

REVENUE PERFORMANCE REPORT FOR THE THIRD QUARTER OF 2015



Mrs W. Bonyongwe, ZIMRA Board Chairman

Preamble

The economic environment remained harsh for the third quarter of 2015. The liquidity situation has not changed despite the current initiatives to solve it. Power supply has worsened. The US Dollar strengthened during the period under review against the Rand and all other currencies of our trading partners particularly in the Region. This put pressure on local products which are struggling to compete with cheaper imports from the Region some of which have preferential or low tariffs due to Regional Agreements. A lot of companies closed down or are in further distress as a result of the situation. This had an adverse impact on margins and employment levels in Zimbabwe. The depressed commodity prices globally also exacerbated the challenges to business. All this impacted negatively on the various revenue heads. Consequently, the Zimbabwe Revenue Authority has again failed to meet its revenue target for the quarter.

The tax amnesty that was meant to give clients whose tax affairs were not in order a chance to regularise them ended at the end of the quarter with few clients heeding the call. ZIMRA is, therefore, going to leave no stone unturned in pursuing tax evaders who did not take advantage of this opportunity.

Revenue Performance

During the period under review, ZIMRA attained net collections of US\$878.22 million, which is 91.10% of the target of US\$964.00 million. There was a 0.71% decline in net revenue collections from the same period last year where US\$884.46 million was realised.

The year started with a debt of US\$1.4 billion which, after recoveries and new debts being raised, ended the third quarter at US\$1.9 billion.

The bulk of the revenue for the third quarter was realised from Individual Tax, Excise Duty and Value Added Tax (VAT) on Local Sales which contributed 22%, 20% and 16% respectively.

Net cumulative revenue collections as at 30 September 2015 amounted to US\$2.54 billion which is 67.54% of the 2015 annual target of US\$3.76 billion. This translates to an 8.55% decline in revenue collections as compared to the same period last year where the cumulative revenue collections were US\$2.78 billion.

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 Third Quarter 2015

Revenue Head	Actual (US\$)	Target (US\$)	Variance(US\$)	% Variance
Individual Tax	195,397,449	203,000,000	(7,602,551)	-3.75%
Excise Duty	176,285,143	151,000,000	25,285,143	16.75%
VAT on Local Sales	136,236,297	161,100,000	(24,863,703)	-15.43%
VAT on Imports	116,016,935	104,900,000	11,116,935	10.60%
Customs Duty	89,319,999	100,000,000	(10,680,001)	-10.68%
Company Tax	85,137,269	124,000,000	(38,862,731)	-31.34%
Withholding Tax on Tenders	21,162,990	39,388,360	(18,225,370)	-46.27%
Mining Royalties	17,273,454	38,925,000	(21,651,546)	-55.62%
Dividends, Fees, Interest and Remittances (DFIR)	16,034,546	14,205,000	1,829,545	12.88%
Carbon Tax	8,647,946	7,380,000	1,267,946	17.18%
Other Taxes:	10,486,318	20,101,710	(9,615,392)	-47.83%
CGT & CGT Withholding Tax	6,504,272	13,890,000	(7,385,728)	-53.17%
Other Indirect Taxes	2,461,908	4,611,710	(2,149,802)	-46.62%
Tobacco Levy	1,520,137	1,600,000	(79,863)	-4.99%
Non-Tax Revenue	6,220,513	0	6,220,513	
TOTAL	878,218,859	964,000,000	(85,781,211)	-8.90%

The following bar graph shows actual collections versus targets per revenue head for the third quarter of 2015.

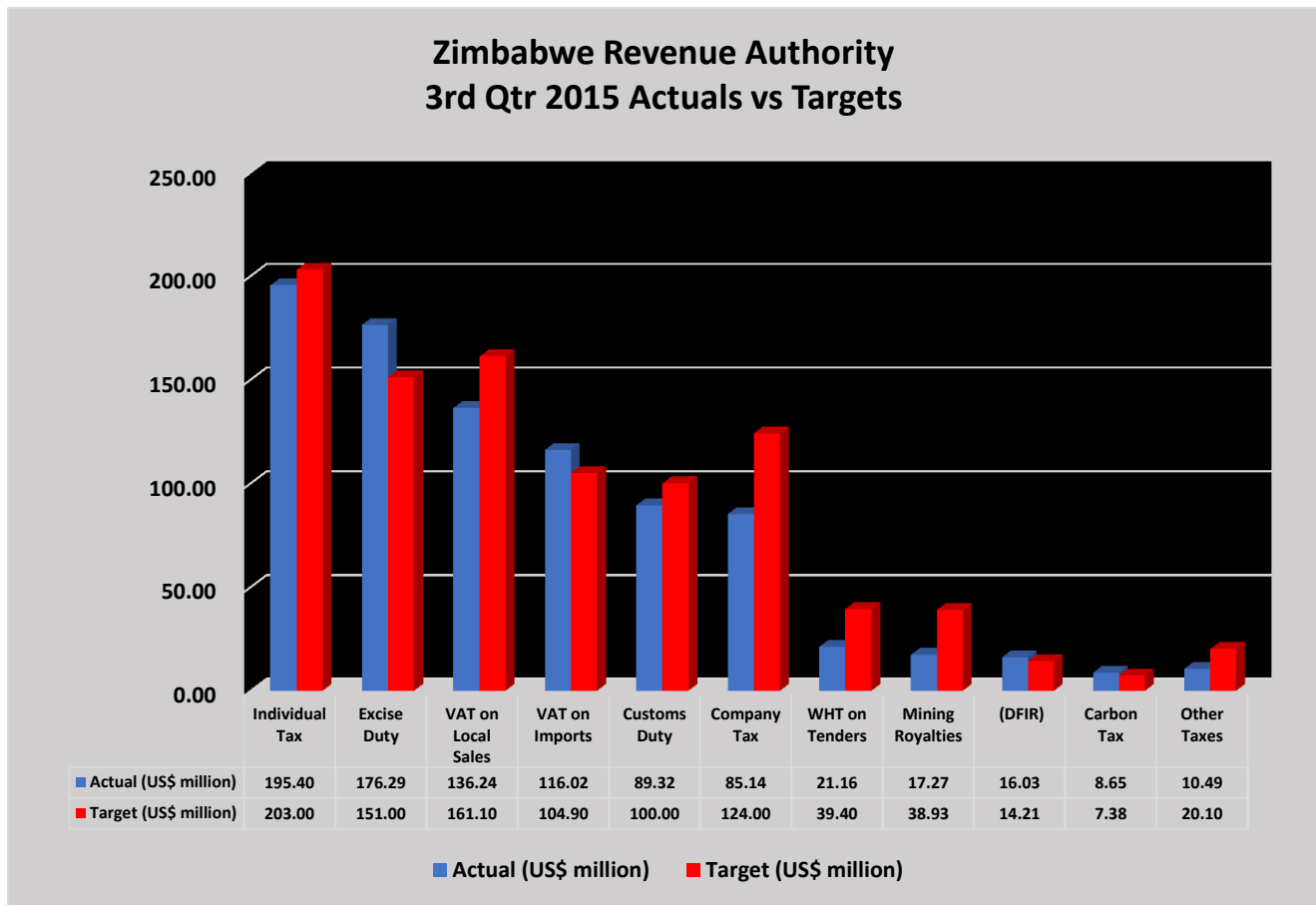


Figure 1: 2015 Third Quarter Actual Collections vs Targets

Revenue Head Contribution

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

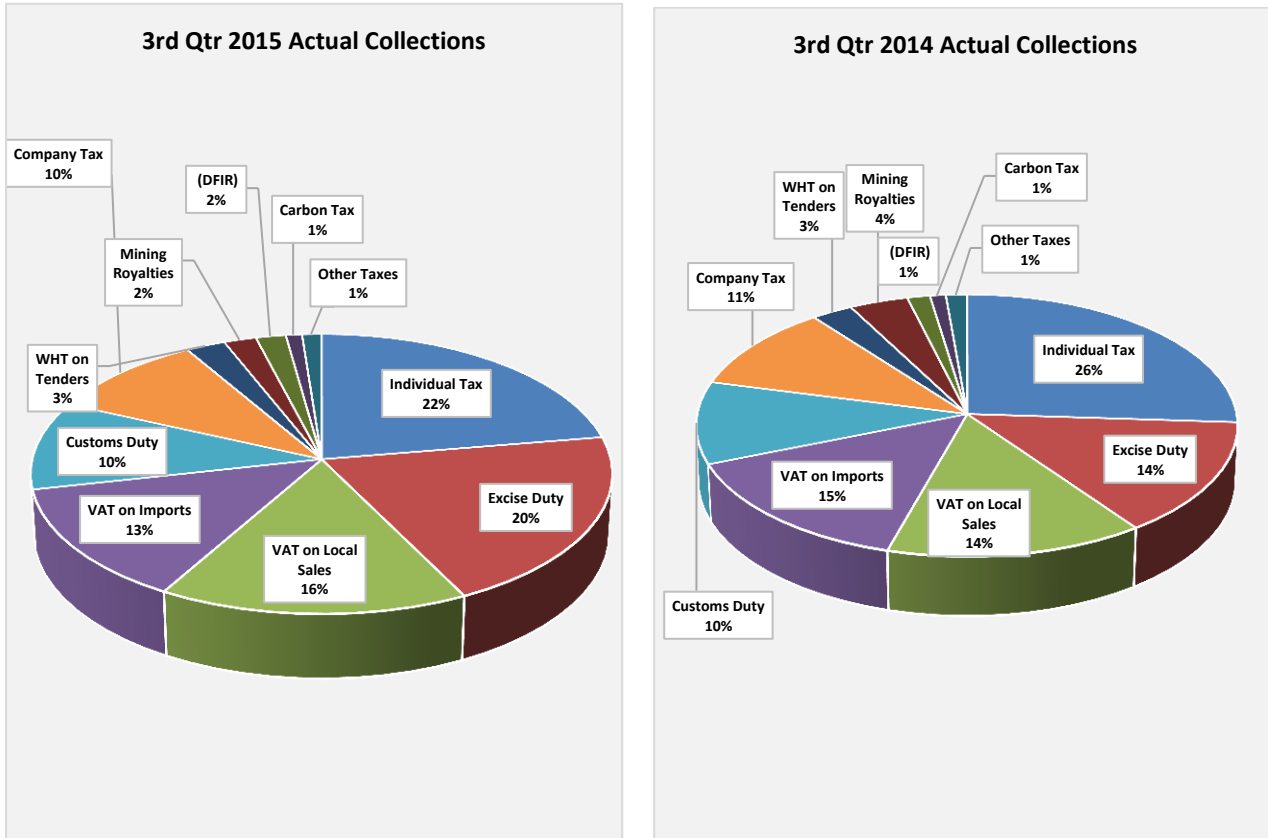


Figure 2: Revenue Heads' Contribution to Revenue for Q3 in 2014 and 2015

Revenue heads such as Excise Duty, VAT on Local Sales as well as DFIR contributed more in percentage terms to total revenue in 2015 as compared to 2014. On the other hand, VAT on Imports, Individual Tax, Mining Royalties and Company Tax contributed less in percentage terms to total revenue in 2015 as compared to 2014. Customs Duty, Other Taxes, Carbon Tax and Withholding Tax on Tenders maintained their 2014 percentage contribution to total revenue in 2015.

Comparison of 2014 and 2015 Third Quarter Revenue Performance

Collections for the third quarter of 2014 and 2015 were as shown in the bar graph below.

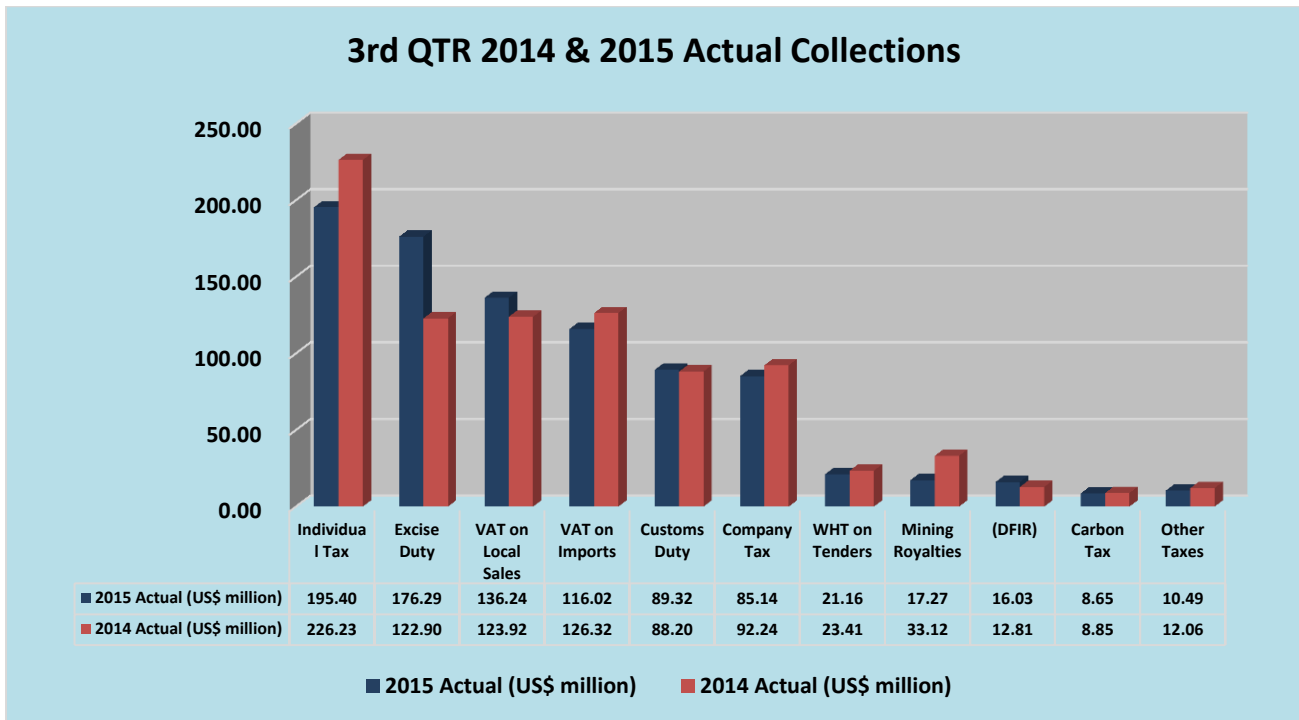


Figure 3: Revenue Heads' Performance in 2014 & 2015 Q3

Collections for the third quarter of 2015 for most revenue heads were lower compared to the same period last year. Three revenue heads namely VAT on Local Sales, Customs Duty and Excise Duty recorded higher collections during the third quarter of 2015 than in 2014.

Individual Tax

Collections under this revenue head amounted to US\$195.40 million, which is 96.25% of the targeted US\$203.00 million. There has been a 13.63% decline in revenue collections from the US\$226.23 million that was collected during the third quarter of 2014. The outstanding Pay as You Earn (PAYE) as at the end of the third quarter was US\$601.50 million.

The performance of the revenue head can be attributed to retrenchments and reduction of remuneration packages. Therefore, going forward this revenue head is under pressure of level of employment and remuneration packages.

Corporate Income Tax

This revenue head contributed US\$85.14 million to total revenue during the third quarter of 2015. The revenue head's collections were 68.66% of the targeted US\$124.00 million. During the same period last year, a total of US\$92.24 million was collected from this revenue head, which was 88.69% of the targeted US\$104.00 million.

Outstanding Corporate Income Tax as at 30 September 2015 was US\$402.06 million. Tax forgone through tax incentives for the quarter amounted to US\$5.17 million. The performance of the revenue head was dampened by reduced margins as the local companies felt the heat of competing imports. Company closures also continued to depress the revenue head. The future performance of the revenue head depends on the fruition of the interventions to turn around the economy.

VAT on Local Sales

Gross collections during the period under review amounted to US\$202.90 million against a target of US\$161.10 million, which translates to a positive variance of 25.95%. VAT refunds were US\$66.67 million, resulting in net collections of US\$136.24 million against a target of US\$161.10 million. Net VAT on Local Sales collections were 84.57% of the target.

Net revenue collections increased by 10% from the US\$123.92 million that was collected during the same period last year. VAT on Local Sales contributed 54.01% to total VAT revenue. The VAT on Local Sales debt amounted to US\$749.92 million as at 30 September 2015

The performance of VAT on Local Sales can be attributed to:

- Low disposable incomes due to retrenchments and company closures.
- High tax forgone through exemptions and zero-rated supplies which were 56.64% of potential gross revenue.
- A high refund bill, which is 32.86% of gross VAT on Local Sales.

The long lists of VAT zero-rated and exempt supplies continue to put pressure on the collections of VAT with US\$265.00 million being forgone during the quarter. In line with regional trends, reduction of these lists need to be looked into as we go into the future.

VAT on Imports

Revenue collections from VAT on Imports for the quarter were US\$116.02 million, which is 110.60% of the targeted US\$104.90 million. The revenue head contributed 45.99% to total VAT revenue. Collections under this revenue head for this quarter declined by 8.16% from the US\$126.32 million that was collected during the third quarter of 2014.

Revenue forgone as a result of VAT suppressing instruments amounted to US\$9.34 million.

The revenue head surpassed its target due to the fact that the target was reduced as it was set below last year's performance level. 2015 third quarter revenues were lower than 2014 revenues because importations were lower in 2015 as compared to 2014.

Customs Duty

Net revenue collections were US\$89.32 million which was 89.32% of the targeted US\$100.00 million. There was a 1.22% increase in revenue collections this quarter as compared to the US\$88.25 million which was realised during the same period last year.

Customs Duty suppressing instruments, which enabled the importation of goods under rebates and concessions, resulted in revenue forgone of US\$216.82 million during the quarter.

The performance of the revenue head can be attributed to Customs Duty suppressing instruments which resulted in 70.68% of gross potential revenue being forgone. The revenue head's collections are also being negatively affected by the economy's use of the US dollar which is significantly stronger than our major trading partners' currencies.

Close attention should be given to balancing the use of rebates to support local industry by suppressing Customs revenue against the resultant revenue generated from domestic

revenue heads (for instance, VAT on Local Sales, Corporate Income Tax and Pay as You Earn).

Excise Duty

Revenue from Excise Duty amounted to US\$176.29 million which is 116.75% of the target of US\$151.00 million. Excise Duty on Fuel was the main contributor to Excise Duty revenue with a contribution of 78.69%. Excise Duty on Beer and Airtime contributed 8.42% and 5.39% 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 43.44% from the US\$122.90 million that was collected during the same period last year.

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.

Withholding Tax on Tenders

Collections under the revenue head for the third quarter of 2015 were US\$21.16 million, which is 53.73% of the targeted US\$39.39 million. This is a Withholding Tax deducted by the paying officer from amounts payable as per defined contracts in the absence of a tax clearance certificate. The performance of the revenue head can be attributed to;

- Generally depressed sales within the economy.
- The increase in the threshold of transactions from which the amounts are withheld from an aggregate of US\$250 to US\$1000 per year with effect from 1 January 2015.

Going forward, the Zimbabwe Revenue Authority will step up audits to enforce compliance.

Carbon Tax

Carbon Tax collections for the quarter amounted to US\$8.65 million which is 117,18% of the target of US\$7.38 million. During the same period last year, US\$8.85 million was collected and was 79.17% of the target of US\$11.18 million. This reflects a 2.29% decline in revenue collections this quarter. The revenue head surpassed the target because the target was low

as it was set below last year's performance level. 2015 third quarter collections were below 2014 third quarter collections because import volumes of fuel were lower in the third quarter of 2015 as compared to 2014.

Mining Royalties

A total of US\$17.27 million was collected under this revenue which is 44.38% of the targeted US\$38.93 million. The revenue head recorded a 47.84% decline in revenue collections from the US\$33.12 million that was realised during the same period last year.

The performance of the revenue head can be attributed to the depressed international mineral prices and lower sales than anticipated as a result of non-production and reduced production by some mining companies. The contribution of the mining sector is being looked into through the ongoing mining fiscal reform which should address the need for revenue and the need to attract investment in the sector.

Other Taxes

This revenue head comprises Capital Gains Tax (CGT) and CGT Withholding Tax, Tobacco Levy, and Other Indirect Taxes (Stamp Duty, Banking Levy, Presumptive Tax, ATM Levy and Betting Tax). Revenue collections from Other Taxes amounted to US\$10.49 million which is 52.17% of the targeted US\$20.10 million. Collections declined by 76.79% from the US\$45.18 million that was realised during the same period last year.

The failure of the revenue head to meet its target can be attributed to the negative performance of CGT and CGT Withholding Tax as a result of liquidity constraints, leading to the depressed activity at the local stock exchange, and the fall in property values.

Conclusion

I would like to thank the Board, Commissioner General, Management and Staff for their hard work and commitment and urge them to continue diligently executing their duties for the development of our country.

I am also deeply grateful to the Ministry of Finance and Economic Development, and the entire Government, for the support and guidance received during the period under review.

I am most indebted to those among the taxpaying public who continue to meet their fiscal obligations in spite of the challenging economic environment. May God bless you. Please continue to pay your duties and taxes voluntarily, on time and in full. Indeed, voluntary compliance with fiscal legislation is part of good corporate governance, responsible citizenship and true patriotism.

May I take this opportunity to congratulate winners of Taxpayer Appreciation Awards who were honoured on 2 October 2015 for their contribution to the development of this country.

Thank You

A handwritten signature in black ink, appearing to read 'W Bonyongwe', written in a cursive style.

Mrs W. Bonyongwe

ZIMRA Board Chairman