

REVENUE PERFORMANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2015



Mrs W. Bonyongwe, ZIMRA Board Chairman

Preamble

The mandate of the Zimbabwe Revenue Authority (ZIMRA) is to collect revenue for the Government, facilitate trade and travel and advise Government on fiscal and economic matters, among other things. The amount of revenue collected is a function of the nation's Gross Domestic Product (GDP). There is a strong positive correlation between the GDP and revenue collected in any year. Therefore, procedurally every year Government projects the GDP for the respective year and from that derives a revenue target. For the 2015 fiscal year, the projected GDP growth rate was 3.2%. This was reduced in the Mid-Term Fiscal Policy Review Statement to 1.5%. Consequently, the revenue target was reduced from US\$3.76 billion to US\$3.46 billion. However, the ZIMRA target officially remained unchanged at US\$3.76 billion. The goal of ZIMRA remains the same though, "To optimise revenue collection and ensure a secure supply chain".

The major challenges facing Zimbabwe's economy remain unresolved. These are the erratic supply and high cost of energy, the high cost of capital and unavailability of adequate capital, and the use of the relatively strong dollar, among other factors. They all combined to erode the country's competitiveness. Company closures and the job losses escalated during the year under review and this is a continuing trend. The situation was exacerbated by the plummeting commodity prices on the international markets and the winding off of quantitative easing in the United States of America. These economic variables negatively affected profitability of companies and clients' ability to pay debts, resulting in generally low trends of revenue collection.

For the year 2015, net collections were **US\$3.50 billion** which is 25.20% of the forecast GDP of US\$13.89 billion.

Automation will increase revenue collections and reduce costs, *ceteris paribus*. Therefore, the collection ratios are expected to improve in 2016 and beyond as Zimbabwe joins other modern societies in the automation of tax collection.

Revenue Performance

Fourth Quarter 2015

Gross collections for the fourth quarter were **US\$1.12 billion**. Refunds - which consist of Value Added Tax, Mining Royalties and Customs Duty - stood at US\$162.10 million, resulting in net collections of US\$959.07 million. The net collections translated to 92% of the quarterly target of US\$1.038 billion. There was a 3.8% decline in net revenue collections in the fourth quarter of 2015, compared to the same period in 2014.

Annual Performance 2015

For the year ended 31st December 2015, gross collections amounted to **US\$3.88 billion**. Refunds stood at US\$384.15 million (up 61.21% from prior year), resulting in net collections of US\$3.50 billion. During the year, there was retrospective refunding of Mining Royalties emanating from a court order, and change of Income Tax policy measures on a major construction project amounting to US\$123,531,296.15.

Without the above judicial and policy measures, the net collections would have been US\$3.62 billion against the original target of US\$3.76 billion. This would have resulted in collections being 105% of the revised target of US\$3.46 billion. However, the revenue collected reflects the subdued state of the economy with the revenue outturn for 2015 posting a 3% decline in net revenue collections from 2014 annual collections of US\$3.60billion.

In terms of the breakdown, the revenue for 2015 was realised largely from Individual Tax [which contributed 22%], Excise Duty [20%], VAT on Local Sales [16%], VAT on Imports [13%], Company Tax [12%], and Customs Duty [10%]. The Authority will redouble efforts to enforce compliance on Fiscalisation in order to increase the contribution of this revenue head to total revenue. There is still great scope to increase contribution especially of VAT on Local Sales.

The year 2015 started with a debt of **US\$1.38 billion** which, after incorporating recoveries and new debts, the figure rose to **US\$1.97 billion** as at December 31, 2015. This does not reflect inability to collect by ZIMRA which has been engaging the debtors. Instead, the rise in this figure reveals the level of distress within the tax paying community.

Table 1 below shows a comparison of actual collections per revenue head to the target as well as the variances.

Table 1: Revenue Performance per Revenue Head for 2015

Revenue Head	Actual (US\$)	Target (US\$)	Variance(US\$)	% Variance
Individual Tax	777,834,014.35	835,000,000.00	-57,165,985.65	-6.85%
Excise Duty	714,217,047.54	590,000,000.00	124,217,047.54	21.05%
VAT L\S	547,075,486.22	641,100,000.00	-94,024,513.78	-14.67%
VAT on Imports	440,650,515.70	409,900,000.00	30,750,515.70	7.50%
Customs Duty	337 158 828.81	390,000,000.00	52 841 171.19	-13.55%
Company Tax	424,684,834.39	448,000,000.00	-23,315,165.61	-5.20%
Withholding Tax on Contracts	98,596,900.65	137,859,260.00	-39,262,359.35	-28.48%
Mining Royalties	-19,421,653.62	146,025,000.00	-165,446,653.62	-113.30%
Withholding Tax on Dividends, Fees, Interest & Remittances	56,123,479.63	54,945,000.50	1,178,479.13	2.14%
Carbon Tax	35,989,926.17	30,530,000.00	5,459,926.17	17.88%
Other Taxes:	51,288,644.18	79,640,740.00	-28,352,095.82	-35.60%
<i>CGT & CGT Withholding Tax</i>	23,800,817.58	52,000,000.00	-28,199,182.42	-54.23%
<i>Other Indirect Taxes</i>	9,659,587.85	16,140,740.00	-6,481,152.15	-40.15%
<i>Tobacco Levy</i>	17,828,238.75	11,500,000.00	6,328,238.75	55.03%
NON-TAX REVENUE	36,788,440.39	0.00	36,788,440.39	0.00%
TOTAL	3,500,986,464.61	3,763,000,000.50	-262 013 536.09	-6.96%

The following bar graph compares the collections for 2015 to the collections in 2014 and targets for 2015 per revenue head.

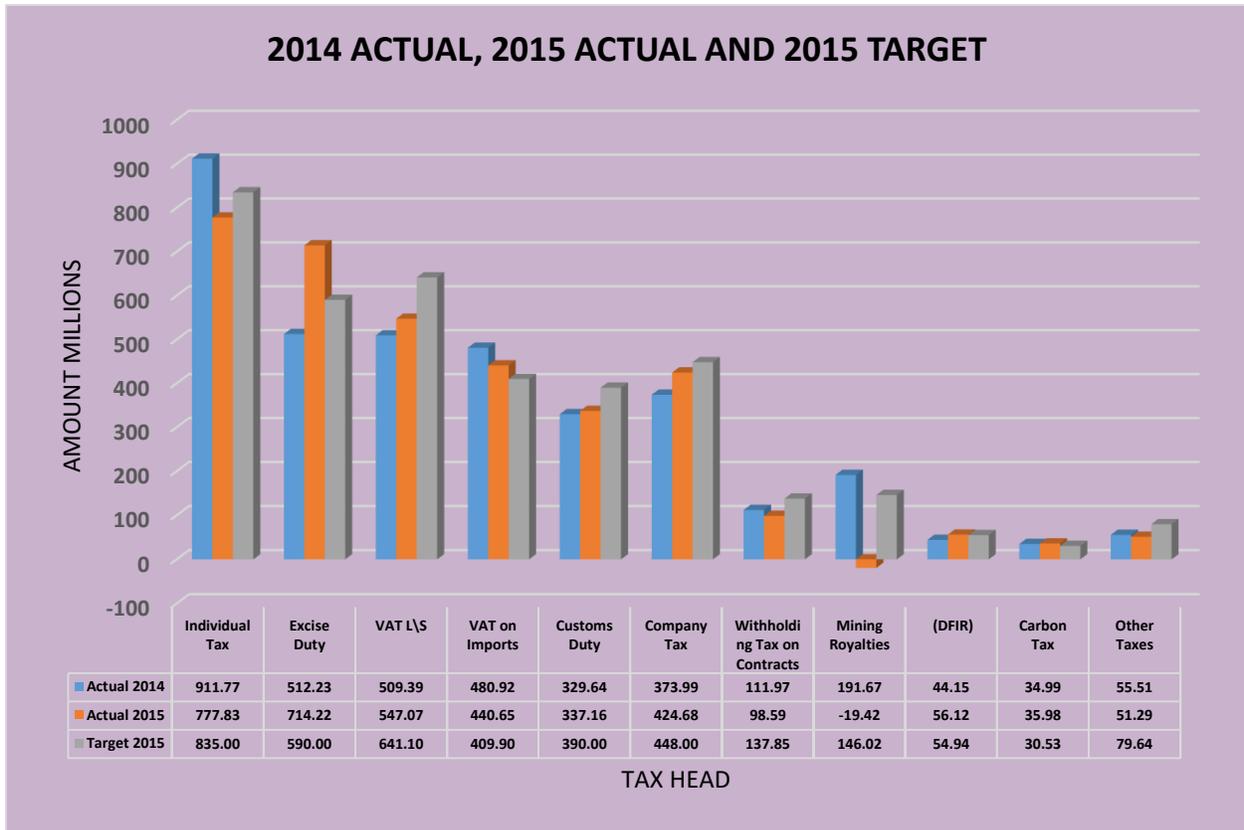


Figure 1: 2015 Actual Collections vs Targets

The major revenue heads that surpassed their targets were Excise Duty [21.05%], VAT on Imports [7.50%], Carbon Tax [17.88%] and Withholding Tax on Dividends, Fees, Interest & Remittances (DFIR) [2.14%]. However, the following revenue heads did not meet their targets: Individual Tax [-6.85%], Customs Duty [-13.55%], VAT on Local Sales [-14.67%], Withholding Tax on Contracts [-28.48%], Mining Royalties [-113.30%], Company Tax [-5.20%] and Other Taxes [-35.60%].

ZIMRA is accelerating automation and enforcing compliance so that it improves on revenue mobilisation. However, revenue declines particularly in Mining and Withholding Tax from 2014 to 2015 have to do with Government tax policy changes.

ZIMRA as the fiscal advisor to Government has a view that the mining tax laws need to find a fine balance between attracting mining investments and benefitting the fiscus.

The following bar graph shows quarterly performance for 2014, 2015 and quarterly targets for 2015. The comparison for annual performance is also reflected.

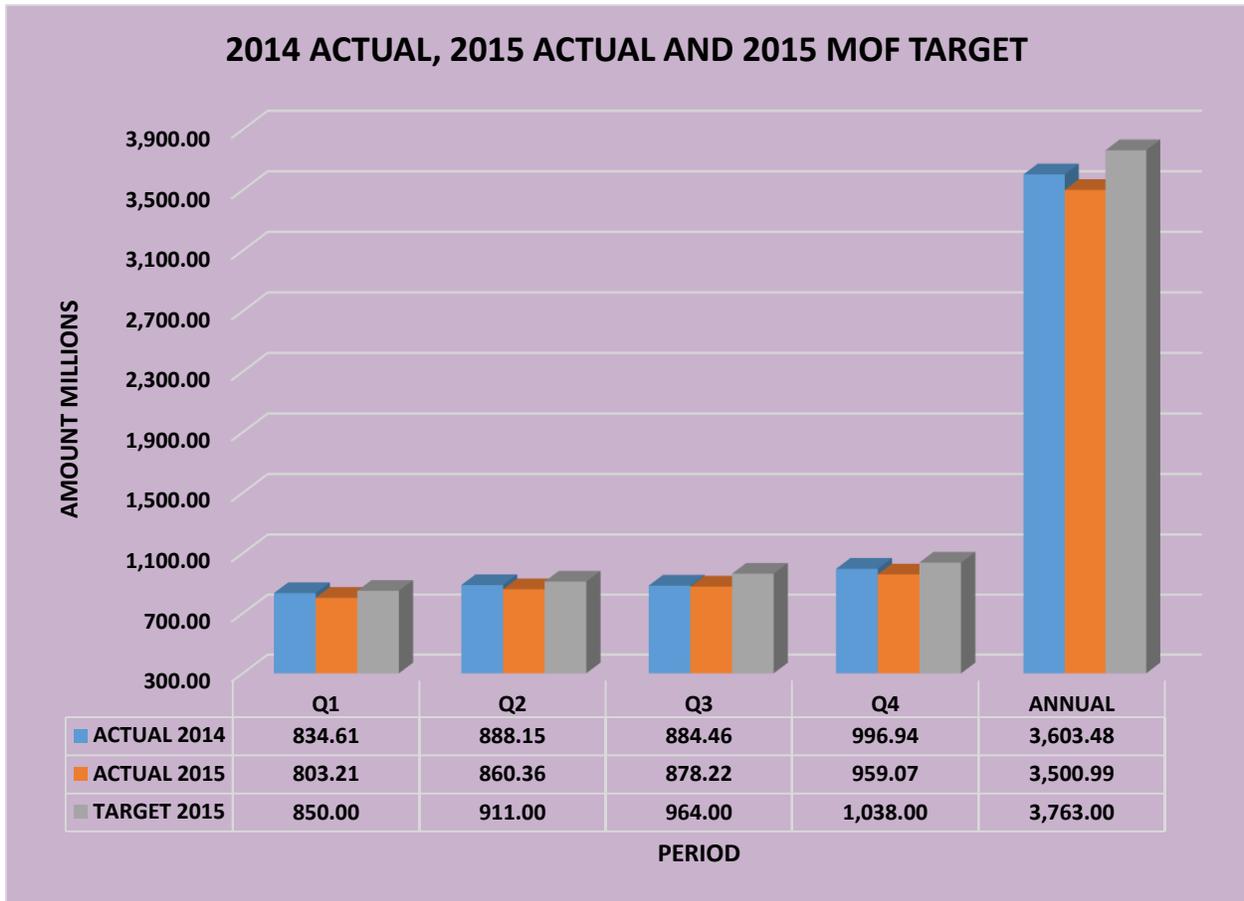


Figure 2: 2014 and 2015 Quarterly and Annual Actual Collections

Figure 2 above shows that the performance of each quarter in 2015 was below the target and also below actual prior quarters in 2014

Revenue Heads' Contribution

The pie charts below show revenue heads' contribution to total revenue for 2014 and 2015.

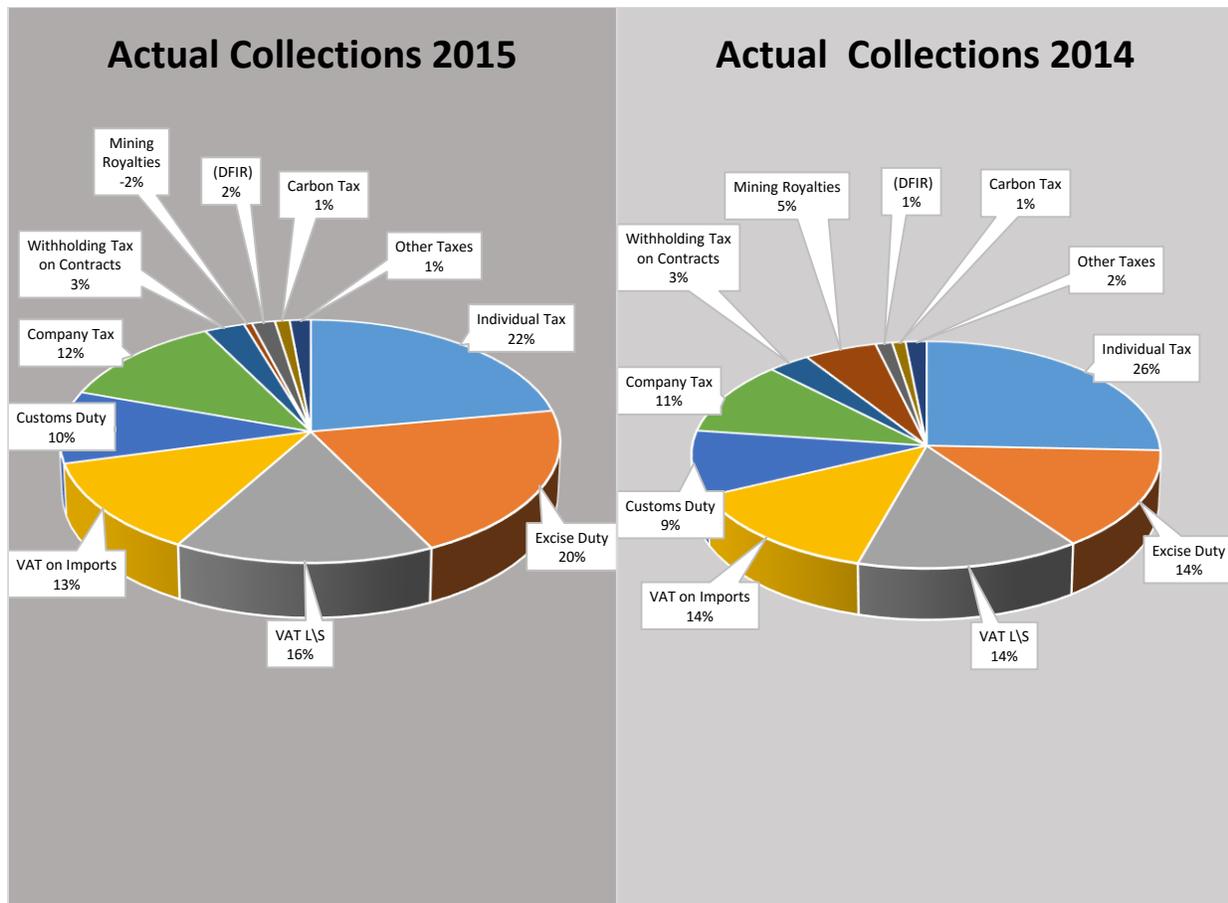


Figure 3: Revenue Heads' Contribution to Revenue for 2014 and 2015

Excise Duty, VAT on Local Sales, DFIR and Company Tax contributed more in 2015 as compared to 2014. On the other hand, Individual Tax, VAT on Imports, Mining Royalties and Other Taxes contributed less in 2015 compared to 2014. Customs Duty, Withholding Tax on Contracts and Carbon Tax remained unchanged.

Analysis of Revenue Heads Performance

Individual Tax

Collections under this revenue head amounted to US\$777.83 million, which is 93% of the target of US\$835.00 million. This was a 15% decline in revenue collections from the US\$911.76 million collected in 2014. The Pay as You Earn (PAYE) debt as at the end of the year was US\$591.89 million compared to US\$393.23 million in 2014.

The revenue head was negatively affected by retrenchments and reduction of remuneration packages by companies during the year as they embarked on initiatives for survival. This trend is expected to continue in 2016.

Corporate Income Tax (Company Tax)

Tax on company and business profits contributed US\$424.68 million to total revenue during the year under review. This was 95% of the target of US\$448.00 million and was 14% up from US\$373.99 million in 2014. Corporate Income Tax debt was at US\$474.97 million as at the end of the year up from US\$188.68 million in prior year.

Tax expenditures incurred under the revenue head in 2015 amounted to US\$48.28 million compared to US\$5.09 million in 2014.

The performance of the revenue head was negatively affected by low profitability of local industry and closure of some companies. Growth in revenue is attributable to an exceptional collection resulting from a court ruling.

The future performance of the revenue head is not bright, other things remaining equal. There is need for structural changes and concerted national effort to stimulate economic recovery for Corporate Tax to rise again.

VAT on Local Sales

Gross collections for the year amounted to US\$827.18 million. This was reduced by refunds amounting to US\$280.10 million, resulting in net revenue of US\$547.07 million. Refunds were 34% of gross VAT on Local Sales. As a result, net VAT on Local Sales collections were 85% of the targeted US\$641.10 million. Notwithstanding the refunds, net revenue collections still increased by 34% from the US\$329.64 million that was collected in 2014. However, the performance for 2015 was masked by a high refund bill and debtors. The anticipated performance of the revenue head will depend on improved

industrial activity, improvement in the country's competitiveness and enhanced compliance by taxpayers.

The VAT on Local Sales debt amounted to US\$721.89 million as at 31st December 2015 from US\$238.92 million in 2014, while tax expenditures amounted to US\$918.67 million in 2015 down from US\$1.09 billion in 2014.

VAT on Imports

Revenue collections from VAT on Imports for the year were US\$440.65 million, which is 108% of the target set at US\$409.90 million. Collections under this revenue head declined by 8% in 2015 from the US\$480.92 million that was collected in 2014. The revenue forgone as a result of VAT suppressing instruments amounted to US\$32.35 million.

Despite the fall in collections from 2014, the revenue head met the 2015 target.

Customs Duty

Gross collections of US\$339.39 million were reduced by refunds amounting to US\$2.23 million. The net collections of US\$ 337.16 million were 86% of the targeted US\$390.00 million. There was a 2% growth in Customs Duty collections for 2015 as compared to the US\$329.64 million which was realised in 2014.

Duty-suppressing instruments such as rebates, suspensions, and trade agreements cost the fiscus US\$861.08 million or 72% of gross potential revenue during the year. Revenue forgone through trade agreements amounted to US\$786.04 million whilst US\$75.04 million was forgone through rebates and suspensions.

Future performance of the revenue head depends on policies introduced to reduce rates of duty and encourage local production. The movement of our trading partners'

currencies against the US Dollar, other things remaining equal, should increase the imports into the country.

Excise Duty

Revenue from Excise Duty amounted to US\$714.22 million, which is 121% of the target of US\$590.00 million. Excise Duty on Fuel was the main contributor to Excise Duty revenue, with a contribution of 78%. Excise Duty on Beer and Airtime contributed 9% and 6%, respectively, with the remainder of the revenue coming from Excise Duty on Tobacco, Wines and Spirits; Second-Hand Motor Vehicles; and Electric Lamps. 2015 revenue collections increased by 40% from US\$509.39 million collected in 2014.

The performance of the revenue head can be attributed to:

- The increase in Excise Duty rates for petrol and diesel at the beginning of the year.
- Excise on Airtime which was introduced in November 2014.
- High consumption of fuel products during the year.

The performance in 2016 is likely to be lower due to declining oil prices on the global arena.

Withholding Tax on Contracts

Collections under the revenue head in 2015 were US\$98.59 million, which is 72% of the targeted US\$137.85 million. Revenue collections declined by 12% from the US\$111.96 million that was collected in 2014.

The decline of the revenue head's collections can be attributed to the increase in the threshold of transactions from which the amounts are withheld from an aggregate of US\$250 to US\$1,000 per year with effect from 1 January 2015. This reduced the tax base for the revenue head.

The performance of the revenue head in 2016 is expected to be also murky because the level of business activity is not expected to improve significantly, other things remaining equal.

Carbon Tax

Carbon Tax collections amounted to US\$35.99 million, which is 118% of the targeted US\$30.53 million. Revenue collections improved by 3% from the US\$34.98 million collected in 2014.

The revenue head surpassed the target due to an increase in import volumes of petrol in 2015 as compared to 2014.

The performance of the revenue head is expected to maintain on the positive trend if high consumption of petroleum products is maintained.

Mining Royalties

Gross Mining Royalties amounted to US\$82.13 million. However, Mining Royalties closed the year with negative collections of US\$19.42 million due to a refund of US\$101.55 million that was processed during the fourth quarter of 2015. The revenue head depicted a 110% decline in revenue collections from the US\$191.66 million that was collected in 2014.

The performance of the revenue head was negatively affected by a court ruling which resulted in the refund. The future performance of Mining Royalties is dependent on prices of minerals on international markets, production levels and Government policy going forward.

Dividends, Fees, Interest and Remittances

Collections from this revenue head were US\$56.12 million against a target of US\$54.95 million. This translates to a positive variance of 2%. Non-Resident Tax on Fees

contributed the highest revenue, with a contribution of 48% while Non-Resident Shareholders Tax and Residents Tax on Interest contributed 20% and 10% respectively. Revenue collections increased by 27% from the US\$44.15 million that was collected in 2014.

The performance of the revenue head can be attributed to audits and follow ups which were undertaken by the Authority and resulted in improved compliance. Future performance depends on foreign investment and resultant payments for services abroad.

Other Taxes

This revenue head comprises Capital Gains Tax (CGT) and Capital Gains Withholding Tax (CGWT), Tobacco Levy and Other Indirect Taxes (Stamp Duty, Banking Levy, Presumptive Tax and ATM Levy).

Revenue collections from Other Taxes amounted to US\$51.29 million, which is 64% of the targeted US\$79.64 million. Collections declined by 8% from the US\$55.5 million that was realised in 2014. CGT and CGWT contributed the highest revenue with a contribution of 46% to total revenue under Other Taxes.

The performance of the revenue head is attributed to:

- Low price of equities on the local bourse.
- Low liquidity which resulted in subdued activity in the mortgage sector.
- Lower tobacco prices

The future relies heavily on the revival of activity on the equities and real estate markets, which in turn depends on economic recovery to add value to the underlying asset. Investor perception is also vital but sentiment is unlikely to improve in the short term. The impact of the current drought on tobacco farming will further dampen revenues for 2016 revenues, unless if there is a rebound on prices if the quality is good.

Conclusion

The revenue collections for 2015 reflect largely the subdued state of the economy during the reporting period. However, it also reflects the limitations of ZIMRA in terms of lack of robust enforcement particularly on Local VAT, incomplete digitalisation and budgetary constraints. ZIMRA is working on a comprehensive tax management system to increase the efficiency and cost of collecting whilst at the same time increasing revenues by plugging all the leakages.

The tax management system should be operational by end of 2016. This will have a huge positive impact on all tax heads. In the meanwhile, ZIMRA is going to vigorously enforce all current fiscal legislation to increase the level of compliance. The public is urged to assist the Authority in identifying businesses which do not offer fiscal receipts or who do not pay their taxes.

ZIMRA is also working on introducing cargo tracking in 2016 and on increasing the number of scanners, subject to availability of funding. This will cut down on smuggling.

All these initiatives will greatly improve the convenience of our stakeholders and also fulfil our goal to serve efficiently.

Gratitude

I would like to earnestly thank my colleagues in the Board for the support, commitment, hard work and team spirit. You make the mandate easier.

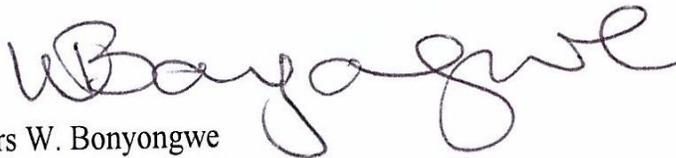
To Commissioner General Gershem Pasi, the entire Management and Staff of the Zimbabwe Revenue Authority, thank you for the support, commitment and hard work. You are doing a great job for the development of our nation. Some of you work extremely long hours away from your families. But I urge you to serve your country diligently

executing your duties with integrity. Digitalisation will make your job much easier and less stressful.

I am also deeply grateful to the Ministry of Finance and Economic Development and the entire Government of Zimbabwe for the steadfast support and guidance to me and my colleagues in the Board since our appointment last year. I also acknowledge the cooperation of other Government departments to ZIMRA's operations.

Saving the best for last, we are most indebted to those among the taxpaying public who continue to meet their fiscal obligations honestly, timely and in full in spite of the challenging economic environment. You are economic and development heroes of our country. We know some of you are struggling, but still determined to pay your taxes and duties and for that, I thank you. I urge all other taxpayers to emulate your good example for the development of our country.

Thank You



Mrs W. Bonyongwe

ZIMRA Board Chairman



"We are here to serve"

"We are here to serve"

