improvement towards both the domestic and global economy after a year of recession in 2020 where Zambia's economy contracted by 3 percent. While revenue performance was poor in 2020, the Zambia Revenue Authority (ZRA) by September 2021 managed to collect an excess of K80 million towards its K59.37 billion annual target. This exceptional performance especially towards the 3rd quarter of the year was largely attributed to the increased tax collection from income taxes as well as non-tax collections such as mineral royalty according to the Ministry of Finance.

Zambia continues to remain one of the countries in sub-Saharan Africa with a high tax burden for its citizens. While the country imposes high rates on income tax compared to most of its neighbors, its tax revenue to Gross domestic Product (GDP) ratio has remained well below 20 percent. The country's tax burden largely falls on the formal sector with direct taxes accounting for a large share of tax revenues collected by the Zambia Revenue Authority (ZRA). The Zambia Tax Platform (ZTP) notes among the challenges that have contributed to the lower tax revenue to GDP ratio is the tax structure itself. Zambia relies largely on income taxes charged on both corporations and individuals. However, with a lower employment rate in the formal sector, the tax revenue base for Pay as You Earn (PAYE) for example, is consequently low. This also implies that existing sectors that employ people are relatively small.

In addition, there exists a problem with Governance particularly towards the independence of institutions involved in taxation. The policies and politics around taxation determine the amount of tax revenues the Government will collect. The collection of presumptive taxes for instance, in markets and even collection of taxes in companies in the past has not been effective partly on political grounds. Tax exemptions are another factor that needs to be interrogated to ensure

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.

that the benefits are realized in the short-and medium term. Incentives given to companies and exemptions especially those to parastatals have revenue implications for the country.

Furthermore, tax compliance is still a challenge in the country. Taxes such as those on property and other withholding taxes remain vulnerable to evasion. There is also a capacity need for ZRA especially with regards to auditing of large companies that have complex tax structures and utilize aggressive tax planning. The mines for instance require specialized skills to be effectively audited by ZRA especially with the large volumes of international transactions that make auditing complex.

In light of the challenges affecting revenue performance from taxes, the Zambia Tax Platform recommends the following going into the year 2022;

1. Government must facilitate for the total independence of the revenue authority. In this respect, it is important that the position of the commissioner general must be appointed through an independent board. This will enhance the revenue authority's autonomy and address to a large extent, the issues of political allegiance.
2. Ministry of Finance must ensure that the revised tax rates for corporate income tax are implemented accordingly.
3. There is need to build more capacity for revenue authority and officers to equip them with skills for conducting audits in all companies especially large cooperation's that have complex tax mechanisms and structures in place.
4. Continue with the sensitization of citizens on taxation. There is need to educate people on the various taxes such as withholding taxes which must be withheld on behalf of the Government.
5. Measures must be taken to ensure that the country harnesses the benefits of the digitization of the economy while carefully taking into considerations the risks that it comes with towards taxation. As the country rapidly integrates into the digital economy, efforts will need to be boosted to eliminate loopholes leading to tax evasion.
6. Government needs to spearhead the review of tax policy on the mining sector. It is encouraging that Government already intends to review the mining policy framework as the sector is critical and still remains the backbone of Zambia's trade and forex source. While it is important that government collects taxes from the sector, it is equally imperative that mining policy is designed in a way that promotes the growth and operations of the mining companies.

7. Government must work with the private sector in formulating ideal tax structures that will promote the growth of the private sector.
8. There is need for Government to step up efforts in capturing businesses in the wholesale and retail sector. Transactions in this sector largely remain informal and thus highly unaccounted for. When these transactions are not receipted, it makes it hard to collect taxes.
9. To reduce leakages in tax revenue, ZTP further urges government to continue renegotiating and/or cancelling of the outdated and unbalanced double taxation agreements to leverage between enhancing domestic resource mobilization and promotion of the private sector through tax incentives especially in this era of Covid-19.

Furthermore, the platforms wishes to encourage the Government to pursue tax reforms in a way that is participatory and to embrace the views of broad stakeholders. We note the commitment by the Government towards reforms by the setting up of an economic team to conduct reforms. We wish to emphasize that this endeavor is critical, it must be participatory and transparent-consulting all relevant parties to avoid regressive moves that will hurt not only the taxpayer but Government itself.



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