REVENUE PERFORMANCE REPORT FOR THE QUARTER ENDED 31 MARCH 2017

Mrs W. Bonyongwe

ZIMRA Board Chairman

Preamble

The 2016/17 rainy season was good for Zimbabwe as predicted, and this augurs well for the performance of the economy. The good rainy season was complemented by an improvement in the level of the nation's preparedness for the Agricultural Season compared to previous years. On one hand, Private Contract Farming was more organised and more comprehensive than before, owing to the adoption of the Lease Agreements by Government. On the other hand, Government had various schemes to boost agricultural production in the form of the regular Presidential Input Scheme for small-scale farmers, augmented by the Command Agriculture Scheme which took on board a significant number of A2 farmers as well. There was also another scheme to boost cotton production and resuscitate the cotton industry. Therefore, more hectarage was under tillage this season compared to the previous years.

The Reserve Bank of Zimbabwe chipped in with an array of export incentives for the various sectors, including tobacco and gold (especially small-scale gold miners). Meanwhile, chrome exports have resumed. This will enhance production and will result in an improvement in economic performance in 2017. Consequently, the Ministry of Finance and Economic Development (MOFED) has bullishly reviewed economic growth projections from 1.7% in 2016 to 3.7% in 2017.

The tobacco-selling season opened on 15thMarch 2017 and indications are that both the quality and volumes have markedly improved over last year. The 2017 average selling price to date ranged between US$2.61/kg and US$6/kg compared to US$2.48/kg and US$5.60/kg at the same period last year (TIMB).

Unfortunately, the liquidity situation worsened again during the first quarter of 2017 (Q1 2017). Procurement of imported raw materials and capital equipment has become a nightmare, and there are long foreign payment queues at the Reserve Bank of Zimbabwe eating into the gains of SI 64 of 2016. Regional currencies continue to weaken against a stronger United States dollar thus worsening Zimbabwe's export competitiveness. The responsibility to address the liquidity crisis does not lie with the Reserve Bank of Zimbabwe alone. It is the duty of everyone to act responsibly and in the national interest in how cash is handled for the country to restore stability in this area.

Also on the downside is the resurgence of inflation. Inflation is rising fast, with the year-on-year inflation rate breaking into the positive zone for the first time in 29 months. It gained 0.71% points in January 2017 from -0.65% to 0.06% in February 2017 (ZIMSTAT, 2017). This trend is very dangerous given that the dominant currency is the US dollar, which is currently strengthening. Therefore, having the US dollar as the dominant currency worsens our export competitiveness. Under the circumstances, the only solution to the liquidity crisis is increasing production and exports to earn foreign currency. There is an urgent need for the nation to look at the local cost structures (labour including executive packages, utilities, and the myriad of levies which exist currently). Government must also seriously look into the mark ups of those who get licences to import goods. This is not a call for price control but, all these factors impact negatively on Zimbabwe's capacity to increase production and exports. There is just no justification for the current excessive mark ups on imported goods for fertilisers, chemicals and other inputs, equipment even medicines. Profiteering is a local disease for example following the aborted introduction of Value Added Tax (VAT) through Statutory Instrument 20 of 2017 on selected basic commodities, the prices were never adjusted after it was repealed. The high margins are one of the major inflation drivers. Currently, most of our goods and services dismally fail the import parity test owing to the huge profit margins. There is also need to appreciate the value of the US dollar. If that is left unchecked, all strategies to increase production and exports will not succeed and it would be a case of throwing good money after bad.

On the global scene, economies are expected to recover in 2017, even with the heightened uncertainty in the major economies. Global growth is expected to rise from 2.3% in 2016 to 2.7% in 2017 (World Bank Economic Outlook). Commodity markets are quite volatile and directionless at the moment, but are expected to recover in 2017. They will, however, remain below the boom levels. The medium-term prospects for the Emerging and Developing Markets (EMDEs) are going to be dampened by the uncertainty in the major economies. But on the upside, expected growth in the US economy will spur growth in all other economies, other things remaining equal. EMDEs are expected to grow from 3.6% in 2016 to 4.2% in 2017.

Revenue Performance

The 2017 first quarter gross collections amounted to US$862.47 million, which was 6.09% above the target figure of US$812.94 million. Refunds amounted to US$35.84 million giving US$826.63 million in net collections, or 1.68% above target. Net revenue grew by 14.04% in Q1 (2017) from US$724.89million inQ1 (2016). This upward trend is a result of a battery of revenue enhancement measures implemented by the Zimbabwe Revenue Authority, which include automation, greater enforcement and the fight against corruption.

The bulk of the revenues in Q1 (2017) were from Value Added Tax on Local Sales (22.42%), Individual Tax (20.05%) and Excise Duty (18.17%). Company Tax contributed 11.20%, while the rest of the revenue heads contributed 28.16%.

Figure 1below shows a comparison of performance for Q1 (2016) vs. Q1 (2017).

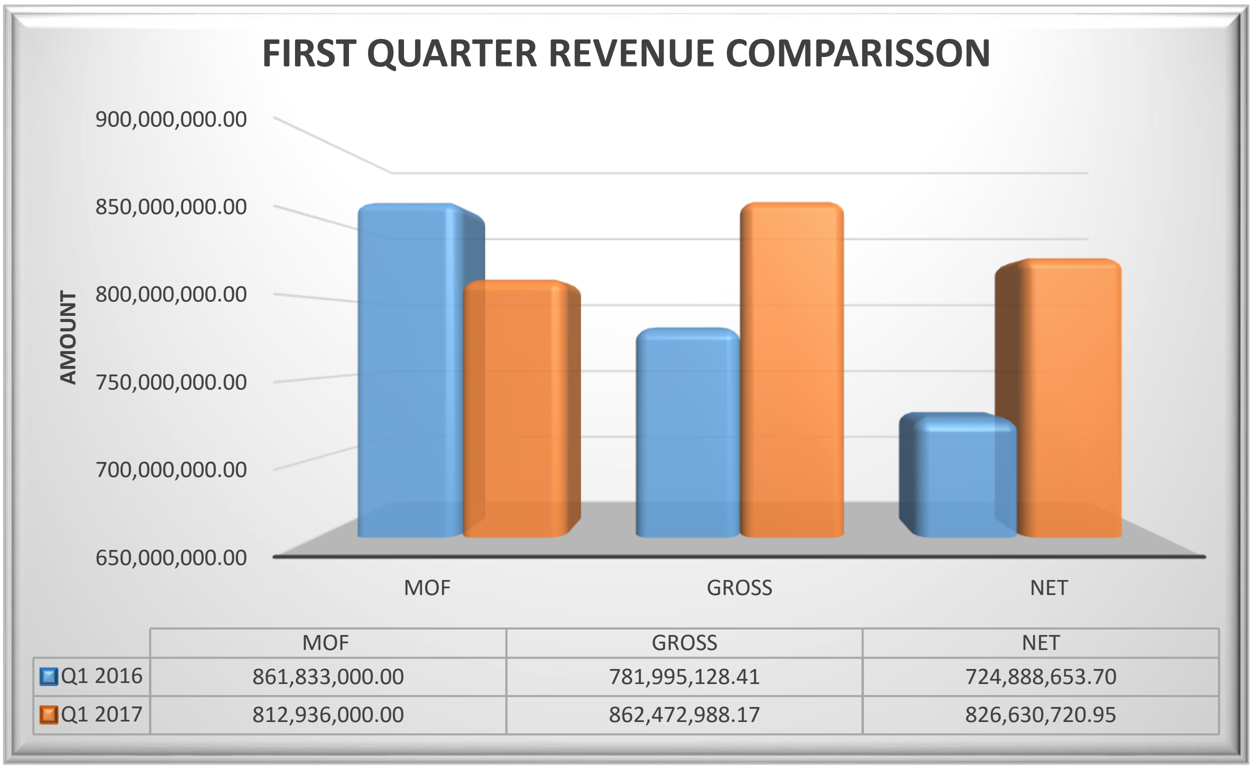

Figure 1: 2016 and 2017 Quarterly Revenue Contributions

Net revenue grew from US$724.89 million in 2016 to US$826.63 million in 2017, which represents a 14.04% growth. Gross revenue collections in 2017 were 10.29% above the 2016 gross revenue collections.

Revenue Performance per Revenue Head for the First Quarter 2017

Table 1 below compares the actual performance of revenue heads to the set target during the first quarter of 2017.

Table 1: Revenue Performance per Revenue Head for 20171stQuarter

TAX HEAD	Target 2017 (US$)	Actual 2017 (US$)	Variance (US$)	% Variance
INDIVIDUAL TAX	185,209,000.00	165,833,145.17	- 19,375,854.83	-10.46%
EXCISE DUTY	162,643,000.00	150,288,308.04	- 12,354,691.96	-7.60%
NET VAT ON LOCAL SALES	163,900,000.00	185,362,544.76	21,462,544.76	13.09%
VAT ON IMPORTS	84,100,000.00	85,545,300.98	1,445,300.98	1.72%
NET CUSTOMS DUTY	70,780,000.00	66,041,936.92	- 4,738,063.08	-6.69%
COMPANY TAX	74,000,000.00	92,639,217.07	18,639,217.07	25.19%
MINING ROYALTIES	13,500,000.00	16,392,354.46	2,892,354.46	21.42%
WITHHOLDING TAX	21,812,500.00	20,542,029.43	- 1,270,470.57	-5.82%
DFIR- (Dividends, Fees, Interest and Remittances)	14,110,000.00	13,276,044.92	- 833,955.08	-5.91%
CARBON TAX	8,470,000.00	7,341,675.42	- 1,128,324.58	-13.32%
OTHER TAXES	14,411,500.00	13,773,313.52	- 638,186.48	-4.43%
CGT & CGT Withholding Taxes	5,670,000.00	5,419,955.16	- 250,044.84	-4.41%
Other Indirect Taxes	6,187,500.00	7,587,612.67	1,400,112.67	22.63%
Tobacco Levy	2,554,000.00	765,745.69	- 1,788,254.31	-70.02%
NET NON-TAX RAVENUE		9,594,850.26		
NET REVENUE	812,936,000.00	826,630,720.95	13,694,720.95	1.68%
GROSS REVENUE	812,936,000.00	862,472,988.17	49,536,988.17	6.09%

It is encouraging to note that quite a number of tax heads exceeded their targets unlike before when only VAT on Local Sales would meet the target. During the quarter under review, in addition to VAT on Local Sales, other tax heads such as VAT on Imports, Company Tax, Mining Royalties and other Indirect Taxes exceeded their Q1 (2017) targets. The improved performance of VAT on Local Sales and Company Tax is attributable to the thrust in automation, audits and compliance checks. Automation has enabled ZIMRA to bring in more taxpayers into the net. It has also enabled ZIMRA to notice under-declarations. This process is on-going and the trend is, therefore, expected to continue throughout the year, other things remaining equal.

Comparison of 2016 and 2017 Quarterly Revenue Collections

Figure 2 below shows revenue collections for Q1 (2017 vs 2016) against targets per revenue head.

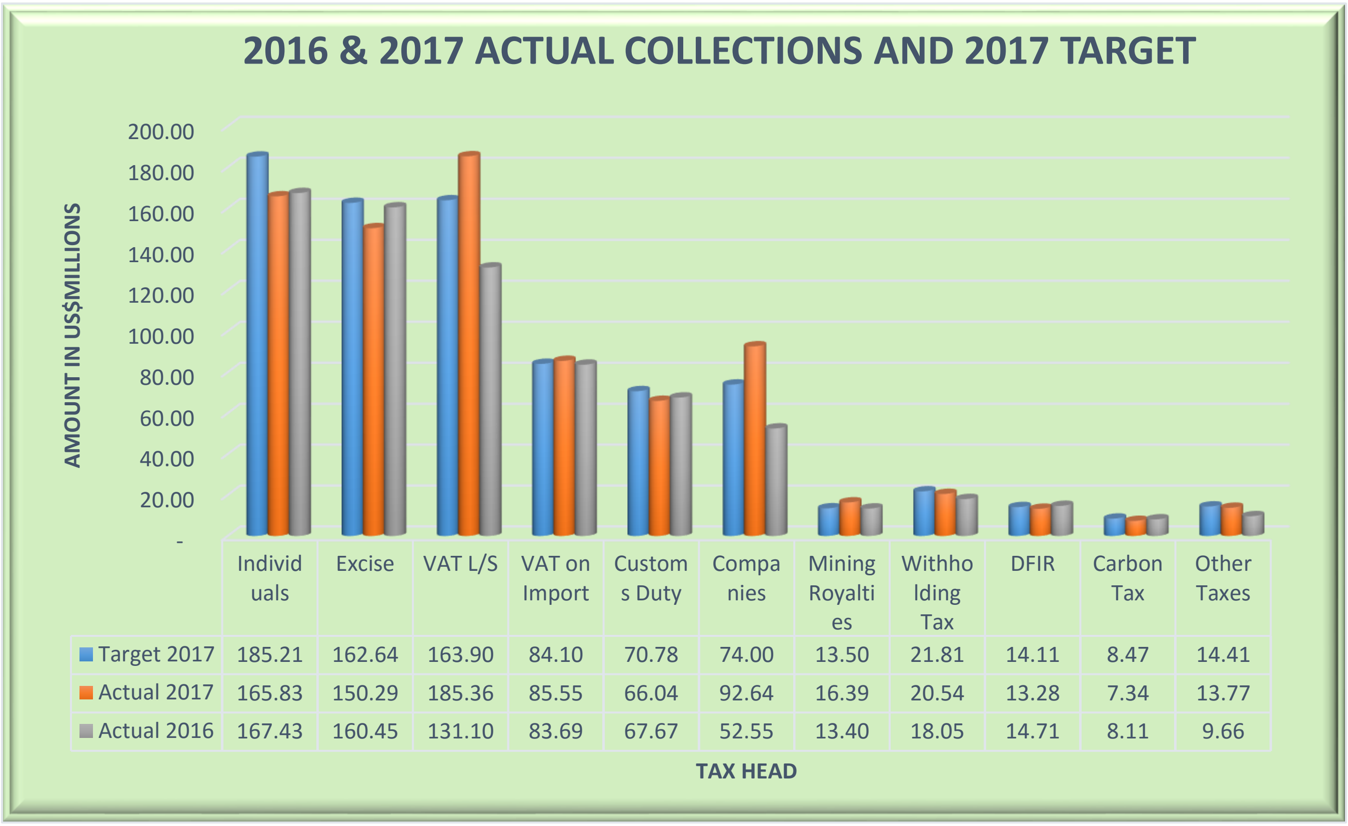

Figure 2: 2017 Targets vs 2017/20161st Quarter collections

Revenue Head Contribution

Figure 3 below shows the contribution of revenue heads to actual collections in Q1 (2016) and Q1 (2017).

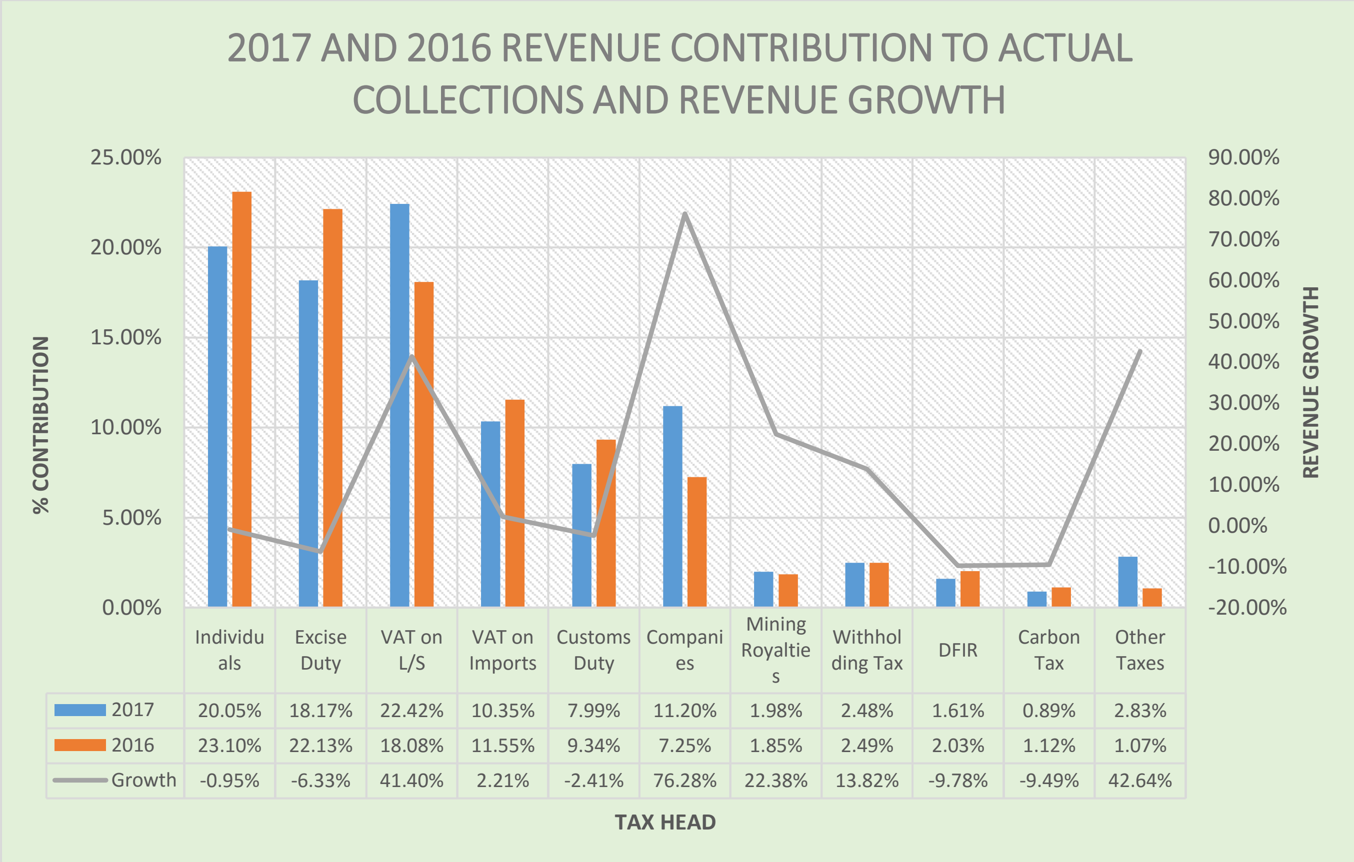

Figure 1: Revenue Heads' Contribution to Revenue collections and revenue growth

The graph depicts real growth in six revenue heads and this can be attributed to efficiencies derived from connecting the old fiscal machines to the ZIMRA servers, the intelligence from the Tax Management System, the introduction of e-filing, enhanced audits and to a lesser extent the introduction of the Electronic Cargo Tracking System, which resulted in improved compliance. Going forward, as the roll out of these systems gathers momentum, the gains are expected to be more pronounced.

Analysis of the Specific Revenue Heads' Performance

Individual Tax

This revenue head contributed US$165.83 million, which is 89.54% of the targeted US$185.21 million. Collections were 0.95% below the US$167.43 million collected in Q1 (2016). The performance was mainly affected by salary cuts and retrenchments. If we all pay our taxes, it becomes possible to reduce the tax rate. It is unfair that currently only a few people carry the tax burden whilst the majority who are self-employed and probably earning more are evading tax.

It has been revealed that most individuals neither declare their income nor pay their taxes. Others partially declare their income to pay less taxes. ZIMRA is devising ways of ensuring that everyone who should pay tax, pays in full. During Q1, the Authority embarked on an extensive taxpayer registration programme which includes intensive taxpayer education and client engagements, particularly in the SMEs sector. This will continue into Q2 and beyond and is designed to widen the tax base and share the tax burden by improving tax compliance levels.

Corporate Income Tax (CIT)/Company Tax

A total of US$92.64 million was realised in Q1 (2017), which was 25.19% above the target figure of US$74.00 million. Actual collections grew by 76.28% from Q1 (2016) collections of US$52.55 million. The Corporate Income Tax debt increased by 12.75% from US$751.49 million to US$847.33 million during the period under review. The increase in debt is due to enhanced audits, which result in prior year assessments being raised. Some people have questioned why ZIMRA is going back to previous years. The issue is that our tax system is based on self-assessment. ZIMRA then reviews the files to confirm accuracy, and it is the duty of everyone - especially corporates - to get proper tax advice when filing their tax returns to avoid penalties and interest.

The performance of the tax head can again be attributed to the revenue enhancement measures highlighted above, as well as improvements in company profitability and payment of the first instalment under QPDs in March 2017.

Going forward, this tax head is expected to perform well owing to the expected improvement of the economy in general, though the liquidity problem will limit the growth.

VAT on Local Sales

Gross VAT on Local Sales collections of $220.88 million realised in Q1 (2017) indicate a growth of 17.56% from the US$187.89 million collected in Q1 (2016). The gross collections under this revenue head were

34.77% above the set quarterly target of US$163.90 million. However, net collections amounted to $185.36 million after refunds amounting to $35.52 million. The net revenue in Q1 (2017) was 41.40% above the Q1 (2016), and 13.09% above the set target. This positive performance should form the nucleus of a new incremental trend in revenue collection in response to the Authority's measures to enforce compliance and improve efficiency. This is in addition to the moves to plug all the tax leakages in the economy in the short to medium term. ZIMRA has been flushing out a number of fraudulent claims. In the long run, the economy has to be fixed sustainably in order to keep increasing revenue collections.

VAT debt as at the end of Q1 (2017) amounted to $1.01billion, which is 0.71% lower than the $1.02 billion reported at the end of Q4 (2016). Of all the tax debts, this debt is inexcusable because it is an amount collected on behalf of Government, but not forwarded to ZIMRA. In an endeavour to reduce this debt, a new VAT Withholding Tax for selected companies was introduced. The reason being that these companies would pay their suppliers 15% VAT which they would claim within a certain period. Meanwhile, those companies would not pass on the VAT to ZIMRA as required by law and this is what has been driving the VAT debt. That meant refunding huge amounts in VAT refunds before the actual VAT was paid. The Withholding Tax is expected to improve Government cashflows through quick collection of that VAT and to avoid refunding money which has not been paid. The impact will be felt in Q2 (2017).

Revenue foregone amounted to US$152.69 million from exempt goods and US$377.78 million from zero-rated supplies. There is, however, a current conversation to remove some items from the zero-rated to exempt category in order to reduce the loss of revenue outflows.

VAT on Imports

Total collections under this revenue head amounted to US$85.55 million, which exceeded the set target of US$84.10 million by 1.72%. Revenue grew by 2.21% when compared to Q1 (2016).

The performance of this revenue head has been positive, mostly because of an increase in VAT paying imports due to shortages in the local economy. Companies have been importing raw materials and machinery for their production lines as well as goods for wholesale and retail. This performance may not be sustainable in the future if the foreign currency shortages and delays in the processing of import payments continue to prevail.

Increased controls flowing from the rolling out of the Electronic Cargo Tracking System have played a significant role in the performance of Import VAT (and other duties as well) by curbing transit fraud and smuggling.

Customs Duty

Gross Customs Duty collections contributed US$66.10 million during Q1 (2017) and net collections amounted to US$66.04 million. Net revenue collections declined by 2.41% from US$67.67 million collected in Q1 (2016) and were 6.69% below the set target of US$70.78 million.

The performance of Customs Duty is dampened by regional trade agreements and continuous base erosion resulting from Customs Duty tax expenditures, which amounted to US$131.40 million during Q1 (2017). Policies to protect the local industry were introduced to level the playing field for local business in relation to imports. These controls have significantly reduced imports and the derivative revenue.

The future performance of this revenue head is dependent on the improvement in industry capacity utilisation and the availability of foreign currency to import raw materials.

Excise Duty

Revenue from Excise Duty amounted to US$150.29 million during Q1 (2016), which is 92.40% of the target figure of US$162.64 million. The revenue head declined by 6.33% when compared to US$160.45 million collected in Q1 (2016).

The performance of the revenue head can be attributed to low consumption of excisable products such as beer and tobacco due to the low disposable income and liquidity crisis; in the absence of a credible alternative payment system. There is still need to improve connectivity and hardware investment to make plastic money universally accessible and efficient even in urban areas.

The consumption of petroleum products declined. Specifically, petrol imports declined from 113.86 million litres in Q1 (2016) to 99.72 million litres in Q1 (2017) while diesel imports declined from 190.14 million litres in Q1 (2016) to 180.93 million litres in Q1 (2017). The decline follows another decline in Q4 (2016). The decline is partly due to the economic performance but also captures significant smuggling and transit fraud. ZIMRA has made inroads in curbing transit fraud through the Electronic Cargo Tracking System, which is currently still being rolled out. However, smuggling through undesignated entry points is more problematic and actually beyond ZIMRA's capacity to curb on its own. It requires a more concerted national effort and political will to eliminate that king of smuggling.

Withholding Tax on Contracts

The revenue head contributed US$20.54 million in Q1 (2017,) which is 94.18% of the expected US$21.81 million. Revenue collections grew by 13.82% when compared to the US$18.05 million reported in the same period in 2016.

The base of this revenue head is highly dependent on the level of compliance. The low growth in revenue noted from Q1 (2016) indicates that compliance remains a challenge. However, the growth in the revenue head shows the positive results of automation in the form of e-services and the increased risk-based audit activities.

Carbon Tax

A total of US$7.34 million was collected against a target of US$8.47 million, which is 86.68% of the target. Thus, the tax head revenues declined by 9.49% when compared to US$8.11 million collected in Q1 (2016).

The performance of this revenue head depends on the volumes of fuel imported and the same narrative on petroleum products applies to it.

Mining Royalties

Revenue collections under this revenue head amounted to US$16.39 million, exceeding the set target of US$13.50 million by 21.42%. This was 22.38% up from the US$13.40 million collected in Q1 (2016).

The growth largely reflects the improvement in mineral production particularly for gold and platinum and the recovery in global mineral prices.

Dividends, Fees, Interest and Remittances

The revenue head contributed US$13.28 million, which is 94.09% of the target figure of US$14.11 million but a 9.78% decline from US$14.71 million in Q1 (2016). The low performance is attributable to the depressed activity and the delisting of some companies from the local bourse.

Other Taxes

This revenue head comprises Capital Gains Tax (CGT), Capital Gains Withholding Tax (CGWT), Tobacco Levy and Other Indirect Taxes (Stamp Duty, ATM Levy, Banking Levy, and Presumptive Tax) and Non-Tax Revenue. Revenue collections amounted to US$23.37 million against the set target of US$14.41 million. Other Indirect Taxes contributed 55.09% of Other Taxes total collections and this is attributable to increased usage of financial services.

The outlook is good given the quality and quantity of tobacco at the auction flows. The volumes are higher than last year and the prices are also higher compared to the 2015/2016 season.

Conclusion

Zimbabwe's economy has had a difficult time but has proved to be quite resilient. In as much as the economic performance has not been good, resulting in low tax revenues, it is undeniable that the drastic change in the structure of the economy counts for a significant portion of the revenue loss. Some big companies have folded up or considerably downsized, but the new economic players who have emerged have not been tax compliant. Some of the new companies are actually bigger than the companies which they replaced but they just do not pay tax.

The new structure is characterised by a general increase in non-compliance and total disregard of the country's tax laws. Houses will be built, fleets of cars being bought and people will be going on holidays but they do not pay their tax. These are the very people who complain most when the taxman finally catches up with, and penalises, them. We cannot build a country like that, there has to be tax discipline for Government to have capacity to provide adequate service delivery. ZIMRA is trying to collect all taxes which are due, Zimbabweans need to inculcate a culture of tax compliance. Paying taxes is a public good. There is nowhere in the world where this level of tax delinquency is tolerated. If everyone who is eligible to pay tax were to fully comply with the tax laws, then the tax rates could actually come down and the nation would not struggle with service delivery.

The first quarter (Q1 2017) performance is satisfactory and very encouraging and sets the right tone for what we want to achieve throughout the year. The depressed economy presented a significant challenge to revenue mobilisation, but ZIMRA rose to the challenge, creating a strong foundation in systems development, revenue enhancement and compliance measures. That the targets were exceeded at all shows what a determined people can achieve. Where there is a will there is a way.

Therefore, I would like to commend the Acting Commissioner General, Mr Happias Kuzvinzwa, ZIMRA Management and Staff for a job well done in this quarter. We have always said revenues could rise with improved efficiency and NOW YOU HAVE DONE IT. However, we should not relax because this is just the beginning. There is still a lot of work to be done and many rivers to cross to collect the optimum level of revenues enough to sufficiently sustain Government programmes. There is also need for stronger stakeholder engagement initiatives, including focused client education programmes and to nurture taxpayers to achieve increased voluntary compliance.

Gratitude

I remain sincerely grateful to the Minister of Finance and Economic Development, Honourable P.A. Chinamasa, the Permanent Secretary Mr Willard Manungo, all Ministry officials and the entire Government who have rendered unwavering support to the Authority in the discharge of its noble mandate.

I also extend my gratitude to my colleagues in the Board. Never before have I seen such dedication to duty, commitment and unity of purpose in a Board. Without your support and unwavering integrity, it would be difficult to chair this Board. Thank you for remaining my pillars of strength, you are indeed "my root kind of people".

To the Acting Commissioner General, Management and Staff, thank you for believing in yourselves first, and working hard to achieve the targets set for you.

To the taxpaying communities who have continued to diligently and faithfully meet their tax obligations in the face of the prevailing challenges, I continue to thank you for playing a critical role in sustaining our economy. It is you who make ZIMRA great. I exhort you to continue to build and dignify Zimbabwe. For those with legacy compliance issues I encourage you to constructively engage the Authority to find a way to get you on the right side of the tax laws.

Deuteronomy 8:18; "But you shall remember the LORD your God: for it is He that gives you power to get wealth …" Therefore, I am mostly grateful to God Almighty, for the Grace upon me and my colleagues to be able to serve Zimbabwe in this capacity.

I thank you.

Mrs W. Bonyongwe

ZIMRA BOARD CHAIRMAN