Investing in people for social & economic justice

Second Quarter Fact Sheet

The Tax Targets and Compliance Paradox

Revenue Performance at a Glance

Key Facts for January to June	
Total Government Revenue	US$2.5 billion
Tax Revenue	US$2.4 billion
Non Tax Revenue	US$139.7 million
Total Expenditure and Net Lending	US$3.9 billion
Current Expenditure	US$2.4 billion
Capital Expenditure	US$1.2 billion
Budget Deficit	US$1.3 billion
Deficit Financing	US$1.5 billion
Merchandise Imports	US$3.4 billion
Merchandise Export	US$1.9 billion
Trade Balance	(US$1.5 billion)

Source: Ministry of Finance, 2018
ZIMRA, 2018
RBZ, 2018

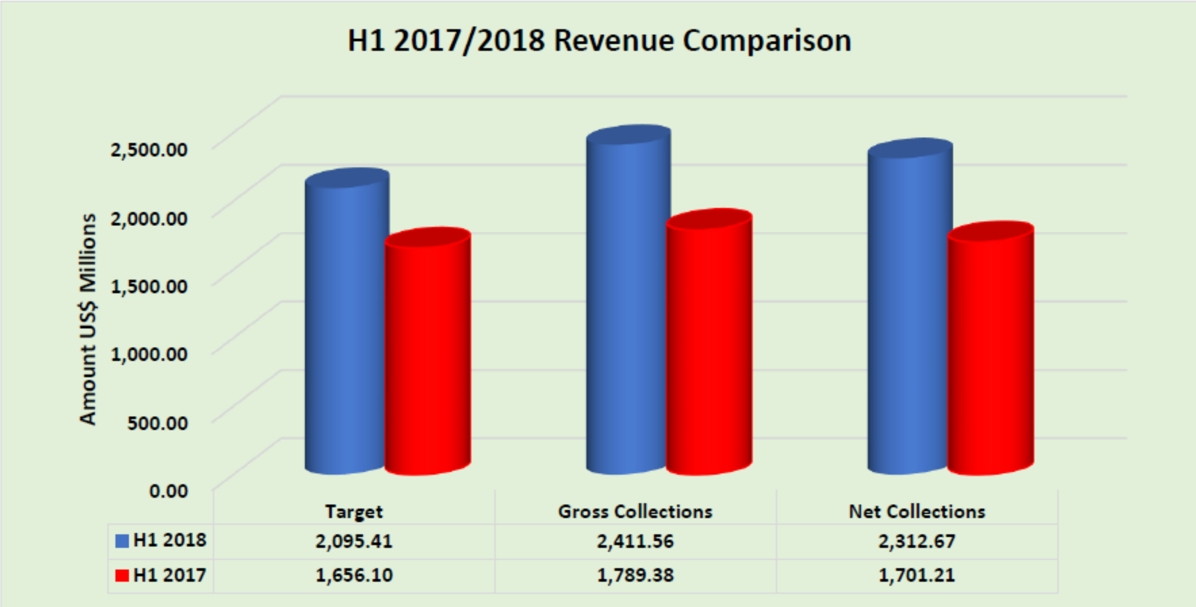
ZIMRA Exceeding Targets despite Very Low Tax Compliance

The Zimbabwe Revenue Authority is on record exceeding tax revenue targets albeit the current economic hardships and very low tax compliance which is below 30% (Commissioner General, ZIMRA, 2018). If the Zimbabwe Revenue Authority is able to raise US$2.411 billion at 30% tax compliance, it has the capacity to raise over US$8 billion at 100% tax compliance. This is more than twice government expenditure for January to June 2018. This would particularly mean additional funding for public services and achieving a budget surplus. It implies that the country has the potential to mobilise resources domestically and finance its own development, and redistribute through the allocation at least five per cent of the national revenues raised in any financial year to provinces and local authorities as provided for under section 301, subsection 3 of the Constitution of Zimbabwe.

The tax revenue collections exceeded the target by 21.84% and 15.09% during the first quarter and first half of 2018 respectively. Ironically, the tax debt owed to the Zimbabwe Revenue Authority (ZIMRA) ballooned from US$3.93 billion at the beginning of the year to

US$4.227 billion by end of March[1]. One would then wonder how ZIMRA is not only exceeding 2018 revenue targets, but rather surpassing 2017 figures. In an economy which is highly informal, the 300 000 registered tax payers is an underestimation. The scenario given by the Zimbabwe Revenue Authority implies that the unregistered small businesses and individuals are bearing the tax burden.

Figure1: Half Year Revenue Comparisons (2017 &2018)



Source: Zimbabwe Revenue Authority, June 2018

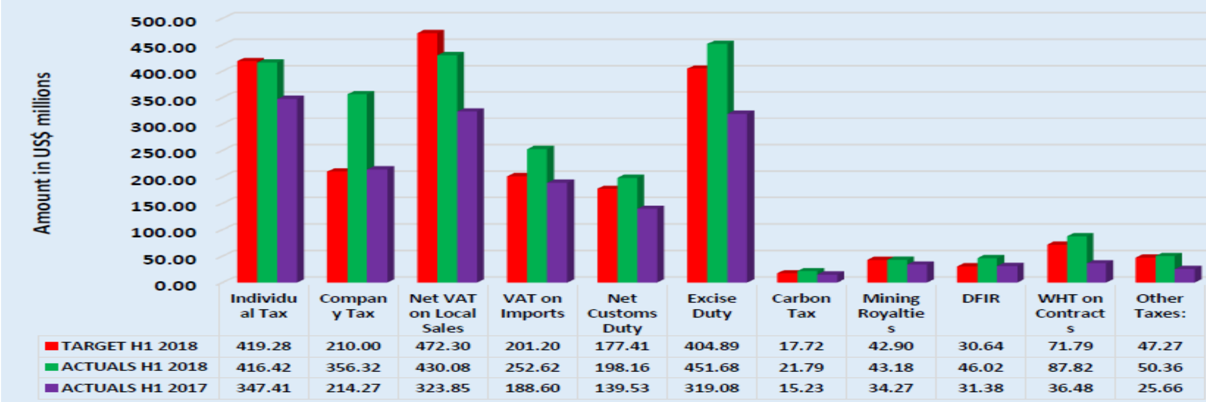
NB: Tax Compliance is a function of trust and confidence in the revenue authority and the government at large. Citizens have three major questions which have remained unanswered.

- If tax compliance is at 30%, who is paying the tax to the extent of exceeding revenue targets?
- Is the government setting the appropriate targets in the first place?
- What is the revenue collected being used for when the state of public service delivery is in a dire situation?

The low tax compliance is a serious threat to people's disposable incomes as the government relies heavily on indirect taxes (refer to Figure 2). The tax burden in Zimbabwe is very high as the government heavily rely on tax revenue. During the first half of 2018, tax revenue contributed about 96.6% of government revenue. The implications of low tax compliance on debt are appalling as the government resorts to treasury bills to finance the deficit. As of June, the cumulative budget deficit stood at US$ 1.34 billion against a target of US$266 million. This deficit is largely financed through the issuance of treasury bills (to both banks US$635.6millionand non-banks 736.7 million). This resulted in the increase in domestic debt by the same figure. The recently assumed ZISCO Steel Debt has pushed domestic debt to over US$9 billion dollars.

[1] ZIMRA first quarter revenue performance report, 2018

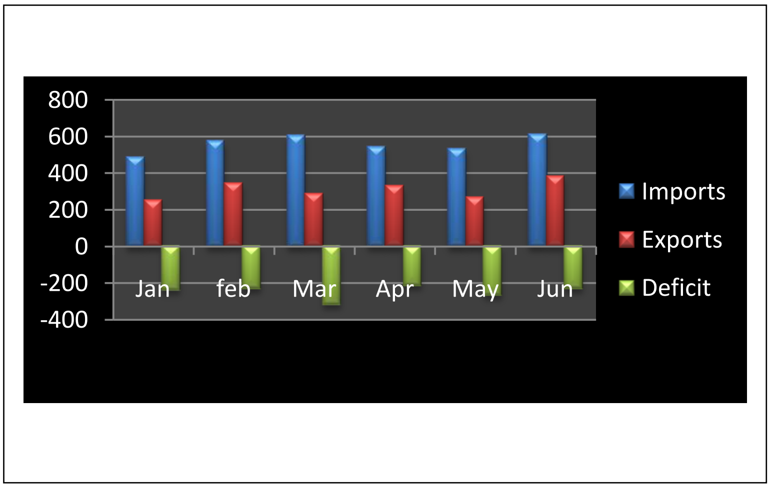
Figure 2: Revenue Comparison by Head for 2017 against 2018 target and actual



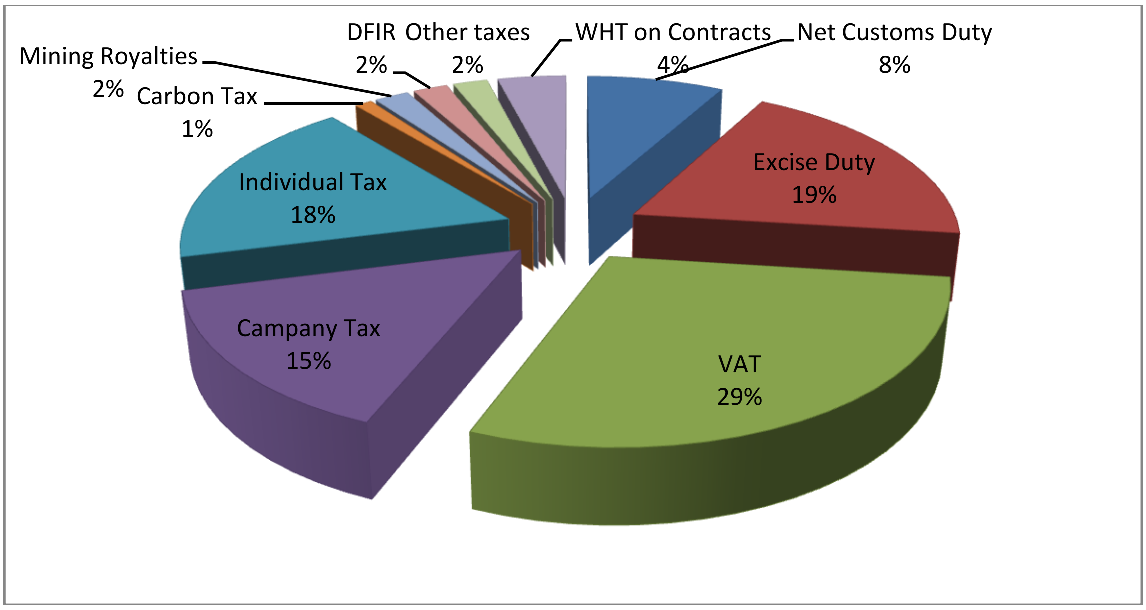
	Individual Tax	Company Tax	Net VAT on Local Sales	VAT on Imports	Net Customs Duty	Excise Duty	Carbon Tax	Mining Royalties	DFIR	WHT on Contracts	Other Taxes:
TARGET H1 2018	419.28	210.00	472.30	201.20	177.41	404.89	17.72	42.90	30.64	71.79	47.27
ACTUALS H1 2018	416.42	356.32	430.08	252.62	198.16	451.68	21.79	43.18	46.02	87.82	50.36
ACTUALS H1 2017	347.41	214.27	323.85	188.60	139.53	319.08	15.23	34.27	31.38	36.48	25.66

Source: Zimbabwe Revenue Authority

By and large, ZIMRA collections are exceeding targets across almost all the revenue heads except for the notable net value added tax on local sales. This is reflective of; 1) price distortions in Zimbabwe which is prompting people to purchase basic commodities outside the country as Zimbabwe has remained an import country, 2) Proliferation of vendors in town who are mainly not registered for VAT. The other possibility is that people's disposable incomes continue to shrink and more people continue to lose their jobs on a daily basis. This is revealed in the individual tax which fell short of the half year target of 419.28 million by 0.68%.Even though individual tax fell short of the target, revenue collections grew by 19.86% from the US$347.41 million realized during the same period last year. In contrast value added tax on imports exceeded target by 25.56% as the country continue relying on imports. The imports are largely driven by diesel, unleaded petrol, electrical energy, motor vehicles, wheat and rice.



Revenue Contributions by Head, Jan-Jun 2018



Source: ZIMRA, 2018

The pie chat above shows that the country relies heavily on indirect taxes, which signifies the regressiviness of the Zimbabwe tax system, where the poor contribute more to tax than the rich. VAT on imports and local sales combined contributed 29% to tax revenue between January and June 2018. By its nature, value added tax is transferable to the final consumer thereby eroding people's disposable incomes. Excise duty is the second largest contributor at 19%. Considering that the main contributors to excise duty revenue were fuel, airtime and beer which contributed 77.90%, 8.22% and 7.85%respectively[2], and the remainder being realized from tobacco, wines and spirits, second-hand motor vehicles and electric lamps,the final consumers bear the tax burden. Company tax is the fourth contributor at 15%, after individual tax (18%). The investment regime in Zimbabwe awards excessive tax incentives to Multinational Corporations which has a bearing on the contribution of company tax to total revenue. This will be perpetuated by the quest to attract FDI through issuance of further tax concessions under the Special Economic Zones in particular and the Zimbabwe is open for business mantra.

Recommendations to Government

1. In the medium to long term, ZIMRA should develop a simple and broad based income tax system favourable for Zimbabwe based on both the self-assessment system and official assessment system;
2. ZIMRA should device measures that ensure that more income earners are taxed a higher percentage than low income earners in order to transform into a progressive tax system;
3. In the short term, ZIMRA should employ innovative measures for recovering the tax debt in addition to the ongoing window for voluntary disclosure notwithstanding the expiry of the amnesty on 30 June 2018. Punitive measures for discouraging future defaulters should be developed simultaneously. This will compliment current efforts of rewarding tax compliant companies.
4. The government should honour the social contract and develop clear accountability mechanism for the citizens in order to increase tax compliance. Citizens pay taxes if the

[2]ZIMRA, Revenue Report: First Half, 2018

government is playing its service delivery role, despite the scarcity of resources.

5. ZIMRA should upscale its efforts to expand the tax base by reducing tax incentives given to multinational corporations as well as find innovative and progressive ways to tap into the informal sector;

Recommendations to Civil Society

1. Civil society should advocate for progressive taxation and against tax holidays, and tax dodging by multinational corporations;
2. Civil society must scale up capacity building amongst citizens on the subject of taxation and debt in order to build a strong movement.

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