Zimbabwe Coalition on Debt and Development

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Investing in People for Social and Economic Justice in Zimbabwe

TAX ANALYSIS REPORT

2016 Second Quarter

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1. Introduction

Tax is a critical source of revenue in Zimbabwe. It is an important primary domestic resource that is sustainable, provides the impetus to fairly distribute income and offer policy space for government to respond to the needs of the citizens. It acts as a social and economic instrument for addressing national objectives. The Government of Zimbabwe is constrained in mobilizing resources from the traditional sources such as money printing, aid and debt thereby the growing importance of tax revenue. In 2015 fiscal year, 93% of the total revenue was generated from taxation. This report provides in-depth tax information through scrutiny of Zimbabwe's tax administration, major revenue heads, trends and distributional implications for purposes of informing and defending public interests.

Table 1: Tax and Non-Tax Revenues US$ *(Jan-Mar 2016)*

Revenue Head	Revenue Collections (US$ Millions)		2016 Second Quarter Variances, (% of target)	% Change from 2015 Second Quarter Revenues
	2016	2015		
Individual Tax	189	185	-4	2
	91	96		
Other Direct Taxes	56	57	-16	-2
	69	82		
Excise Duty	155	181	16	-14
	239	215		
Other Indirect Taxes	26	34	-5	-23
	59	37		
Total	**884**	**887**	**-8**	**-1**

Source: Ministry of Finance and Economic Development, 2016

In the second quarter, Government gazetted Statutory Instrument (SI) 64 on 17 June 2016 restricting the importation of certain products which sparked chaotic scenes at the Beitbridge border post and forced the temporary closure of the busy port. The SI was seen as a direct attack on the livelihoods of cross border traders while it has broad effects on customs revenue. Overall, the tax system is regressive, unfair and worsens income inequality. Broadly, the tax system does not fulfill the objective of helping people of lesser social and economic means.

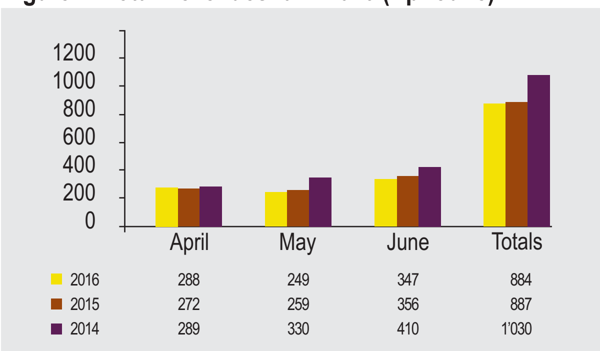
2. Analysis Of The 2016 Second Quarter Revenues

2.1 Total Revenue Analysis

In the second quarter of 2016 an estimated US$884 million was collected against revenue target of US$955 million hence a negative variance of 8%. In 2015 second quarter, US$887 million was collected against a target of US$970 million resulting in negative variance of 9%. Revenues declined by estimated 1% in the second quarter of 2016 from the same quarter in 2015 and improved by 9% from the US$808 million collected in the first quarter of 2016. This is partially attributed to the ongoing measures being pursued by the Zimbabwe Revenue Authority (ZIMRA) to curb revenue leakages. In addition, the management changes at the parastatal are bearing positive fruits, as most of the corrupt officials are being flashed out of the organization.

Cumulatively, US$1.692 billion was collected during the first half of 2016 against a target of US$1.876 million resulting in negative variance of 10%. In the first half of 2015, a total of US$1.66 billion was collected against a target of US$1.76 billion resulting in negative variance of 6%. Figure below shows revenue performance for the 2016 second quarter in comparison to the comparable quarter in 2015 and 2014.

Figure 1: Total Revenues2014-2016 (Apr-June)



Source: Ministry of Finance and Economic Development, 2016

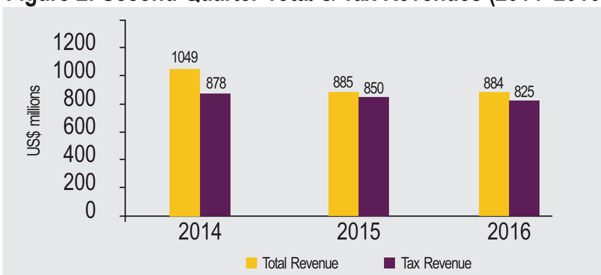
During the second quarter of 2016, an estimated US$825 million was collected as tax revenue while US$59 million was collected as non-tax revenues. Tax revenues decreased by the 3% in the current quarter compared to 2015 second quarter and it failed to meet revenue target by 8%. The tax revenue heads were subdued in the month of May and relatively high in April and June. Non-Tax revenues were on gradual increase between April and June, improved by 59% from the estimated US$37 million 2015 second quarter revenue collections but failed to meet the target by 6%. The distribution of tax and non-tax revenue is as shown in table below.

Table 2: Total Revenues2014-2016 (Apr-June)

	Tax	Non-Tax	Totals
April	274,757,717.84	13,387,334.59	288,145,052.43
May	229,871,043.88	19,498,003.87	249,369,047.75
June	320,830,302.42	25,697,446.27	346,527,748.69
Total	**825,459,064.14**	**58,582,784.73**	**884,041,848.87**

Source: Ministry of Finance and Economic Development, 2016

Figure 2: Second Quarter Total & Tax Revenues (2014–2016)



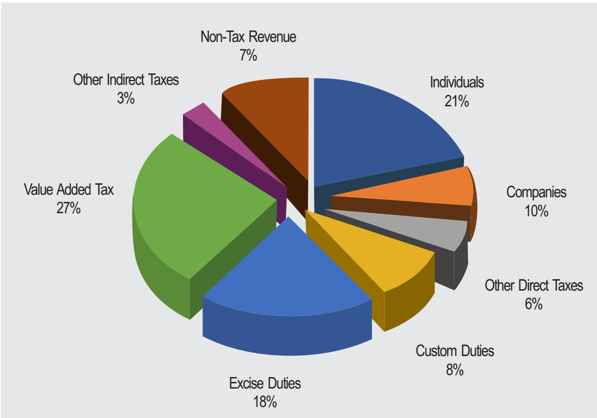
Source: Ministry of Finance and Economic Development, 2016

The 2016 second quarter compares unfavorably to both 2014 and 2015. Though revenues declined by a small proportion in the second quarter of 2016 compared to 2015, the collections continue to be on a downward trajectory. Figure 3 illustrates that declining tax revenues depict the trend in total revenue performance. The poor performance and declining total and tax revenues are indicative of the poor economic environment and the underlying tax inefficiencies.

2.2 Contributions of Revenue Heads

In terms of contribution by revenue heads to total revenues, V.A.T, individual tax and excise duty contributed the bulk of the revenues in the second quarter of 2016 as presented in the graph below. The contribution of corporate tax has, however, deteriorated significantly, owing to company closures, tax fraud and tax holidays and incentives.

Figure 3: 2016 Second Quarter Revenue Heads Composition



Source: Ministry of Finance and Economic Development

2.3 Tax Heads Analysis

2.3.1 Value Added Tax (V.A.T)

V.A.T contributed 27% of the gross revenue collections in the quarter under review compared to 24% contributed during the same quarter in 2015.VAT estimated US$239 million was collected against a target of US$237 million hence a positive variance of 1% during the second quarter of 2016. In 2015, US$215 million was collected against a target of US$258 million resulting in a negative variance of 17%. V.A.T collected in the second quarter of 2016 was 11%, higher than comparable period in 2015. Thus VAT contribution to total revenue deepened between 2016 and 2015 second quarters while it remained consistent with the 2016 first quarter level.

There were no major changes related to V.A.T during the second quarter of 2016. V.A.T continued to be charged at 15% on all goods and services that are subject to V.A.T. Goods subject to V.A.T include among others food, household appliances, electricity, water, land and buildings, computers, stationery etc. Protective clothing, milk, eggs, vegetables, fruits, rice, cereals and margarine are exempted from V.A.T while imported basic commodities and goods meant for use or consumption for agricultural purposes are subject to V.A.T following the changes effected during the first quarter.

V.A.T revenues started to benefit from the real-time connection of fiscal gadgets by ZIMRA making V.A.T fraud difficult. As in the previous quarter, the continued dominance of V.A.T on total revenues is neither socially desirable nor economically sustainable. The high consumption tax essentially reduces real income; hence lower household consumption and this has adverse consequences on the ability of households to purchase nutritious food, education and health among other critical social services. Based on the current revenue contributions, there is need to broaden revenue base, increase non-tax revenue particularly from mineral resources, improve V.A.T collections efficiency and the tax administration system.

2.3.2 Company Tax

Tax holidays, incentives, company closures and deteriorating economic conditions continue to weigh down the contribution of corporate tax to total revenues. In the second quarter of 2016, a total of US$90.9 million was collected against a target of US$91 million. In the same quarter of 2015, US$96 million was collected against a target of US$104 million resulting in negative variance of 8%. Comparing the second quarter of 2016 to the same quarter in 2015, company tax revenues declined by 5%. Other factors accounting for the poor contribution of companies to total fiscal revenue include evading and avoiding tax, and weaknesses in the tax legislation being optimized by the companies.

During the second quarter, company tax revenues were further undermined by existing tax holidays which are meant to attract investment. There is global competition on reducing corporate taxes as a mechanism for competing for business, tax receipts and to create jobs and wealth in neo-liberalized environments-high corporate tax discourage private sector investment and is harmful to economic growth. Economic growth has however existed in simultaneity with poverty and income inequality. Lowering taxes and tax holiday or incentives are not effective mechanisms to attract investments in environments characterized by political uncertainty, policy incoherence, and policy inconsistencies (as the case of Zimbabwe) among other factors imperative in the determination of investment decisions. In addition, to lower corporate tax, labour laws are being flexed resulting in the casualisation of labour. As a result, low revenue is being realized and labour income deteriorating.

Corruption and non-compliance are other factors weighing down corporate tax revenues. Corporate tax is charged at 25%. As in the first quarter, licensed investors and investors under the Built Own Operate and Transfer (BOOT) and Built Operate and Transfer (BOT) are granted tax holidays for the first 5 years of operation. Under the BOOT and BOT arrangements special tax rate of 15% is applied in the second five years of operation. Manufacturing companies exporting more than 50% of output continues to be taxed at a special rate of 20%.

During the second quarter there were no changes to tax incentives offered to mining companies including special tax rate of 15% for holders of special mining license, fully or wholly allowed to deduct as tax allowance capital expenditure on exploration, development and operating in mining, and no restriction on the carryover of tax losses. Farmers also enjoy incentives in allowed special deductions in the form of expenditure on fencing, clearing and stamping land, sinking boreholes, etc.

Company tax revenues are further undermined by political connections and a culture of patronage ensuring that not all companies are fully taxed. Lack of legitimacy, transparency and accountability, on the part of companies and government, undermine residents' willingness to pay taxes hence low tax revenues. Illicit financial activities are undermining tax revenues as they distort tax liabilities by the companies. Companies misreport transactional values, quantity and composition of goods, and misinvoicing to evade and avoid customs duties, V.AT., income taxes and other taxes. In the second of 2016, President Robert Mugabe noted that Zimbabwe lost US$15 billion diamond mining revenue through illicit deals: amount more than enough to repay the national debt that is stifling socio-economic recovery in Zimbabwe.

2.3.3 Individual Tax

This revenue head contributed an estimated US$189 million compared to a target of US$196 million hence a negative variance of 4%. In the same quarter in 2015, US$185 million was collected against a target of US$198million resulting in a positive variance of 6%. The second quarter proportional contribution of individual tax to total revenues remained consistent at 21% in 2015 and 2016. Individual tax revenues collected in the second quarter of 2016 were 2% higher than the same quarter in 2015. This improvement can be attributed to improved administration of the tax head as general factors such as retrenchments and growing informalization weigh down the revenue head.

The tax threshold remained at US$300 (the same as in 2015) lower than the Poverty Datum Line (PDL) estimated at US$481 in April 2016.Above the tax threshold, individual income attract tax rate between 20% and 50% as in the first quarter of 2016. Over and above the individual tax, individuals are charged regressive social contributions (contributions being made from low paid employees and in disproportionate rate). Individuals are charged higher tax rate than companies that are also receiving numerous tax holidays and incentives.

2.3.4 Excise Duty

An estimated US$155 million was collected against a target of US$185 million resulting in 16% negative variance. This is an unfavorable comparison to the second quarter of 2015 when US$181 million was collected against a target of US$146 million and a negative variance of 24%. During the quarter under review, excise duty collections were 14% lower than the same quarter in 2015. Composition of excise duty in total revenues declined from 20% in second quarter of 2015 to 18% in 2016.

Excise duty was collected on beer, wines and spirits, tobacco, second hand motor vehicles, fuels, electric lamps and airtime. Fuels, beer and airtime are the largest contributors to the revenue head contributing 79%, 8% and 7% respectively. Tobacco, and wines and spirits contributed 4% and 2% respectively while second hand motor vehicles and electric lamps' contributions were close to zero percent.

2.3.5 Customs Duty

Customs duty collected in the quarter amounted to US$69 million against target of US$89 million, hence a negative variance of 23%. In the second quarter of 2015, US$82 million was collected against a target of US$97 million resulting in a negative variance of 15%. Customs duty revenues collected in 2016 depressed by16% from the 2015 second quarter. Similar to the 2016 first quarter, the contribution of the revenue head to total revenues marginally declined from 9% in the 2015 second quarter to 8% in 2016.

During this quarter, Government gazetted Statutory Instrument 64 on 17 June 2016 which removed a number of products from the Open General Import Licence. These goods include wheelbarrows, lock gates, lattice masts, roofs, roofing frames, doors, windows and window frames, shutters, corrugated roofing sheets, baked beans, potato crisps, cereals, bottled water, mayonnaise, salad cream, peanut butter, jams, maheu, canned fruits and vegetables, pizza base, cheese, ice-cream, yoghurts flavored milks, furniture among others. The decrease in customs revenues and failure to meet the target can be attributed to this“ban” on imports.

2.3.6 Other Direct Taxes

Domestic dividend interest, tobacco levy, royalties, other income taxes and vehicle carbon tax are the sub-heads included under this revenue head. A total of US$56 million was collected against a revenue target of US$66 million hence a negative variance of 15%. In the 2015 second quarter, a total of US$57 million was collected against revenue target of US$73 million giving a variance of negative 22%. The contribution of other direct taxes to total revenue remained consistent at 6% in both 2015 and 2016. Each sub-head is further examined below.

2.3.6.1 Domestic Dividend And Interest

The amount of domestic dividends and interest collected in the second quarter of 2016 were US$12.2 million against a target of US$16.5 million hence a negative variance of 26%. Similarly, in 2015, an amount of US$14.5 million was collected against a target of US$13.5million hence positive variance of 7%. Domestic dividend and interest collections declined by 16% between the second quarter periods of 2015 and 2016.

2.3.6.2 Royalties

During the second quarter of 2016, royalties of US$19.6 million were collected against a target of US$27.4 million hence a negative variance of 28%. In the same quarter in 2015, royalties of US$20.1 million were collected against a target of US$32.4 million resulting in a negative variance of 38%. Comparable periods of 2016 and 2015 shows that royalties collected have declined by about 3%.Contributions of royalties to revenue neither signify the supreme importance of the mining industry to Zimbabwe nor the richness in natural resources Zimbabwe is bestowed with.

2.3.6.3 Tobacco Levy

Tobacco levy has well performed during the second quarter of 2016. A total of US$10.1million was collected against a revenue target of US$6.8 million hence a positive variance of 50%. Similarly, in 2015 second quarter, a total of US$7.6 million was collected against a target of US$6.8 million, hence a variance of 13%. Tobacco levy collections have improved by 33% in the second quarter of 2016 compared to 2015. The levy was being charged at a lower rate of0.75% in 2016 compared to1.5% in 2015. This bullish performance is against the negative effects of sporadic and late rains caused by the El-Nino induced drought.

2.3.6.4 Other Income Taxes

During the quarter under review, US$6.6 million was collected against a revenue target of US$6.8 million hence a negative revenue variance of 3%. In 2015, for the comparable quarter, US$5.6 million was collected against target of US$12.8 million hence a negative revenue variance of 56%. Other income tax revenue collected in 2016 second quarter has improved by 18% compared to 2015.

2.3.6.5 Vehicle Carbon Tax

Carbon tax revenue collected in 2016 second quarter was US$7.9 million against a target of US$8.8 million hence a negative variance of 10%. In the same period of 2015, US$8.9 million was collected against a target of US$7.5 million resulting in a positive variance of 19%. Comparing 2016 second quarter to same period 2015, carbon tax revenue declined by 11%.

2.3.7 Other Indirect Taxes

Other indirect taxes contributed US$26.4 million compared to a target of US$27.9 million; hence a negative variance of 5%. In the same quarter of 2015, US$34.3 million was collected against a target of US$35 million; hence a variance of 2%. Tax revenue from other indirect taxes declined by 23% between the comparable quarters in 2015 and 2016. The contribution of other indirect taxes to total revenues remained constant at 3% in 2015 and 2016.

3. Implications of Tax Revenue Performance and developments

Dwindling domestic revenue collections are a cause of concern for the people of Zimbabwe. Social protection, financing of key infrastructure such as roads, railway, schools, clinics and hospitals; provision of education and health are being inadequately funded implying difficulties in uplifting the living standards of people of Zimbabwe. Access to basic services such as shelter, food, health and education is compromised. In June 2016, government workers joined strikes by other Zimbabweans against deteriorating socio-economic conditions in the country. Government workers' salaries for June 2016 were shifted from normal pay dates to Mid and End of July 2016 prompting the workers to go on strike arguing that the government was insincere on their welfare.

The effects of the strike were broad and include death of unattended patients at public hospitals and clinics and compromised child education. Other citizens were also protesting against misrule, deteriorating economic conditions that include burgeoning unemployment, corruption, political patronage in public services, poor roads, numerous police road blocks, and “ban” of imports for some of the goods most traded by cross border traders. The looming welfare effects and impacts of low fiscal revenue are a threat to peace and stability in the country. Overall there is little hope for the Government of Zimbabwe to address poverty and inequality in the country through social services, social transfers and taxation.

Poor revenue performance has also pushed the Zimbabwean Government to accelerate its engagement with International Financial Institutions (IFIs) over the clearance of the debt arrears. During the second quarter of 2016, Zimbabwe failed to honour the promise to clear about US$1.8 billion arrears to the World Bank, International Monetary Fund (IMF) and the African Development Bank (AfDB) by June 30. However, the engagement process has been vigorously pursued with a meeting held in London in June 2016. Sadly, the government is pursuing the option of contracting new bilateral loans for clearing part of the US$1.8 billion arrears implying that the unsustainable debt is not having a sustainable solution as we are tumbling into a debt vicious circle. The government is also being forced into this re-engagement drive for purposes of negotiating new loans and balance of payments support as domestic resources are declining and the economy sliding into economic crisis. At the end of June, Zimbabwe's Public and Publicly Guaranteed debt stood at US$8.934 billion and no comprehensive and inclusive debt audit had been done before repayment plans.

Under performance of revenue implies that the government is constrained in financing social-economic goals and has already indicated its desire for external borrowing and balance of payments support. External public financing is attached to conditionalities, dangerous as it has been for African experiences, mostly led to unsustainable debts that impose burden upon citizens and is against the consumption preferences of future generation. The low revenues imply the government is limited in working for the people.

Some Developments

- **Fiscalisation and Tax Management System**

ZIMRA is finalizing the automation process (connecting in real time the fiscal devices installed since 2011) and rolling out the tax management system (linking the company directly to the tax management system devices). These measures are expected to improve revenue inflows, improve tax compliance and reduce tax fraud. ZIMRA however missed the June 30 deadline for implementing the in-house Cargo Tracking System. This measure is important in reducing the dumping of goods declared as goods- in-transit.

- **The introduction of SI 64 of 2016 has the following implications:**

  - Reducing revenue from customs and excise duties in anticipation of compensatory revenue from companies that could recover. This policy alone will not go a long way in promoting recovery of companies as other domestic bottlenecks exist: these include costly finance, high utility charges, poor infrastructure (roads and rail), and inconsistent and incoherent policies. Coupled with tax holidays and incentives, government will take long to realize compensatory revenue,

- Increase in the domestic prices of domestic competitor products, between January and June 2016, the price of cooking oil increased by 16%. Cooking oil is one of the products restricted for importation in Zimbabwe. Though the capacity utilization of the oil producing companies is said to have improved, this is happening at a cost to the poor and low income earning households,
- Requirement of license to import these restricted products implies that the majority of cross border traders lose business and are being pushed to abject poverty. The bureaucratic procedure also implies that those in positions, well networked, in power or related to those in power, or those with the power to corrupt, will have access to import; since the import restriction, some of these restricted products are observed entering the country,
- With porous borders, traders will engage in smuggling as the practice in second hand clothing.

- **Suspension of the ZIMRA Commissioner General**

The Commissioner General of ZIMRA, Mr Geshemi Pasi, was suspended with five other senior executive managers at the organisation. This came as questions were raised and criminal procedures instituted in relation to the importation of vehicles by ZIMRA employees. Forensic audit has already been instituted for the institution. The suspension validates people's concern about the level of corruption at ZIMRA. In addition, it justifies people's call for limited term of these political appointees at the helm of such important parastals. The establishment of corruption hotline (Econet: 0808190, Telecel: 0732880880, WhatsApp: 0772135690) is a welcome development. However, experience is showing that vigorous action against reported cases is not being taken in this country.

4. Equity and Fairness of Zimbabwe's Tax System

Zimbabwe's tax system is neither fair nor equitable, thus it does not proffer utter social justice. The tax system remains skewed in favor of companies compared to individuals. Individuals contribute more to total revenues than the companies that are being offered tax holidays and incentives for purposes of attracting foreign direct investment. Individuals are contributing even more through social contributions such as pensions, AIDS levy, rural electrification levy among other indirect taxes. In addition, corporate tax is charged on net income while individual tax is charged on gross income. Individuals and workers are double taxed; when they earn income and when they spend, whereas companies are taxed only on consumption.

The thriving hard to tax informal sector estimated at more than 60% of the economy is not being taxed implying that most individuals earning decent informal incomes are not being taxed. This further implies that, the more than 20% revenues contributed by the individual tax is from a small section of workers, formally employed workers (some formal workers are earning less than those in the informal sector): this burden of contributing 20% of tax is on a few individuals who are earning less than the poverty datum line.

During the second quarter of 2016, the poverty datum line was estimated at US$481 for a family of five per month. This amount enables the household to buy food and non-food items and not to be considered as poor. The tax free threshold level of US$300 implies that household's incomes below the PDL are being taxed with regressive effects and also reducing the ability of the people to meet minimum consumption needs. This also has the overall effect of reducing the aggregate demand in the economy. Given lack of accountability and transparency in the use of public funds and increasing levels of corruption in the public sector, revenues being contributed by the poor are ending up in the hands of a few rich individuals and political elites. With poor supply of public services and utilities in Zimbabwe such as electricity, water, sanitation and road infrastructure, there are no significant benefits, if any, accruing to the tax payers.

The tax system remains less redistributive and inefficient as VAT contributed the majority of revenue. As VAT contributes more revenue than individual tax, the equity objective of a tax system falls short of being achieved. Improvements in VAT also imply that poor households that consume the larger proportion of their incomes are subscribing the rich.

During the second quarter of 2016, the tax system remained socially injustice as individuals are contributing more to tax revenue than companies Policy inconsistencies and incoherence undermines revenue as the companies that are receiving incentives meant to boost their recovery, promote export and increase output are disincentivised from investing. Coupled with tax evasion and avoidance, the fiscal measures are undermining company tax revenue and shifting the tax burden to individuals and few companies.

The tax threshold that falls below the PDL implies that people's disposable incomes are stifled through taxation to the extent that undermines their access to basic livelihood; hence the current tax system is socially undesirable and unsustainable.

The restriction of imports (of which are basic food items) under the SI 64 of 2016 has exerted upward pressure on the prices of competitor products (e.g cooking oil prices have increased in the second quarter of 2016) reducing the buying power of the after tax incomes of individuals. The policy will adversely affect people's access to food and housing (as the prices of construction material are under upward pressure) while cross border traders have their incomes reined with multiplier effects in the society.

5. Conclusion

During the 2016 second quarter, tax revenues contributed 93% of the total revenues estimated at US$884 million. Revenues underperformed: failed to meet the target by 8% and declined from the 2015 second quarter revenue collections by 1%. During this quarter non-tax revenue, VAT and individual tax improved from the 2015 second quarter by 59%, 11% and 2% respectively. During the referred quarter, customs duty, other direct taxes, non-tax and other indirect taxes revenue heads failed to meet targets by 23%, 16%, 6 and 5% respectively. V.A.T, individual tax and excise duties contributed the bulk of tax revenues: 27%, 21% and 18% respectively. Leakages, abuse of tax incentives, company closures, hard to tax informal sector, tax incentives offered to corporate, corruption by ZIMRA officers and political patronage are among the factors undermining revenue performance.

Attempts to improve tax revenue mobilization should consider that the current tax system is regressive, inequitable and unfair as the majority of Zimbabweans languishing in poverty are contributing more tax revenue to government through V.A.T and Individual tax.

Company tax system is overshadowed with a number of exemptions and incentives that restricts it to function as a backstop to personal income (making sure incomes of foreigners are taxed). Tax incentives to companies should be streamlined as they are benefitting the companies at the expense of government revenues for social and economic development in the country.

The current tax system is a barrier to social confidence and dignity; poverty reduction; self sufficiency; safe and secured community; healthy and active living; and quality life in Zimbabwe. Revenues and the tax systems will not steer people's access to basic services. Effort is necessary to redress the existing tax injustice by remedying inequities and leakages in the current tax system. This requires political will and social pressure. Government should tackle the underlying political problems, streamline tax incentives, improve transparency and accountability, streamline revenue collecting agents, strengthen tax legislation and effect effective oversight on ZIMRA.