

REVENUE PERFORMANCE REPORT FOR THE THIRD QUARTER OF 2014



Mr Gershem T. Pasi, ZIMRA Commissioner General

I am pleased to present to you the revenue performance report for the third quarter of 2014.

OVERVIEW

Net revenue collections amounted to US\$884.5 million against a target of US\$972.3 million resulting in a negative variance of 9%. Most of the revenue was realised from Value Added Tax (VAT) which contributed US\$250.2 million, followed by Individual Tax and Excise Duty which contributed US\$226.2 million and US\$122.9 million respectively.

Collections for the third quarter of 2014 are as shown in the table and bar graph below.

Table 1: Actual Collections versus Target

TAX HEAD	ACTUAL (US\$)	TARGET (US\$)	VARIANCE TO TARGET (US\$)	% VARIANCE
Individual Tax	226,227,207.45	190,000,000.00	36,227,207.45	19%
Company Tax	92,236,066.65	104,000,000.00	-11,763,933.35	-11%
V A T (Local sales)	123,921,130.34	189,255,000.00	-65,333,869.66	-35%
V A T(Imports)	126,319,998.56	132,145,000.00	-5,825,001.44	-4%
Customs Duty	88,245,086.09	117,100,000.00	-28,854,913.91	-25%
Excise Duty	122,899,264.84	136,500,000.00	-13,600,735.16	-10%
Carbon Tax	8,850,749.83	11,180,000.00	-2,329,250.17	-21%
Mining Royalties	33,119,341.81	48,300,000.00	-15,180,658.19	-31%
Other Taxes	62,683,418.53	43,826,999.99	18,856,418.54	10%
Total	884,502,264.1	972,306,999.99	-87,804,735.89	-9%

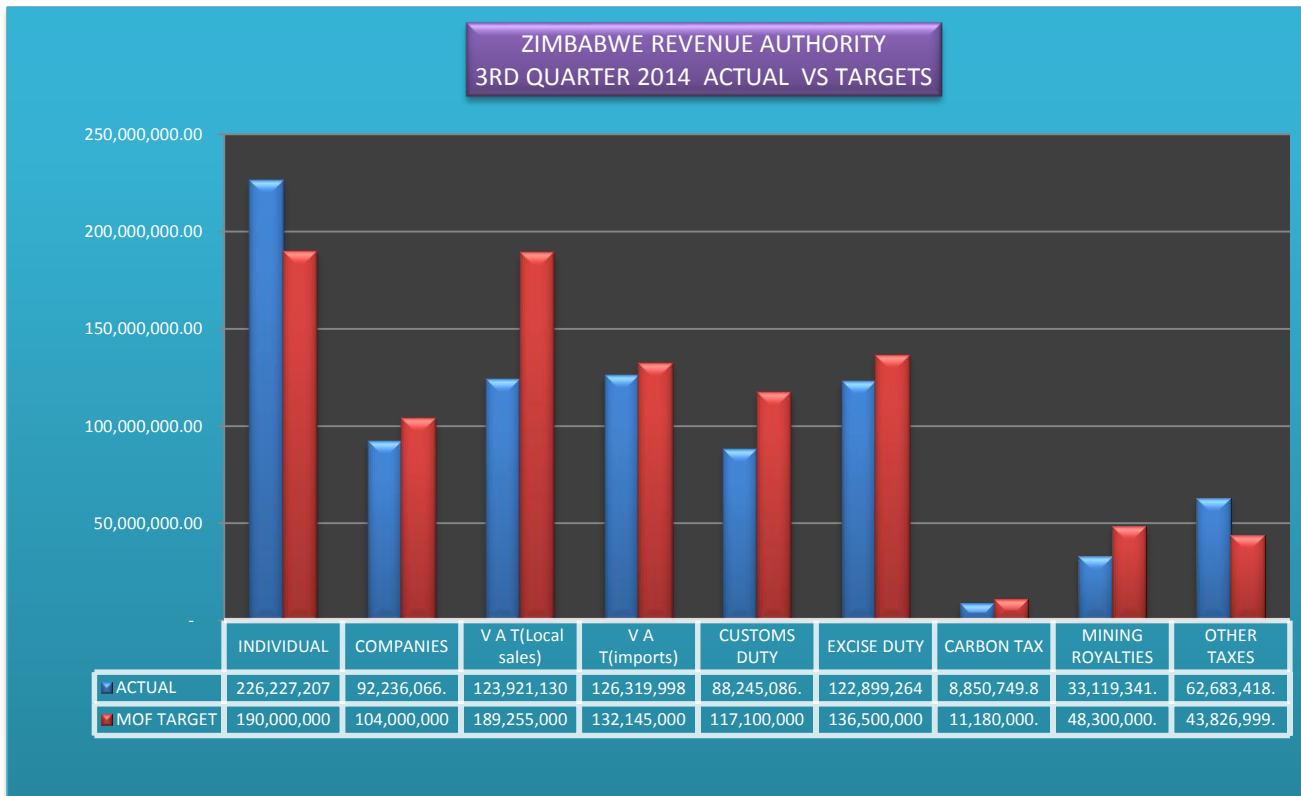


Figure 1: Actual Collections versus Target Bar Graph

VAT contributed the greatest portion of the revenue, bringing in 28% of total collections while Individual Tax and Excise Duty contributed 26% and 14% respectively. The revenue heads' contributions are as represented in the pie-chart below.

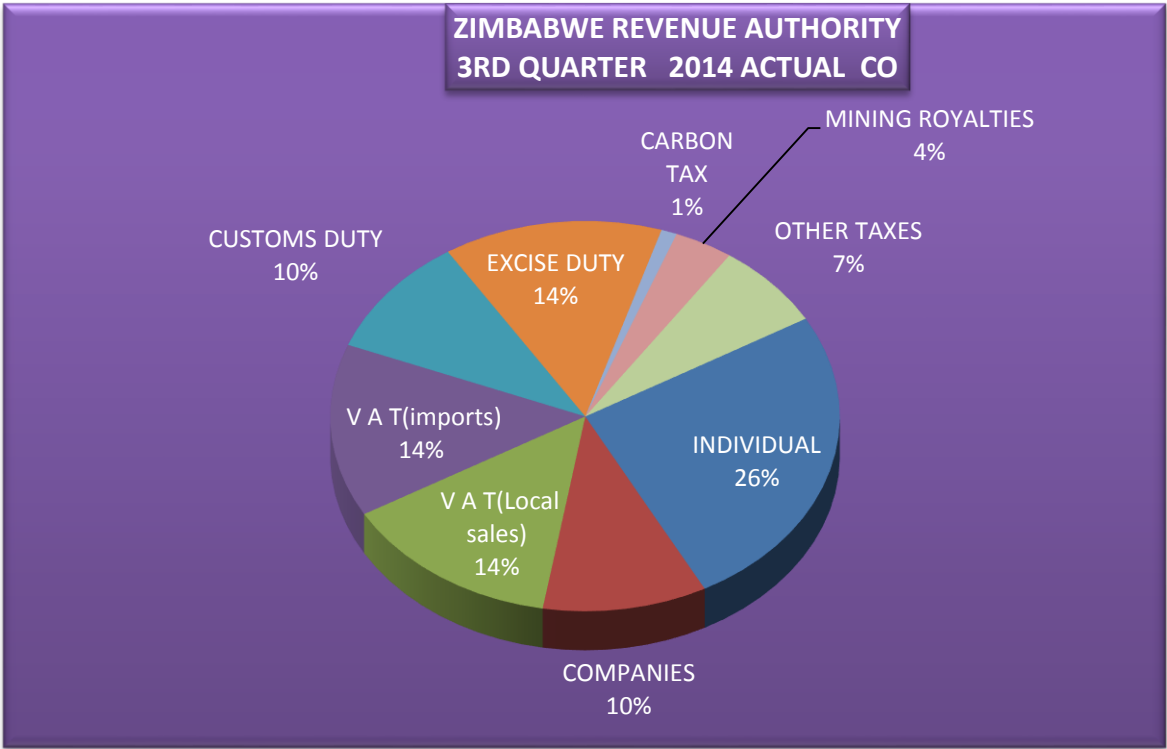


Figure 2: Contribution of Revenue Heads Pie Chart

1. Individual Tax

Collections under this revenue head amounted to US\$226.2 million against a target of US\$190.0 million, resulting in a positive variance of 19%. Revenue from Individual Tax increased by 7% from last year's third quarter collections of US\$211.3 million. The current positive performance of the revenue head can be attributed to on-going follow ups, revenue enhancing projects and audits that are being carried out by the Zimbabwe Revenue Authority.

Anticipated Performance

The revenue head is expected to maintain some consistency in performance based on past trends.

2. Corporate Income Tax

This revenue head contributed US\$92.2 million to total revenue against a target of US\$104.0 million resulting in a negative variance of 11%. Revenue collections from companies decreased by 10% from the 2013 third quarter collections of US\$102.4 million. This can be attributed to liquidity

challenges that negatively affected the ability of companies to finance and recapitalise their operations. The depressed performance of Corporate Income Tax is also due to the harsh economic environment which negatively affected the profitability of local companies.

Anticipated Performance

The performance of the revenue head is not expected to improve in the fourth quarter as liquidity challenges continue to negatively affect companies' operations and performance.

3. Dividends and Interest

A total of US\$12.8 million was collected under this revenue head against a target of US\$9.8 million resulting in a positive variance of 31%. During the same period last year, US\$5.3 million was collected and the amount collected in the third quarter of 2014 reflects a 59% increase in revenue collections. The main contributions to the revenue head were withholding taxes on non- resident tax on fees and non- resident tax on dividends. The performance of the revenue head can be attributed to the investigations conducted in the quarter

Anticipated Performance

The performance of the revenue head is dependent on consistent payment of fees and dividends.

4. Capital Gains Tax (CGT) and CGT Withholding Tax

Collections amounted to US\$5.5 million against a target of US\$8.8 million resulting in a negative variance of 38%. Capital Gains Tax contributed 94% to collections under this revenue head, with the remainder coming from CGT Withholding Tax. There has been a 29% increase in revenue collections from last year's third quarter collections of US\$3.9 million. The performance of the revenue head can be attributed to:

- Limited mortgage finance by the majority of financial institutions resulting in low activity in the mortgage market.
- Liquidity challenges in the economy which have negatively affected the performance of the stock market. This in turn resulted in depressed collections from CGT Withholding Tax as few stocks are changing hands at depressed prices.

Anticipated Performance

Should liquidity challenges persist, this would negatively impact on the performance of the revenue head.

5. Tobacco Levy

The revenue head realised US\$624,005.59 against a target of US\$1.9 million resulting in a negative variance of 67%. The depressed performance of Tobacco Levy can be attributed to the closure of the auction floors to mark the end of the tobacco selling season which occurred in July. The remaining mop-up sales from contract farmers did not realise much revenue.

Anticipated Performance

No more collections are expected from Tobacco Levy because the tobacco marketing season has ended.

6. Carbon Tax

Revenue collections from Carbon Tax during the quarter under review amounted to US\$8.9 million against a target of US\$11.2 million resulting in a negative variance of 21%. There has been an 8% decline in revenue collections from last year's US\$9.7 million which was collected during the third quarter. The performance of the revenue head can be attributed to:

- The decline in volumes of petrol and diesel imports during the quarter as compared to the same period last year. During the same period in 2013, petrol and diesel imports amounted to 125 million litres and 239 million litres respectively, while in 2014 petrol and diesel imports were 111 million litres and 226 million litres respectively.

Anticipated Performance

The performance of the revenue head is expected to decrease if volumes of petroleum products continue declining.

7. Value Added Tax

Total VAT collections contributed 28% to total revenue. Gross collections were US\$325.7 million against a target of US\$321.4 million. VAT refunds amounted to US\$75.9 million thus culminating in net collections of US\$250.2 million, which translates to a negative variance of 22% against the quarterly target.

7.1 Value Added Tax on Local Sales

Gross collections during the quarter were US\$199.3 million while net collections amounted to US\$123.9 million against a target of US\$189.3 million resulting in a negative variance of 35%. Net VAT on Local Sales contributed 49.5% to total VAT revenue and 14% to total revenue. This represents an 8% decline in net collections from the same period last year where a total of US\$185.3 million was collected. The performance of the revenue head can be attributed to:

- The fall in industrial capacity utilisation which has resulted in reduced production of goods and services that attract VAT.
- A decline in disposable incomes as some companies are retrenching, closing down or failing to pay their employees.

Anticipated Performance

The performance of the revenue head is expected to remain depressed until industrial capacity utilisation improves.

7.2 Value Added Tax on Imports

Revenue collections for the quarter were US\$126.3 million against a target of US\$132.1 million resulting in a negative variance of 4%. During the same period last year, US\$129.3 million was collected and this translates to a decline in revenue collections of 2%. The performance of VAT on Imports can be attributed to:

- The tight liquidity position which continues to force importers to reduce their levels of imports.
- Value Added Tax amounting to US\$7.6 million was foregone during the quarter as a result of various instruments suspending the payment of VAT on imports.

Anticipated Performance

The performance of the revenue head is not expected to improve significantly as persistent liquidity challenges negatively affect the importation of goods that attract VAT.

8. Customs Duty

Gross collections from Customs Duty were US\$88.7 million whilst net collections for the quarter were US\$88.2 million against a target of US\$117.1 million. Net collections were, therefore, 25% below target. Customs Duty collections during the same period last year amounted to US\$92.4 million, which translates to a 4% decrease in revenue collections this year. The performance of the revenue head can be attributed to the following:

- Revenue foregone through suspending the payment of Customs Duty for the third quarter amounted to US\$174.8 million, which is way above the Customs Duty of US\$88.2 million collected during the quarter under review.
- Liquidity constraints and lack of lines of credit which have resulted in a reduction in the volumes of duty-paying imports.

Anticipated Performance

The performance of the revenue head is expected to remain subdued should the current liquidity constraints continue to prevail.

9. Excise Duty

Revenue from Excise Duty amounted to US\$122.9 million against a target of US\$136.5 million resulting in a negative variance of 10%. Collections under this revenue head fell by 5% from last year's third quarter collections of US\$129.9 million. Fuel and beer contributed the bulk of the revenue, with contributions of 75% and 16% respectively. The performance of the revenue head is attributed to the following:

- The decline in volumes of petrol and diesel imports during the quarter as compared to the same period last year. During the same period last year, petrol and diesel imports totalled 125 million litres and 239 million litres respectively while in 2014 petrol and diesel imports were 111 million litres and 226 million litres respectively. The excise duty from beer also decreased from \$20,5 million to \$17,8 million in the same period last year.
- There is a close link between industrial and commercial capacity utilisation and fuel consumption.

10. Mining Royalties

Mining Royalties contributed US\$33.1 million to total revenue against a target of US\$48.3 million resulting in a negative variance of 31%. During the same period last year, US\$24.9 million was collected which translates to a 25% increase in revenue collections. The performance of this revenue head can be attributed to:

- The general fall in gold output and prices of gold on the international market. In July, gold prices were US\$1,342.00 and by October prices went down to US\$1,193.53 according to the bullion vault market. *(Source: www.bullionvault.com/gold-price-chart)*

- There have not been any major sales of the country's diamonds during the quarter under review. One diamond sale was conducted in Dubai from 20 July to the first week of August 2014 and the gross sales were US\$69.9 million.

Anticipated Performance

Mining Royalties are expected to continue fluctuating as they are not showing a defined trend.

11. Other Taxes

Collections under this revenue head were US\$29.4 million against a target of US\$23.3 million resulting in a positive variance of 26%. There has been a 3% increase in revenue from the US\$28.5 million that was collected during the same period last year. Withholding Tax on Tenders contributed 80% to total revenue collected under this revenue head, with the remainder coming from Presumptive Tax, Road Access Fees, Stamp Duties, Banking Levy and ATM Levy.

Anticipated Performance

- The revenue head is expected to continue surpassing the set targets especially on Withholding Tax on Tenders due to audits that are being carried out by ZIMRA.
- ZINARA started collecting Road Access Fees in the last part of the third quarter of 2014. Such collections will not be part of this report in future.

CONCLUSION

Let me take this opportunity to thank those clients who continue to exhibit high levels of responsible citizenship and good corporate governance through paying their taxes and duties on time and in full for the development of our nation. Some of these clients will be recognised during the third edition of the Taxpayer Appreciation Day to be commemorated on 30 October 2014 under the theme, *“Realising Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM-ASSET) Goals through Tax Compliance”*.

I am greatly indebted to the Minister of Finance and Economic Development and the entire Government for the support as well as to ZIMRA Management and Staff for the hard work and unity of purpose.

Going forward, the Authority will continue to play its part in ensuring efficient and effective systems for domestic revenue mobilisation, which is critical in the attainment of targets under ZIM-ASSET.



G.T. PASI
ZIMRA COMMISSIONER GENERAL



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"We are here to serve"

