

REVENUE PERFORMANCE REPORT FOR THE FIRST HALF YEAR ENDED 30 JUNE 2018



Mrs W. Bonyongwe

ZIMRA Board Chairman

Preamble

The first half of 2018 is the first under the new dispensation which is characterised by intense international engagement. The strong re-engagement drive of both local and international investors under the mantra, “Zimbabwe is open for business” has stimulated worldwide interest, which has resulted in multi-million dollar deals being clinched, creating real opportunities and expectations for economic revival and enhanced productivity and general improvement in tax compliance. The Ministry of Finance and Economic Development projects that the gross Domestic Product (GDP) will rise from 3.7% in 2017 to 4.5% in 2018. This will impact positively on revenue performance. The inflationary pressures also appear to have slowed down although they remain a threat to the economy. The records show that the annual inflation growth decelerated from 3.5% in January 2018 to 3.0% in February 2018 and declined further to 2.71% between March and May 2018¹.

A number of infrastructure projects being revived by Government in different sectors of the economy will help support business initiatives. The completion of the Tokwe-Mukosi dam has facilitated an improvement in the irrigation supply, leading to an anticipated increase in cane deliveries which are projected to surpass the **600 000 tons** mark. Other developments include the road and rail rehabilitation, as well as investments in the power sector. Investor confidence has been increasing in the mining sector due to the review of the Indigenization and Economic Empowerment Act, which now only applies to platinum and diamond mining. Consequently, seventy-percent of the total annual foreign currency earnings are expected to emanate from the sector.

ZIMRA Thrust and Focus

The Revenue Authority continued to focus on improving compliance and widening the tax base through third-party data usage. Various strategies put in place include the use of modern technology, increased client engagement and data cleansing and correction of records to ensure taxpayers and traders meet their fiscal obligations with ease and on time. Particular attention was paid on addressing the many challenges that our clients were encountering with our tax and customs systems to ensure more efficient processes. This has included the stabilization and upgrade of the ASYCUDA World system after it crashed in December 2017; stabilizing the tax systems and ensuring clean data for the purposes of better compliance management.

Low levels of compliance had a huge impact on debt levels during the first half of 2018. In an effort to promote voluntary compliance, the Authority embarked on massive educational campaigns. In addition, a tax amnesty was administered to encourage taxpayers to regularize their tax affairs. Several taxpayers took advantage of this window

¹ Reserve Bank of Zimbabwe

of grace. The moratorium has gone a long way in reducing the debt level and consequently increasing revenue collections.

Going forward, the Authority will be focusing on improving its processes, systems and partnerships with taxpayers in its quest to improve service delivery and promote voluntary compliance.

Revenue Performance

Second Quarter 2018 Performance

Gross collections for the second quarter of 2018 (Q2, 2018) amounted to **US\$1.298 billion**, which was **21.84%** above the target of **US\$1.065 billion**. Net collections amounted to **US\$1.255 billion** after deducting refunds amounting to **US\$43.70 million**. Net collections surpassed the target by **17.74%**. The (Q2, 2018) revenue performance was **43.47%** above the **US\$874.96 million** that was collected during the same period last year. Highest contributors to total net revenue during the current quarter were Company Tax (**18.04%**), Individuals (**17.61%**) and net VAT on Local Sales (**17.56%**).

First Half 2018 Performance

Despite the economic hardships that the country experienced, the Zimbabwe Revenue Authority performed above expectations in the first half of 2018 (H1, 2018). Gross collections were **US\$2.41 billion** against the targeted **US\$2.10 billion**, thereby surpassing the set target by **15.09%**. After deducting refunds of **US\$98.88 million** for the first half, net collections stood at **US\$2.31 billion**, which translates to **10.37%** above the expected **US\$2.10 billion**. Net revenue collections improved by **35.94%** from the **US\$1.70 billion** that was realized during the first half of 2017 (H1, 2017). Major contributors to revenue were Excise Duty (**19%**), Net VAT on Local Sales (**18%**) and Individuals (**18%**).

The positive revenue performance is attributed to the Authority's various revenue enhancement projects, increased use of automation and a resolute stance against corruption. The current inflationary environment and the widespread use of plastic and mobile money transactions also enhanced revenue collections in nominal terms, especially for revenue heads such as VAT.

Table 1 below shows revenue performance per revenue head for the first half of 2018.

Table 1: H1 2018 Collections vs Targets

TAX HEAD	TARGET H1 2018 US\$	ACTUALS H1 2018 US\$	VARIANCE US\$	% VARIANCE
Individual Tax	419,286,000.00	416,422,938.67	-2,863,061.33	-0.68%
Company Tax	210,000,000.00	356,316,015.55	146,316,015.55	69.67%
Net VAT on Local Sales	472,300,000.00	430,075,716.95	-42,224,283.05	-8.94%
VAT on Imports	201,200,000.00	252,623,597.02	51,423,597.02	25.56%
Net Customs Duty	177,410,000.00	198,163,499.81	20,753,499.81	11.70%
Excise Duty	404,893,200.00	451,682,437.09	46,789,237.09	11.56%
Carbon Tax	17,720,000.00	21,790,134.62	4,070,134.62	22.97%
Mining Royalties	42,900,000.00	43,127,030.76	227,030.76	0.53%
DFIR	30,640,000.00	46,018,557.39	15,378,557.39	50.19%
WHT on Contracts	71,791,011.67	87,821,155.47	16,030,143.80	22.33%
Other Taxes:	47,266,988.33	50,362,646.10	3,095,657.77	6.55%
CGT & CGT WHT	13,960,000.00	17,673,689.79	3,713,689.79	26.60%
Tobacco Levy	11,200,000.00	12,673,505.87	1,473,505.87	13.16%
Other Indirect Taxes	22,106,988.33	20,015,450.44	-2,091,537.89	-9.46%
Net Non-Tax Revenue		-41,730,997.93		
NET REVENUE	2,095,407,200.00	2,312,672,731.50	217,265,531.50	10.37%
GROSS REVENUE	2,095,407,200.00	2,411,557,262.71	316,150,062.71	15.09%

While the rest of the tax heads performed above expectations, three revenue heads, namely: Individuals, Net VAT on Local Sales as well as Other Indirect Taxes performed below expectations. The performance of the Net VAT on Local Sales is disturbing not only because the variance is so huge, but also because the revenue head had picked up remarkably following the introduction of the 10% withholding tax. ZIMRA has strengthened controls in the payment of VAT refunds to curb fraudulent payments. In the past the Authority was refunding VAT which had not yet been collected and will continue audit of refunds and enforcing payments of withholding tax, especially for non-compliant or unregistered taxpayers.

A comparison of revenue performance for the First Half 2018 against same period in 2017 is presented in the Figure 1 below:

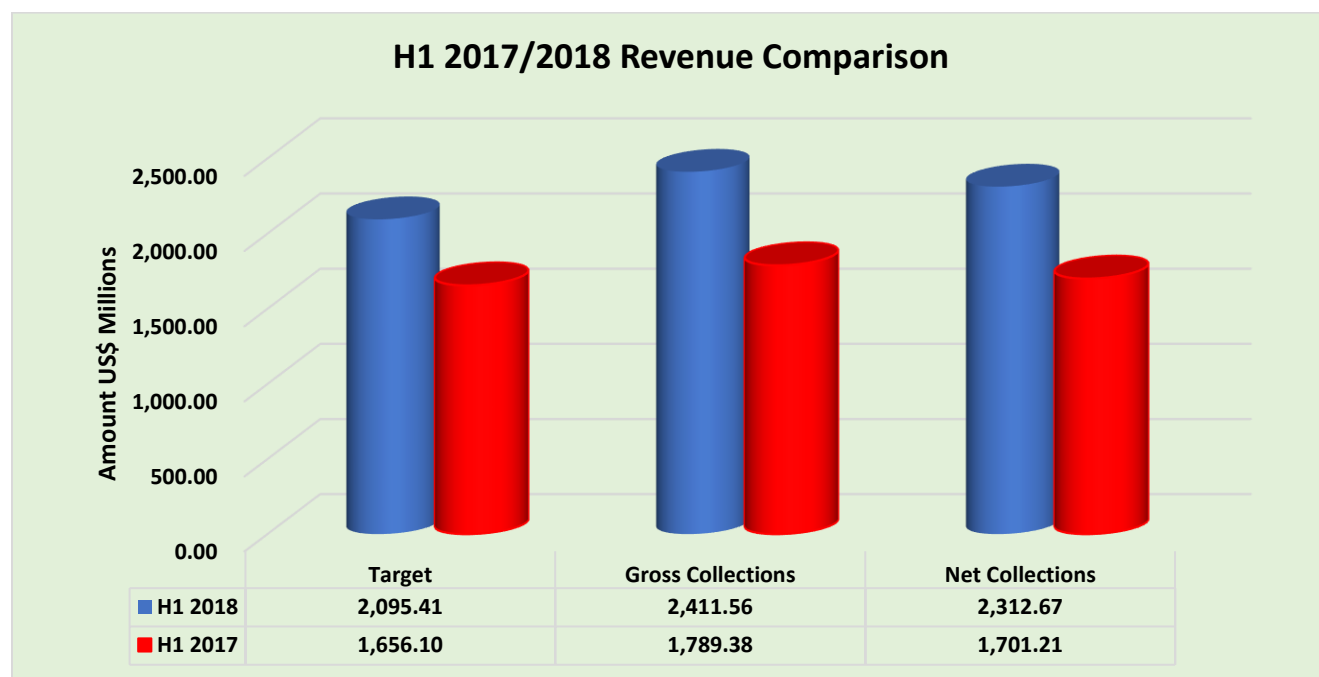


Figure 1: H1 2017/2018 Revenue Comparison

Gross collections for the first half of 2018 amounting to **US\$2.41 billion** surpassed the previous year's gross collections of **US\$1.79 billion** by **34.77%**. Net collections rose by **35.94%** in 2018 from the **US\$1.70 billion** that was collected in 2017, owing to an improvement in the operating environment for business. Refunds for the first half of 2018 also increased by **12.16%** from **US\$88.06 million** refunded in 2017 to **US\$98.88 million** refunded in 2018. This is despite the controls mentioned above.

H1 2017 and H1 2018 Net Revenue Collections Comparison

The following bar graph shows a comparison of revenue collections for the first halves of 2017 and 2018, and the 2018 targets per revenue head.

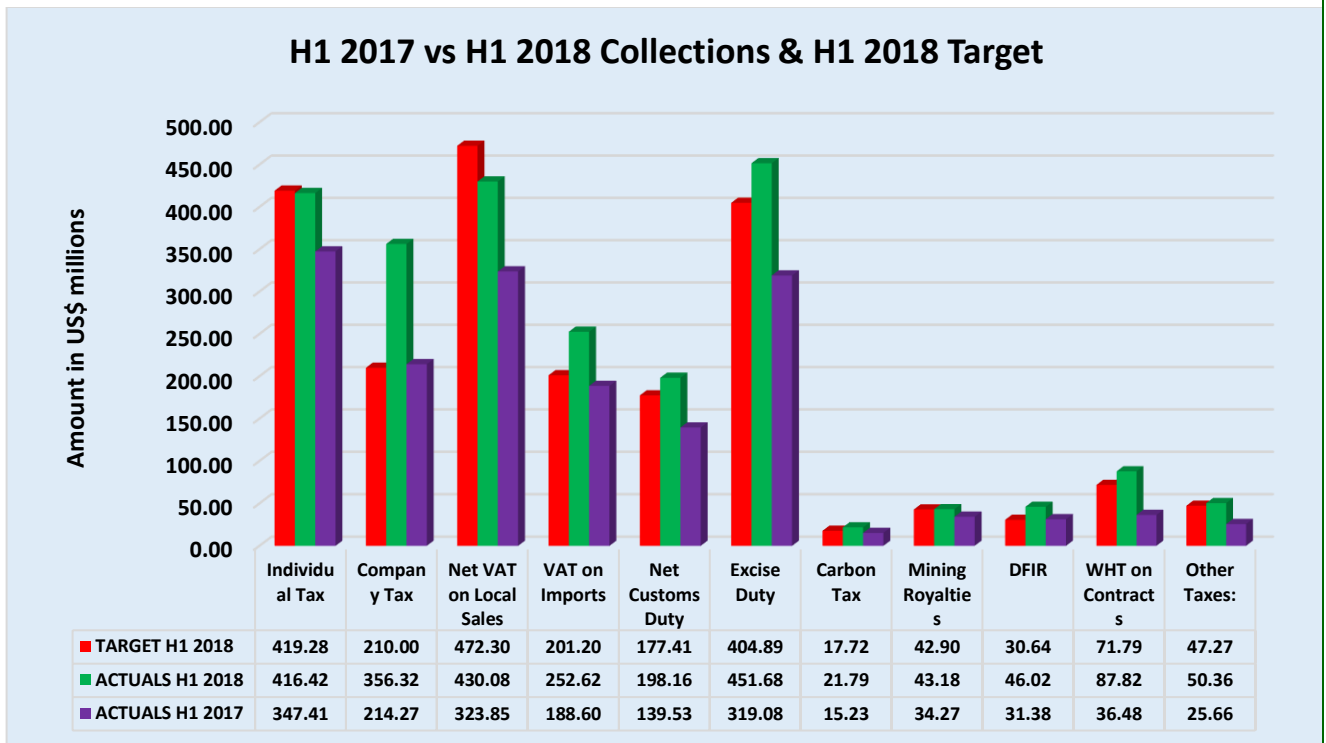


Figure 2: H1 2017 vs H1 2018 Performance, and H1 2018 Target

The table clearly shows that all revenue heads grew from the same period last year, with remarkable increases recorded on Withholding Tax on Contracts (**140.75%**), Corporate Income Tax (**66.30%**), Customs Duty (**42.03%**) and Excise Duty (**41.56%**).

Figure 3 shows the contributions to total revenue by tax type.

Revenue Head Contributions

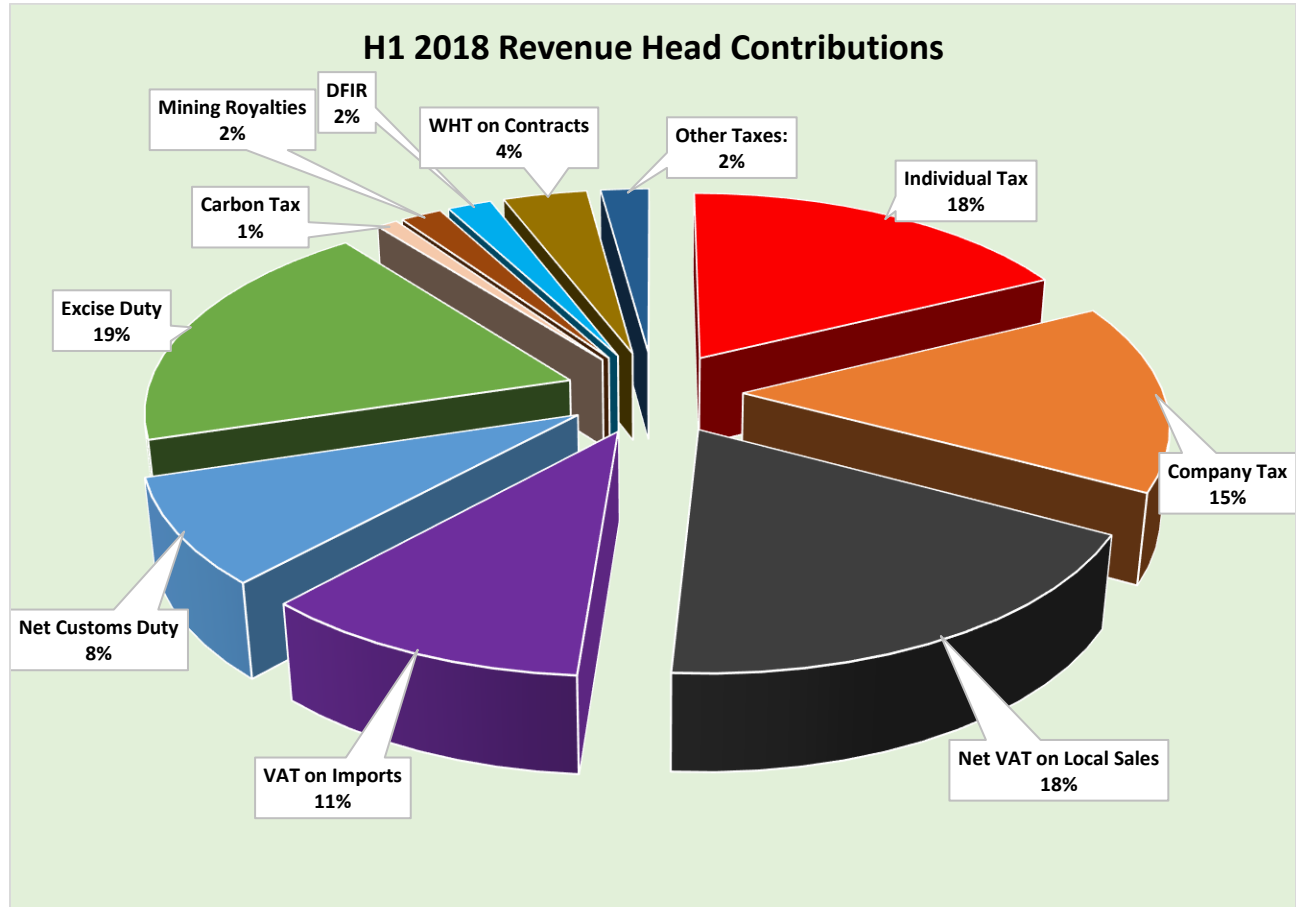


Figure 3: Revenue Heads' Contribution to Revenue Collections

The top three contributors to revenue were Excise Duty (19%), Net VAT on Local Sales (18%) and Individuals (18%). The rest of the revenue heads' performances are reflected on the pie chart (Figure 3).

Analysis of the Performance of Major Revenue Heads

Individual Tax

Revenue collections from the Individuals tax head amounted to **US\$416.42 million** against the targeted **US\$419.28 million**, giving a negative variance **0.68%**. Although the revenue head marginally fell short of the target, revenue collections grew by **19.86%** from the **US\$347.41 million** realized during the same period last year.

The performance of the revenue head was partly affected by salary cuts, retrenchments and irregular salary payments during the greater part of the first half despite the fact that some organizations offered back-pays, salary adjustments and performance awards.

Corporate Income Tax (Companies)

Collections under this tax head were **US\$356.32 million** against the targeted **US\$210.00 million**. This translated to **69.67%** positive variance. Revenue collections grew by **66.30%** when compared to the same period last year where collections were **US\$214.27 million**.

The positive performance is attributed to improved profitability by some companies as well as the increased usage of electronic and plastic money. A number of corporate taxpayers responded to the amnesty to clear their outstanding debts or agree on payment terms to benefit from the remission of penalties and interest.

VAT on Local sales

Gross VAT on Local Sales amounted to **US\$527.16 million** against the targeted **US\$472.30 million**, resulting in a positive variance of **11.62%**. However, after deducting VAT refunds of **US\$97.08 million**, net VAT on Local Sales dropped below the target to **US\$430.08 million**. This translated to a **91.06%** of the targeted **US\$472.30 million**. Collections from this tax head grew by **32.80%** from last year's collection of **US\$323.85 million**. VAT Withholding tax, which was introduced in April 2017, enhanced revenue collections in the first half of the year by **US\$50.05 million**.

The improved revenue performance from last year is attributed to revenue enhancement projects undertaken by ZIMRA including risk based audits, increased use of automation such as the tax management system. The increased usage of plastic and mobile money transactions also had positive effect on revenue collections. However, VAT expenditures (mainly zero-rating and exemptions) and consequently, VAT refunds had a negative impact on the performance of the revenue head.

VAT on Imports

Revenue collections from VAT on Imports were **US\$252.62 million** against a target of **US\$201.20 million**, resulting in a positive variance of **25.56%**. A **33.94%** growth in revenue collections was recorded during the first half of 2018 compared to **US\$188.60 million** that was collected during the same period last year.

The positive performance of this revenue head is attributed to an increase in the importation of VAT paying goods, owing to the requisite recapitalization drive and the need to complement production in the domestic market.

Customs Duty

Gross collections amounted to **US\$198.54 million** against a target of **US\$177.41 million**, giving a positive variance of **11.91%**. Net collections, after deducting refunds of **US\$0.381 million**, amounted to **US\$198.16 million** against a similar target resulting in a positive variance of **11.70%**. A **42.03%** growth in revenue collections was recorded during the first half of 2018 from the **US\$139.53 million** that was realized during the same period last year.

The positive performance of the revenue head is attributed to improved foreign currency availability, which enhanced the importation of duty paying goods, more vigilant controls through the borders and anticipation of positive economic outlook after the harmonized elections.

Excise Duty

Excise Duty collections amounted to **US\$451.68 million** against a target of **US\$404.89 million**, giving a positive variance of **11.56%**. Revenue collections increased by **41.56%** from the **US\$319.08 million** that was collected in the first half of 2017. Major contributors to Excise Duty revenue were Fuel, Airtime and Beer which contributed **77.90%**, **8.22%** and **7.85%** respectively. The remainder of the revenue was realized from tobacco, wines and spirits, second-hand motor vehicles and electric lamps.

The positive performance of the tax head is incredible considering the reduction in the rates of Excise on Fuel during the first quarter of 2018, and is largely attributable to the positive returns emanating from the Electronic Cargo Tracking System. Furthermore, the improvement in disposable income catalyzed the consumption of excisable goods, consequently augmenting the performance of Excise Duty. Volumes of diesel rose from **394.56million litres** recorded in the first half of 2017 to **491.89 million litres** in the first half of 2018. Petrol imports volumes rose from **208.74 million litres** in 2017 to **289.34 million litres** in 2018, signifying either an increase in economic activity or a reduction in transit fraud.

Future prospects for H2 2018 and revenue projections against anticipated increased business activity look positive. H1, 2018 collections represent 53.48% of the annual target of US\$4.3 billion. If this trend is to continue, the authority will exceed the 2018 target. The Authority projects a growth driven by increased economic activity, the honoring of payment plans by companies that took advantage of the amnesty and continued efforts to encourage voluntary

compliance and enforcement activities against delinquent taxpayers. With a thrust towards voluntary compliance, the Authority will expand taxpayer education and engagement, simplify compliance processes and encouraging voluntary disclosure.

Conclusion

The positive 2018 first half performance is reported at a time when the ZIMRA Board's term has been extended by the statutory six months following its expiry in June 2018. Despite the challenges in the operating environment, which have affected revenue mobilization, the positive performance remains highly encouraging and carries bright prospects for an equally positive second half.

Key positives in the first half performance include consistent implementation of revenue enhancement strategies grounded in ICT innovation, automation and an unwavering approach to the fight against corruption. The Authority appreciates the Government's commitment to fighting this scourge through the call by His Excellency, the President, and will continue undeterred until the war is won. The promises and programs initiated by Government under the new dispensation require that we increase our domestic resource mobilization, a task ZIMRA feels confident to fulfill for sustained economic development if the positive outlook continues.

The Authority will continue to implement planned revenue enhancing measures to maintain the positive performance in the second half of the year. High debt, which remains a major challenge to collections, requires a shift in the way arrears are handled. The Authority will also continue to actively engage taxpayers who have defaulted and the Ministry of Finance and Economic Development to explore other avenues of resolving the challenges related to the current high debt.

The shared purpose and attitude by the Board, Management and employees of the Authority remains key in fostering a positive ZIMRA to Business relationship that is the mainstay of cooperative stakeholder engagement.

Gratitude

I would like to express my sincere gratitude to the Minister of Finance and Economic Development, Honorable P. A. Chinamasa, all Ministry officials, other Government ministries and Central Government for the support and faith extended to the Board.

To my fellow Board members, I say thank you for the continued unwavering dedication to duty and unity of purpose you always exhibit. Without your support, the various initiatives implemented in the first half (H1, 2018) would not have yielded the positive results we are reporting now.

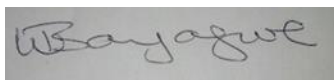
To our valued taxpaying community who remained largely compliant and provided valuable feedback to improve our service delivery, I say thank you. To our cooperating partners and other well-wishers who remained supportive in consultancy and technical aid, I say your input has proven highly instrumental to our success even as we look forward to strengthening the relationships.

We remain consistent in our pledge to provide opportunities for dialogue with all stakeholders and pray that our constructive engagement with the Authority continue. I truly believe that alone as individuals we amount to very little, while collectively, we stand to share our challenges in order to find common solutions. There is no challenge for which a solution cannot be found, as long as there is dialogue and a desire to do things right.

I would also like to extend my profound gratitude to the Authority's Management and Staff, who under the leadership of the new Commissioner General, Ms. Faith Mazani continue to display dedication to duty. We appreciate that these achievements were made despite the fact that ZIMRA staff like all other Zimbabweans are faced by the same socio-economic challenges facing the country. I urge you all to maintain your faith and support, especially in the fight against corruption.

Finally and above all, I thank the Lord Almighty, the Creator and Benefactor, for the Grace bestowed upon us as well as the wisdom, strength, and protection as we carry out our mandate. We pledge allegiance and efforts in pursuit of positive performance to God and the country and pray that we remain steadfast in the path of humble righteousness to that end. For even as the word of God says, "**Unless the Lord builds the house, those who build labour in vain (Psalm 127)**", we rely on the Lord for everything.

I thank you.



Mrs. W. Bonyongwe
ZIMRA Board Chairman