

ZIMRA BOARD CHAIRMAN'S REVENUE PERFORMANCE REPORT FOR THE YEAR 2013



Mr Sternford Moyo, ZIMRA Board Chairman

Introduction

It gives me great pleasure to present the revenue performance report for the period 1 January– 31 December 2013.

Overview of the Year 2013

The year 2013 was characterised by many challenges that created a very difficult environment for businesses and consequently for revenue collection. Challenges such as the liquidity crunch coupled with low industrial capacity utilisation, among others, saw the tax base shrinking. The year saw a number of companies scaling down operations and others closing shop. However, despite these challenges, I am pleased to report that quite a number of companies continued supporting the economy by meeting their tax obligations.

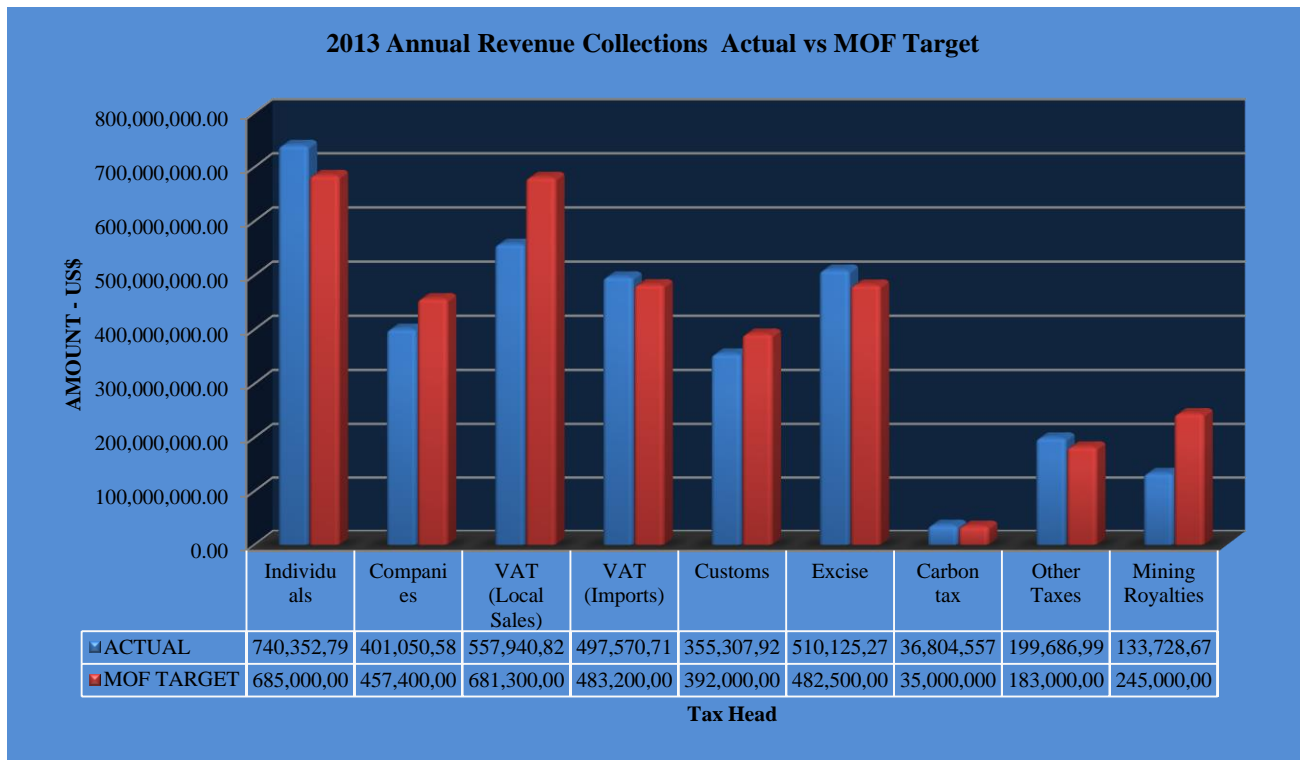
Revenue Performance

Total net-of-refunds collections for the year 2013 amounted to US\$3.43 billion against a target of US\$3.64 billion resulting in a negative variance of 6%. Pay As You Earn (PAYE), Value Added Tax (VAT), Excise Duty and Corporate Income Tax contributed the bulk of revenue.

The fourth quarter of 2013 brought in net collections of US\$877.6 million against the Ministry of Finance target of US\$1.1 billion resulting in a negative variance of 18%. Most of the revenue was realised from PAYE which contributed US\$185.2 million followed by Excise Duty contributing US\$138.1 million and VAT on Imports which contributed US\$130.1 million.

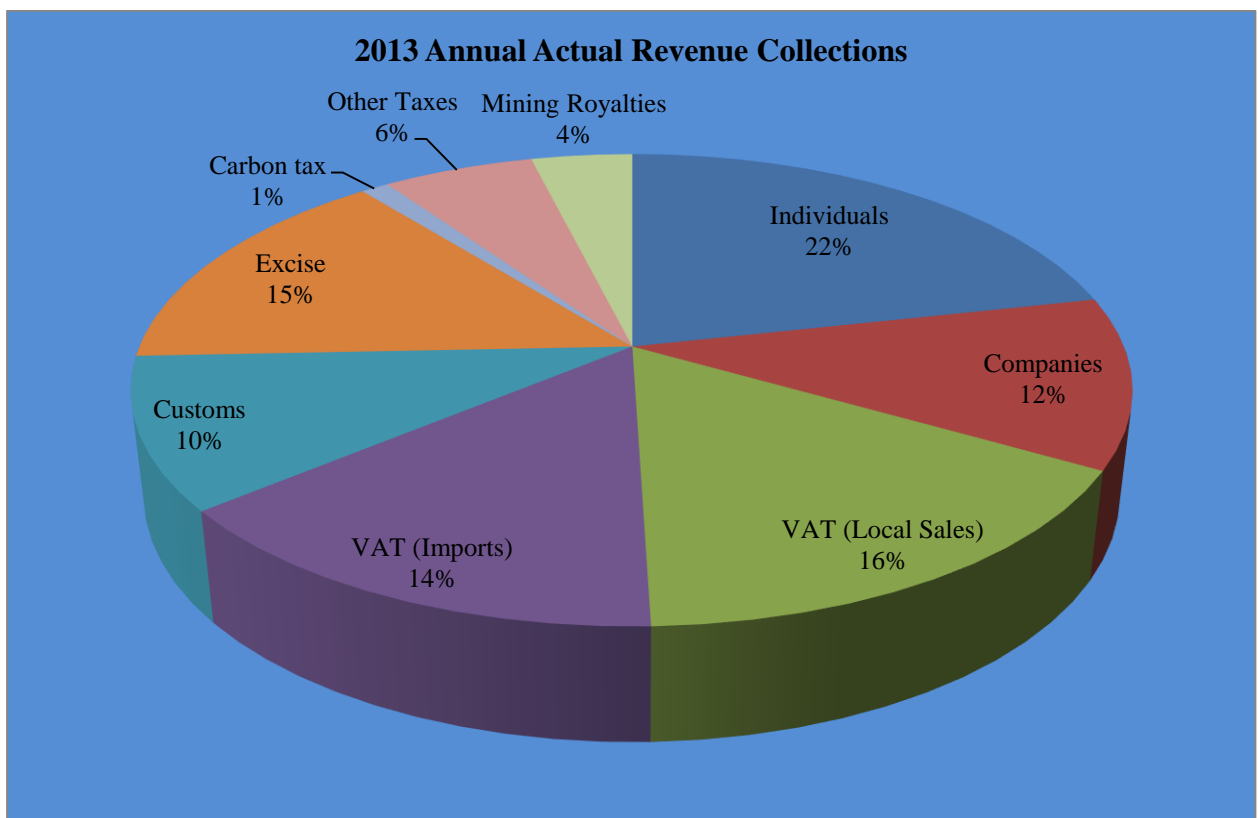
The bar chart below shows the actual annual collections versus the target per revenue head for 2013.

Bar Chart 1: Collections versus Target



Contribution by Revenue Head

The pie chart below shows contribution by revenue head to total collections:



Individual Tax (PAYE) contributed the bulk of revenue (22% of total revenue) while VAT on Local Sales contributed 16%. Excise Duty contributed 15% to total revenue as shown in the pie chart below.

Revenue Head Analysis

1. Individual Tax

Collections under PAYE amounted to US\$740.3 million against a target of US\$685.0 million resulting in a positive variance of 8%. The performance of the revenue head can be attributed to the following factors:

- Companies which managed to give bonuses and performance awards to their employees during the year.
- Salary increments offered to employees by companies during the year.
- Improved compliance as a result of audits and follow ups undertaken by ZIMRA.
- Retrenchment schemes which were undertaken by companies to cut on production costs (Source: July 2013 NSSA Harare Regional Employer Closure and Registration Report).

Anticipated Performance

- The revenue head's collections may improve slightly in 2014 because of the proposal to tax monthly income above US\$20,000.00 at a flat rate of 50%.
- Retrenchments and company closures may negatively affect future flows of revenue under this revenue head.

2. Company Tax

Collections under Company Tax amounted to US\$401.1 million against a target of US\$457.4 million resulting in a negative variance of 12%. The negative performance of the revenue head can be attributed to the following factors, among others:

- Reduction in industrial capacity utilisation from around 44.6% in 2012 to 39.6% in 2013 (CZI Manufacturing Survey)
- The general economic slump which limited the expansion of business towards income generation. This includes liquidity constraints and obsolete equipment resulting in high cost of production hence reduced competitiveness.

Anticipated Performance

- The revenue head is expected to drop significantly in 2014 if the current environment persists as more companies are likely to scale down operations.
- The repeal of the deductibility of mineral royalties as an allowable deduction will have a slight positive impact on Corporate Tax collected.

3. Tax on Domestic Dividends and Interest

Collections under this revenue head were US\$28.5 million against a target of US\$95.1 million resulting in a 70% negative variance. The poor performance of the revenue head can be attributed to, among other factors, the reduction in local industrial capacity utilisation and profitability.

Anticipated Performance

- The revenue head is not expected to contribute much in 2014 because of persistent challenges that slow down economic growth.
- Not much activity is anticipated from both the money and stock markets.

4. Capital Gains Tax (CGT) & Capital Gains Withholding Tax (CGTWT)

The revenue head realised US\$22.5 million against a target of US\$19.2 million resulting in a positive variance of 18%. The performance of the revenue head can be attributed to the activity in the property sector as some banks have been availing mortgage loans to purchase properties during the year, though at a low scale.

Anticipated Performance

- CGT is expected to slightly improve owing to the recent pronouncement in the 2014 National Budget that property buyers who change ownership through cessions will be liable to pay Capital Gains Tax.
- The liquidity crunch affecting the Zimbabwean economy will continue to negatively impact on the performance of CGT Withholding Taxes.

4. Tobacco Levy

Cumulative collections amounted to US\$9.9 million against a target of US\$10.0 million resulting in a negative variance of 1%. The performance of the Tobacco Levy can be attributed to the drop in prices which were encountered during the tobacco selling season.

Anticipated Performance

- Tobacco farming hectares have been increasing annually as more farmers turn to tobacco farming.
- This may entail that more revenue may come from the 2014 tobacco selling season.

5. Carbon Tax

Revenue collected under this revenue head was US\$36.8 million against a target of US\$35.0 million resulting on a positive variance of 5%. Performance of this revenue head can be attributed to an increase in fuel importations. For the period January to November 2013, a total of 307.8 million litres of petrol and 718.1 million litres of diesel were imported into the country, which were more than the amount of fuel imported during the same period in 2012.

Anticipated Performance

- The revenue head's performance is anticipated to decrease due to the increased consumption of green fuel.
- Subdued manufacturing activity may not result in increased consumption of diesel.

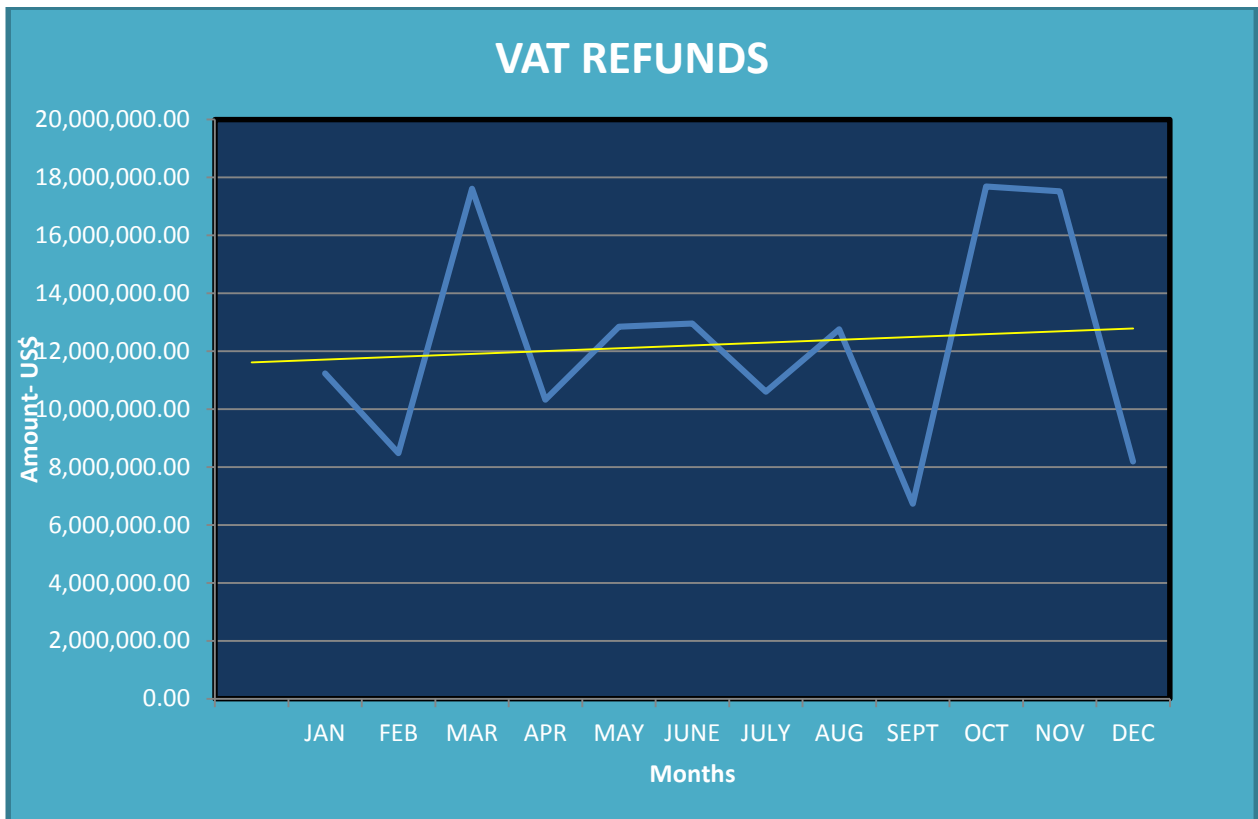
6. Taxes on Goods and Services

Cumulative gross collections for 2013 were US\$2.07 billion against a target of US\$2.04 billion resulting in a positive variance of 2%. Net collections amounted to US\$1.92 billion against a target of US\$2.04 billion resulting in a negative variance of 6%. Revenue performance was mainly affected by the poor economic conditions.

Value Added Tax contributed the bulk of revenue under this tax head with a contribution of US\$1.06 billion while Customs Duty contributed US\$355.31 million and Excise Duty brought in US\$510.13 million.

7.1 Value Added Tax

Gross collections for 2013 were US\$1.20 billion against a target of US\$1.16 billion resulting in a positive variance of 3%. Net collections amounted to US\$1.06 billion due to VAT refunds, although VAT refunds gradually decreased towards the end of the year. About US\$146.6 million was refunded in 2013 in respect of VAT on Local Sales.



7.1.1 VAT on Local Sales

Gross collections for the year amounted to US\$704.6 million and net collections were US\$557.1 million against a target of US\$681.3 million resulting in negative variance of 18%. VAT on Local Sales contributed 54% of total VAT revenue. Performance of the revenue head can be attributed to:

- Low industrial capacity utilisation.
- The liquidity crunch which is negatively affecting disposable income.

Anticipated Performance

- The current economic slump and liquidity crisis will continue to negatively impact on the VAT revenue head.
- Industrial capacity utilisation is worsening amid the current economic challenges, hence negatively affecting performance of VAT on Local Sales.

- However, the introduction of VAT on exports of unprocessed minerals (diamonds and platinum) will go a long way in improving this revenue head's performance provided there are significant exports.
- The streamlining of the list of zero-rated products will also result in more VAT revenue.
- VAT has also been extended to accommodation services for non-resident tourists. This move will result in more VAT collections.

7.1.2 VAT on Imports

Total collections were US\$497.57 million against the targeted US\$483.2 million resulting in a positive variance of 3%. VAT on Imports contributed 46% of VAT revenue during the year.

Anticipated Performance

- Liquidity constraints will continue to impact negatively on companies' and individuals' capacity to import goods which attract VAT.

7.2 Customs Duty

Customs Duty contributed US\$355.3 million against a target of US\$392.0 million resulting in negative variance of 9%. Refunds which were deducted from Customs Duty amounted to US\$2.06 million for the year in respect of rummage sales, duty refunds and other refunds. The performance of the revenue head is attributed to reduction in import volumes as a result of the current liquidity crisis and lack of sufficient funds to import for both corporates and individuals.

Anticipated Performance

- Removal of some products like laundry bar and cooking oil from the traveller's rebate might lead to slight improvement though not much is anticipated.
- In addition, the reviewed duty of some specified products upwards in the recent 2014 budget statement may bring positive results.
- However, no major changes are expected under this revenue head in the short term due to the economic challenges currently being faced.

7.3 Excise Duty

Excise Duty collections amounted to US\$510.1 million against a target of US\$482.5 million resulting in a positive variance of 6%. Excise Duty on fuel and beer were the major contributors of the total Excise Duty realised, contributing 76% and 16% respectively. The performance of the revenue head may be due to the following:

- Increased consumption of fuel and other excisable goods which contributed most of the revenue.
- Introduction of an additional Excise Duty on petrol and diesel in 2013.

Anticipated Performance

- The revenue head is expected to improve in performance owing to the recently introduced Excise Duty on ethanol.
- However, there is likelihood of a decrease in importation of petrol due to mandatory blending.

8. Other Taxes

Collections for other revenue heads were US\$114.67 million against a target of US\$58.80 million resulting in a positive variance of 95%. Withholding

Taxes on Tenders was the main contributor towards this tax head (contributed 85% of revenue under Other Taxes).

Anticipated Performance

- The performance of the revenue head is expected to continue to improve following the recent introduction of withholding taxes on non-resident artists performing in Zimbabwe.
- Judging by the fact that the entertainment industry is currently thriving, more revenue is expected from this move.

9. Mining Royalties

Mining Royalties amounted to US\$133.7 million against a target of US\$245.0 million resulting in a negative variance of 45%. The performance of the revenue head was due to the challenges that the Government of Zimbabwe faced in auctioning diamonds on the international market during the greater part of 2013.

Anticipated Performance

- The removal of sanctions on diamond mining firms, including the Zimbabwe Mining Development Corporation (ZMDC), will see the nation realising more revenues from Royalties on Diamonds.
- The recent green light given to Zimbabwe to auction its diamonds at Antwerp in Belgium will enable the nation to realise more revenue from diamonds.

Conclusion

In conclusion, I would like to express my gratitude and appreciation to those of our clients who continue to pay their taxes and duties on time and in full. I am, therefore, optimistic that if this spirit of responsible citizenship continues,

coupled with improvements in the performance of the economy in general, the revenue target for 2014 will be surpassed.

I urge those clients who are not observing their tax obligations to comply with fiscal legislation and contribute their fair share so that that together we can meet the needs of our country. Secondly, my gratitude and appreciation goes to ZIMRA Management and Staff for continuing to mobilise resources for the nation even in face of a shrinking revenue base.

Last but not least, I am grateful to the Ministry of Finance and Economic Development, our many stakeholders and my fellow Board members for their contribution to the successful discharge by the Authority of its mandate.

A handwritten signature in black ink, appearing to read 'Sternford Moyo', with a stylized flourish at the end.

STERNFORD MOYO
(CHAIRMAN OF THE BOARD)