

# **REVENUE PERFORMANCE REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017**



*Mrs W. Bonyongwe*  
*ZIMRA Board Chairman*

## **Preamble**

The Zimbabwe Revenue Authority's (ZIMRA) 3<sup>rd</sup> Quarter of 2017 (Q3, 17) performance was satisfactory under the prevailing circumstances. The economic performance during the (Q3, 17) remained good and the outlook remains bullish. The major drivers of the economy were essentially the Agriculture and Mining sectors. Mineral revenues grossed **US\$1 billion** for the seven months from January to July 2017, while during the 2016/2017 farming season, maize grain reserves had surpassed **one million tonnes** by September 2017 (*Source: The Herald, September 19, 2017*). On one hand, diamond production increased during the quarter as a result of capital injection into the Zimbabwe Consolidated Diamond Company. On the other hand, Government's expansion of Command Agriculture increased production but also had a huge multiplier effect on the economy. The expansion into livestock, poultry and fishery to the mix, will boost Aggregate Demand.

However, this outturn glosses over serious threats to the economy, arising from the worsening liquidity crisis and shortage of foreign currency to fund critical inputs for industry and agriculture on time and adequately. Going forward, revenue performance could be adversely influenced by the fluctuations of key economic variables on both the domestic and global scene. Chief among these being the rising domestic inflation, continued forex shortages and the perennial liquidity crunch. Globally the impact of Brexit and a move towards protectionist policies in the United States of America and Europe could adversely impact on trade with these countries. It is critical that Government introduces significant incentives for exporters. There is no alternative to increasing production and exports.

## **The Zimbabwe Stock Exchange**

After weeks of trending on the high, the Zimbabwe Stock Exchange is thankfully retreating. Before coming off, the bourse reached a record high market capitalisation of **US\$10 billion** (*Equity- Axis, 2017*). This means about \$6 billion was added into the economy through trading on the stock market during (Q3 17). This has serious implications for growth in Money Supply, essentially because the bulls are not driven by fundamentals. There has been basically no corresponding growth in the underlying assets, making it very inflationary. It may be necessary for the ZSE to introduce circuit breakers in their trading to curb speculative behaviour.

## **Inflation**

Zimbabwe has experienced low inflation since the introduction of multi-currencies. However, since February 2017, inflation has been rising reversing the prolonged deflationary period. The ZIMRA Half Year

performance review cautioned against price increases and high margins. However, during Q3, 17 there were massive increases in prices arising from the three-tier pricing model adopted even by sectors that are regularly allocated foreign currency by the Reserve Bank of Zimbabwe (RBZ) displaying the level of greediness in our economy. This threatens to erode all the achievements over the past years. As it stands, the annual average inflation rate is projected rise to between **2%** and **3%** in 2017 (*RBZ 2017 Mid-Term Monetary Policy Statement*). The International Monetary Fund (IMF) and World Bank (WB) inflation forecasts of **3%** (*IMF World Economic Outlook, 2017*) and **3.2%** respectively. As a country using the US\$ as an anchor currency, this rate is very high and will worsen Zimbabwe's export competitiveness. Sanity must prevail to avoid this. The solution is in increased export production to generate US dollars and improve liquidity. Price controls should not be considered at all. They have failed before and will fail again. There is empirical evidence from many countries to learn from. They will not solve the current problem, they could worsen the already bad situation.

### **ZIMRA's Thrust and Focus**

Cognisant of the volatility in the operating environment and the challenges to effective revenue mobilisation, the Zimbabwe Revenue Authority continues to explore and implement various revenue enhancement measures and other administrative efforts to ensure constant revenue streams to the fiscus.

The main drive is to increase the level of compliance. Many people and businesses are operating outside the tax net and it is these we want to catch to reduce the burden on those who comply. These are the people who cry loudest when ZIMRA finally catches up with them and they have to pay for up to six (6) years before, but it is only fair to those who comply. ZIMRA is grateful for, and commends those coming to voluntarily regularise. The Authority remains committed to its efforts to ensure that taxpayers have access to tax information and service at minimal cost.

The Authority will continue with its anti-corruption initiatives including effective utilisation of the anti-corruption hotline, lifestyle audits, whistle blower facility and of late, engaging our political leadership in Parliament to assist in education for the taxpayers in their various constituencies. ZIMRA is also lobbying Government to make the penalties for tax evasion more deterrent including disgorgement and even time in jail. Most developed and developing countries treat tax evasion as a very serious crime.

## REVENUE PERFORMANCE

### First Half 2017 Performance

Gross collections for the First Half 2017 amounted to **US\$1.789 billion** against a target of **US\$1.656 billion**. This gives a positive variance of **8.05%**. After deducting refunds amounting to **US\$88.16 million** net collections were **US\$1.701 billion** translating to a positive variance of **2.72%** above target. Compared to the same period in 2016, revenue collections increased by **9.74%** in 2017.

This performance set the tone for the second half, giving rise to the stepping up of efforts with the results evident in the third quarter performance.

### Third Quarter (Q3) 2017 Performance

Gross collections for the quarter were **US\$1.03 billion** translating to **19.25%** above the target of **US\$863.56 million**. Net collections, after deducting **US\$62.05 million in** refunds amounted **US\$967.76 million** was still **12.07%** above target. The gross collections were **13.30% above** the same period in 2016. The positive performance is attributable to higher collections in Value Added Tax (VAT) on local sales and imports, Individual Tax, Excise Duty and Company Tax.

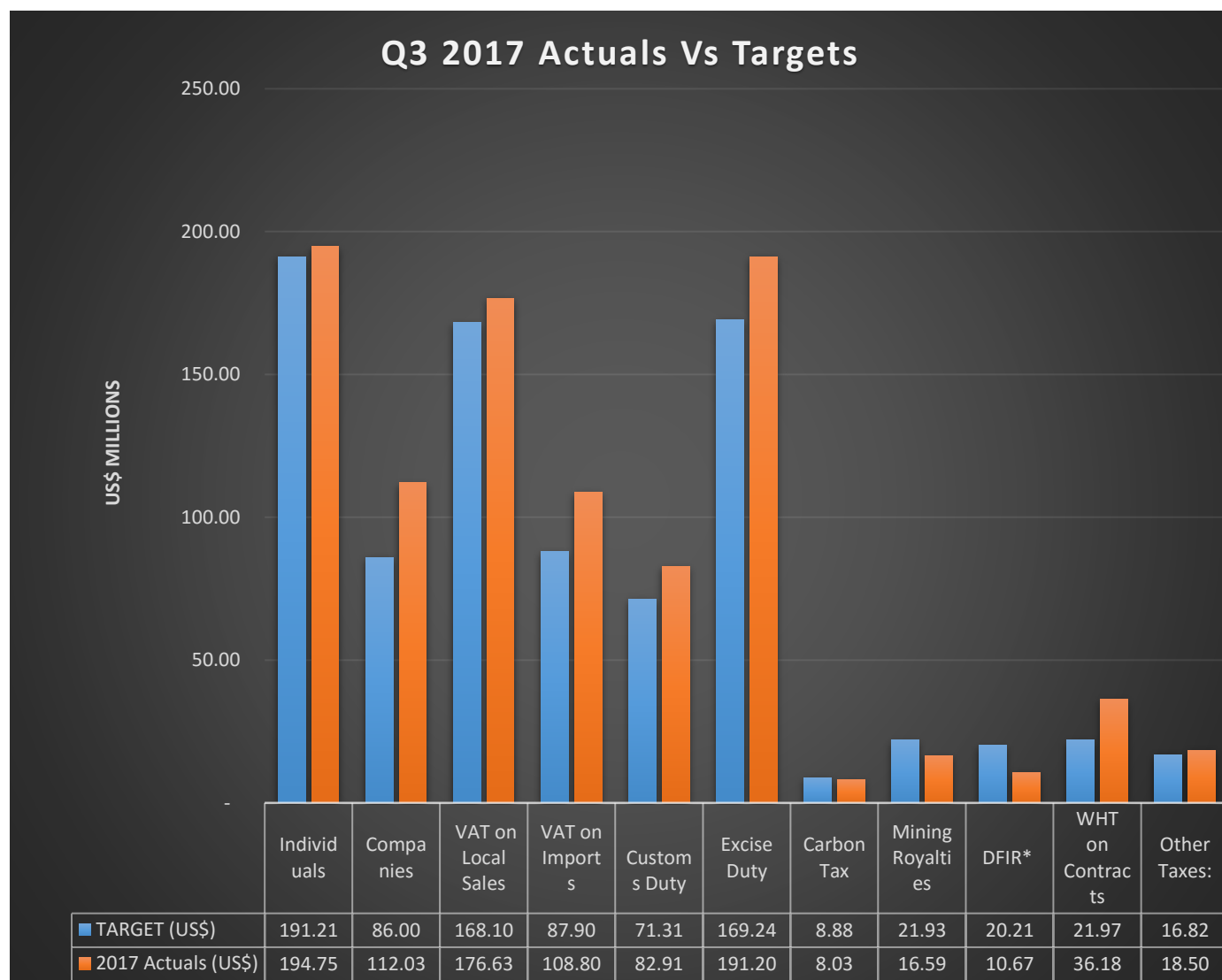
**Figure 1: (Q3, 17) versus (Q3, 16) Performance**



**Table 1: Q3 2017 Performance per Revenue Head**

<b>TAX HEAD</b>	<b>TARGET (US\$)</b>	<b>ACTUALS (US\$)</b>	<b>VARIANCE (US\$)</b>	<b>% VARIANCE</b>
Individual Tax	191,209,000.00	194,147,964.25	2,938,964.25	1.54%
Company Tax	86,000,000.00	112,033,747.65	26,033,747.65	30.27%
Net VAT on Local Sales	168,100,000.00	176,633,574.54	8,533,574.54	5.08%
VAT on Imports	87,900,000.00	108,795,208.38	20,895,208.38	23.77%
Net Customs Duty	71,310,000.00	82,906,764.39	11,596,764.39	16.26%
Excise Duty	169,244,000.00	191,199,371.82	21,955,371.82	12.97%
Carbon Tax	8,880,000.00	8,032,710.08	-847,289.92	-9.54%
Mining Royalties	21,925,000.00	16,587,210.57	-5,337,789.43	-24.35%
DFIR (Dividend, Fees, Interest & Remittances)	20,205,000.00	10,669,406.37	-9,535,593.63	-47.19%
WHT on Contracts	21,972,500.00	36,181,953.59	14,209,453.59	64.67%
Other Taxes:	16,817,500.00	18,501,060.01	1,683,560.01	10.01%
<i>CGT &amp; CGT WHT</i>	7,890,000.00	6,563,014.23	-1,326,985.77	-16.82%
<i>Tobacco Levy</i>	1,900,000.00	1,655,715.93	-244,284.07	-12.86%
<i>Other Indirect Taxes</i>	7,027,500.00	10,282,329.85	3,254,829.85	46.32%
Net Non-Tax Revenue		12,068,907.51	12,068,907.51	
<b>NET REVENUE</b>	<b>863,563,000.00</b>	<b>967,757,879.16</b>	<b>104,194,879.16</b>	<b>12.07%</b>
<b>GROSS REVENUE</b>	<b>863,563,000.00</b>	<b>1,029,807,855.64</b>	<b>166,244,855.64</b>	<b>19.25%</b>

**Figure 2: Q3 2017 Actual Revenue Collections vs. Target**

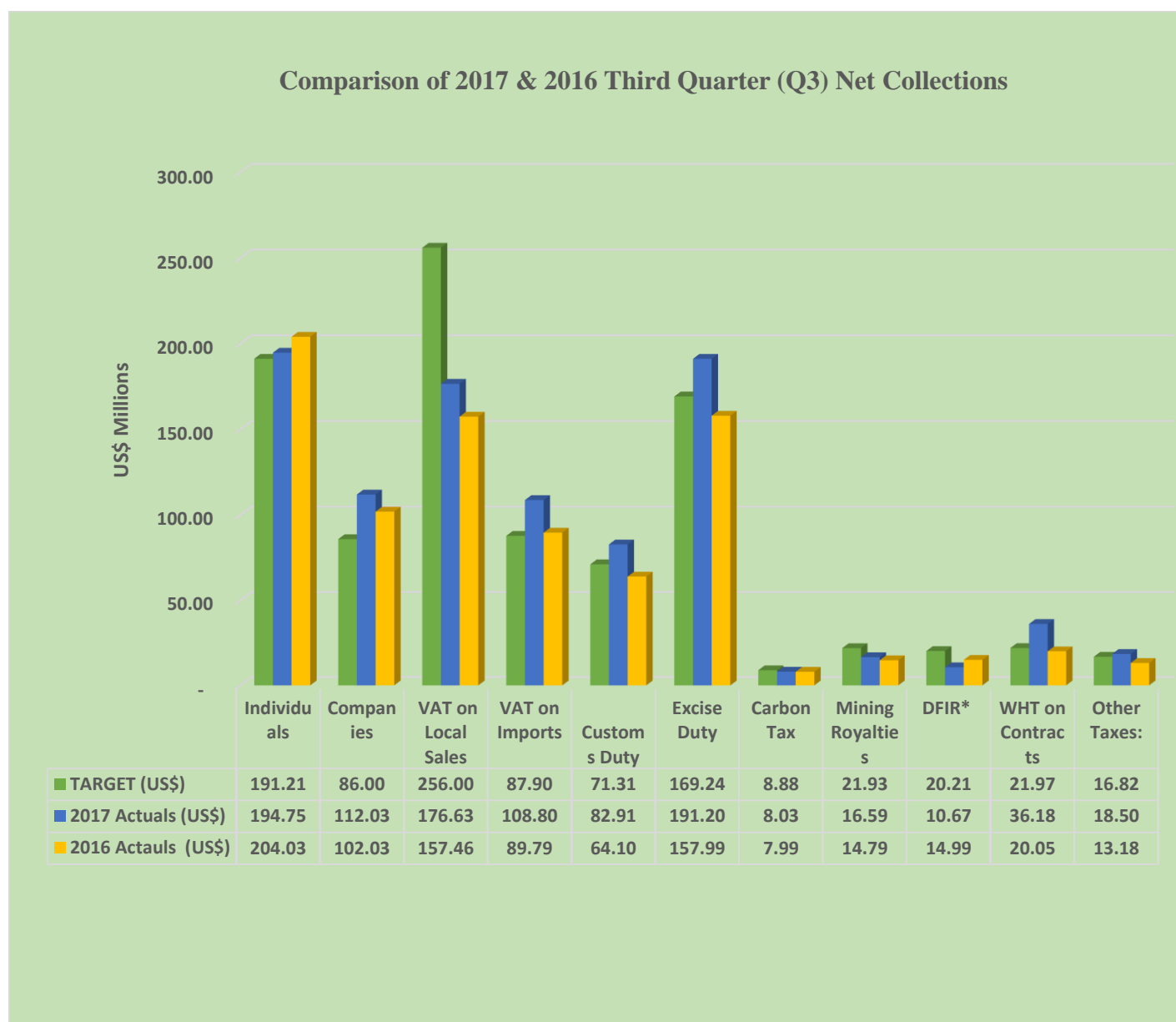


The major revenue heads performed well, surpassing set targets during the third quarter of 2017. The most outstanding being Company Tax 30%, VAT on imports 23.77%, Net Customs Duty 16.26%, Withholding Tax on contracts 64.67%. Of great concern is the performance of Mining Royalties which was 24.35% **below** the set target despite improvements in mining revenues during the first nine months to September 2017. This subdued performance can be attributed to fluctuating mineral prices on the international market, foreign currency constraints that are negatively affecting production and the reduction of the rate of Mining Royalties on platinum effective April 2017.

### **Comparison of 2017 and 2016 (Q3) Revenue Collections**

The bar graph below shows a comparison of revenue collections for third quarters for 2017 and 2016 against the 2017 third quarter target per tax head.

**Figure 3: Comparison of 2017 & 2016 Third Quarter Net Collections**

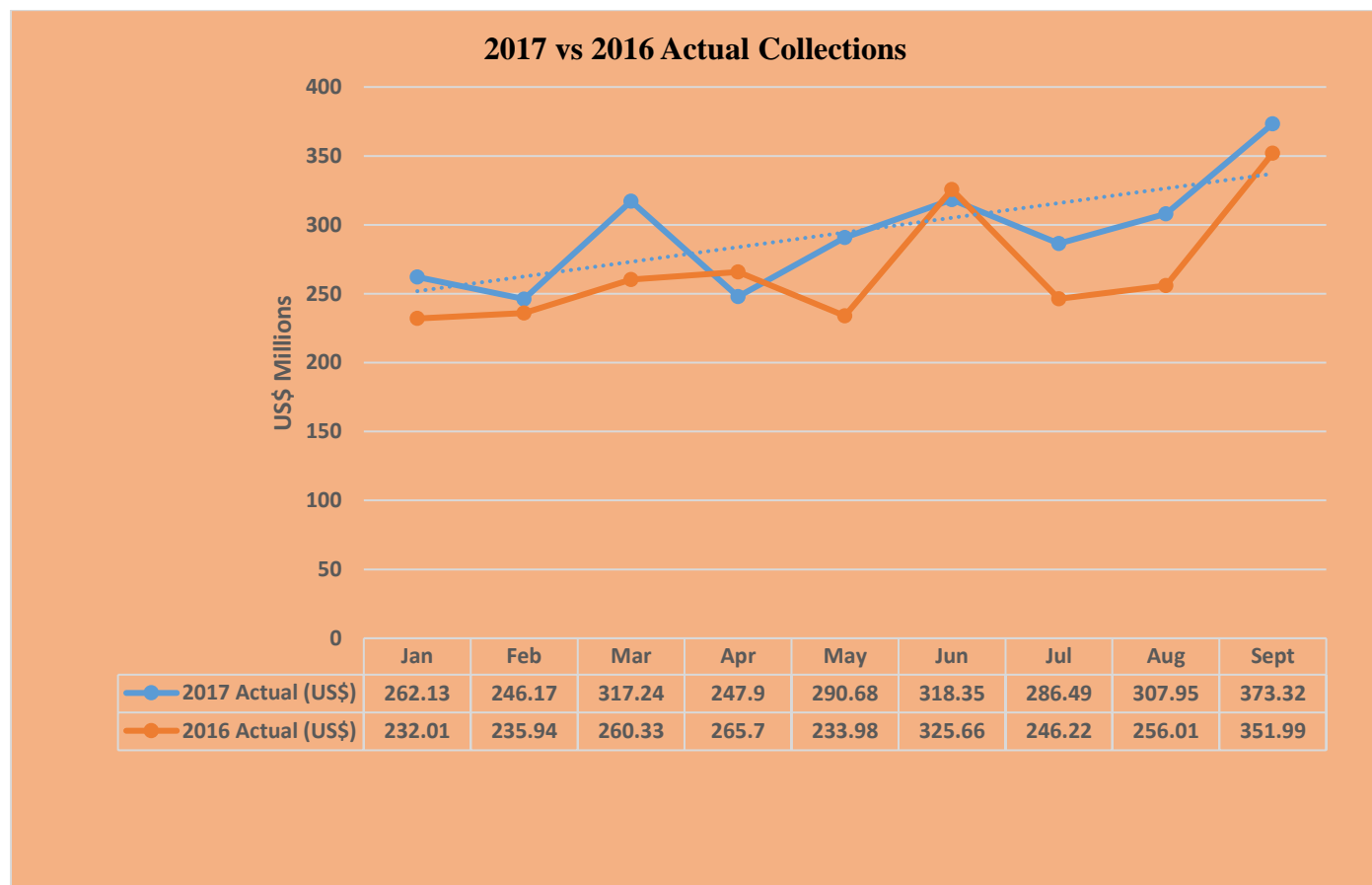


Revenue collections (Q3, 17) were well over (Q3, 16) for all major tax heads with the exception for Individual Tax. The battery of revenue enhancement measures that ZIMRA is implementing to increase collections and stem leakages is getting the desired effect. Of note is the improvement in cashflow as a result of the newly introduced VAT withholding taxes for selected clients. The measures, including intensified risk-based audits, a crackdown on taxpayers in order to recover debt, automation and the fight against corruption, will continue into (Q4, 17).



## 2017 Third Quarter (Q3) Monthly Actual Revenue Collections vs. Target

Figure 4: January to September: 2017 vs. 2016 Monthly Actual Revenue



Revenue performance in the first nine months of 2017 was higher than the same period in 2016, except for April and June. The smoothed line indicates that collections in 2017 have been maintaining a positive trajectory owing to the consistency in the implementation of revenue enhancement measures.

## Revenue Heads' Contribution

Figure 5: Q3 2016 and 2017 Revenue Head Contribution to Total Tax Revenues & Revenue Growth

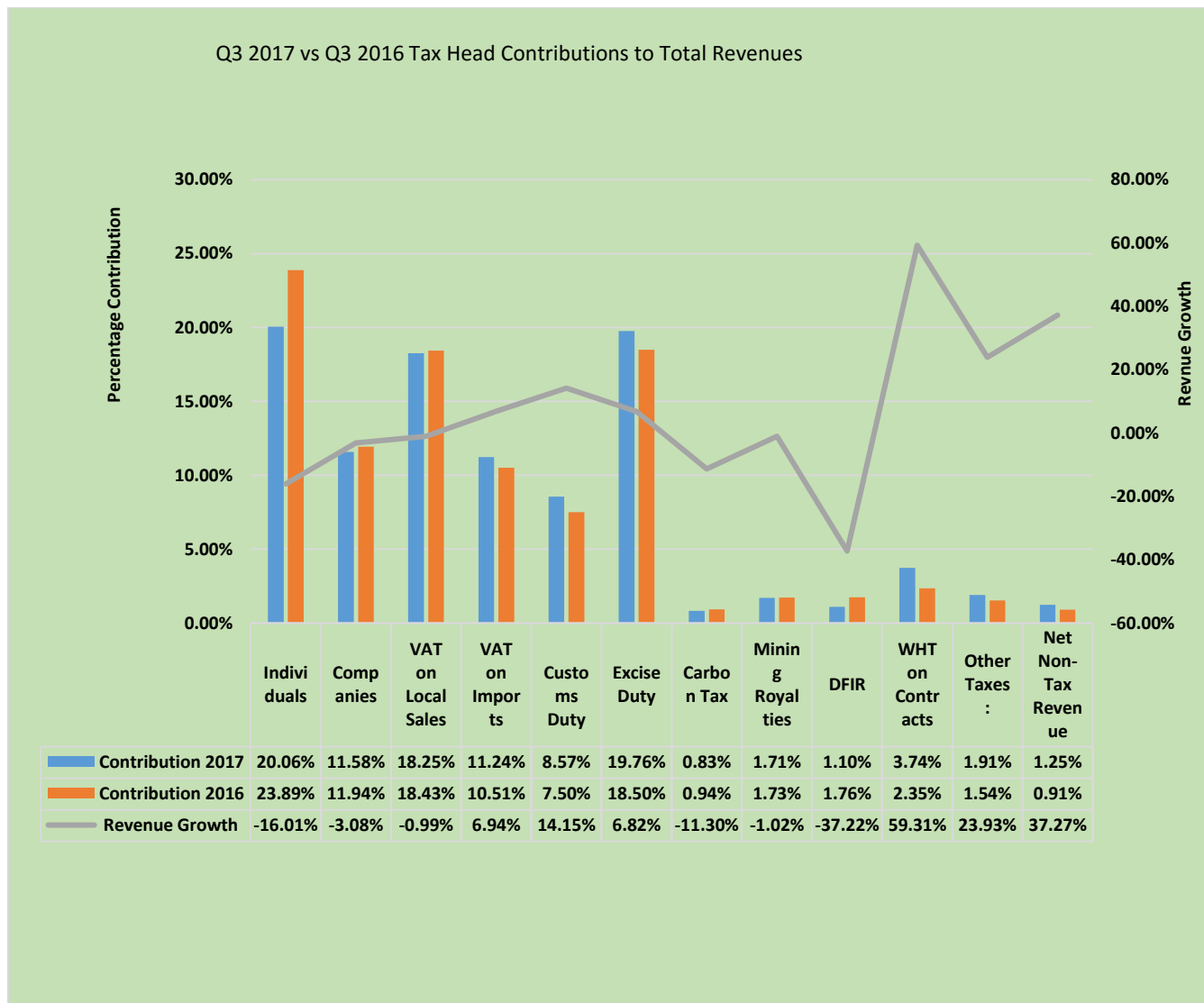


Figure 5 shows that major contributors to total revenue for both periods (Q3 2017 and Q3 2016) were Individual Tax, Excise Duty and VAT on Local Sales. For the period under review, these major contributors provided a combined total in excess of **58%** of the total revenues realised as follows. Individual Tax (**20.06%**), Excise Duty (**19.76%**) and VAT on Local Sales (**18.25%**). Of these, only Excise Duty experienced a positive growth of **6.82%** between Q3 2016 and Q3 2017. Other major tax heads namely Individual Tax, Company Tax and VAT on Local Sales recorded negative growth rates of **16.01%**, **3.08%** and **0.99%** respectively. The performance of VAT on Local Sales indicated the impact of the liquidity squeeze on general sales. It also indicates the impact of multi-tier pricing because the US\$ sales are usually not reflected in the sales figure submitted to ZIMRA. Individual Tax continues to be under pressure as job

losses continue and salary and benefits are reduced for viability. In most cases new jobs created in the informal sector are not registered for tax purposes. This will dampen aggregate demand. ZIMRA is seized with broadening its tax base to counteract the impact of these three tax heads on Gross Revenue.

## **ANALYSIS OF THE SPECIFIC REVENUE HEADS' PERFORMANCE**

### **Individual Tax**

For the period under review, this tax head contributed **US\$194.15 million**. The collections were **1.54%** above the target of **US\$191.21 million**. Compared to the same period in 2016 where **US\$204.03 million** was collected, revenue collections decreased by **4.84%**.

The revenue head continues to be adversely affected by retrenchments, salary cuts and inconsistent salary payments by companies in the private sector and others in the public sector that rely on Government subvention. Government is heavily indebted to companies in both the private sector and public enterprises and its affecting this tax head. No change is expected in the short to medium term, other things remaining equal.

### **Company Tax**

Total collections of **US\$112.03 million** from Company Tax were **30.27%** above the set target of **US\$86.00 million**. During the same period last year, collections were **US\$102.03 million**, indicating a **9.81%** increase in revenue collections this year.

The positive performance of the revenue head is more attributable to increased compliance as a result of ZIMRA enforcement activities, than to improvement in company performance. The enforcement activities include intensified risk based audits, crack down on taxpayers and increased debt collections efforts that include appointment of agents, refund set offs, government setoffs and the negotiating and monitoring of payment plans. The first nine months of 2017 also saw some companies recording profits and this has positively affected the performance of this revenue head.

### **VAT on Local Sales**

Gross VAT on Local Sales collections for the third quarter of 2017 were **41.80%** above the target of **US\$168.10 million**. After deducting VAT refunds of **US\$61.72 million**, net VAT on Local Sales collections amounted to **US\$176.63 million**, which was **5.08%** above target. Net VAT on Local Sales for the period under review increased by **12.18%** from the **US\$157.46 million** collected during the same period in 2016.

The favourable performance of the tax head is largely attributed to ZIMRA's modernisation initiatives such as Invoice Management System, Fiscalisation and E-filing. VAT compliance was also enhanced by the appointment of VAT withholding agents. Furthermore, the intensified VAT refund claims audits have been

instrumental in reducing the VAT refunds bill for the period under review by **5.01%** from **US\$64.98 million** in same period last year, thereby enhancing the performance of the revenue head. A total of **12 992** SMEs registered under the moratorium and this is expected to boost the performance of this revenue head.

### **VAT on Imports**

During the (Q3, 17), collections from VAT on Imports amounted to **US\$108.80 million** against a target of **US\$87.90 million**, which translates to a positive variance of **23.77% (US\$20.90 million)**. The revenue head recorded a **21.16%** increase in collections this quarter in comparison to **US\$89.79 million** that was collected in the same quarter last year.

The performance of the revenue head is attributed to an increase in the importation of taxable supplies buttressed by the continuous and consistent supply of foreign currency by the RBZ to fund imports. The Electronic Cargo Tracking System has also buoyed the positive performance of this revenue head by curbing transit fraud.

### **Customs Duty**

Net Customs Duty collections after deducting Customs refunds of **US\$35 290.10** stood at **US\$82.91 million** against a target **US\$71.31 million**. This translates to a positive variance of **16.26% (US\$11.60 million)**. Compared to the same period in 2016, collections increased by **29.33%** from **US\$64.10 million** realised in the third quarter of 2016.

As with VAT on Imports, improvements in foreign currency supplies by the Reserve Bank of Zimbabwe enabled the increase in imports. The tax head's performance is due to ZIMRA's aggressive anti-smuggling stance that included intensified post-clearance audits, borderline patrols, roadblocks and the Electronic Cargo Tracking System that has been instrumental in combating transit fraud. There have been teething problems in implementing cargo tracking system, which include resistance by truckers and even ZIMRA officers, and shortage of seals. The seals have been increased but more is still needed and ZIMRA is in the process of acquiring more seals.

### **Excise Duty**

Collections from Excise Duty were **US\$191.20 million** against a target of **US\$169.24 million**. This gives a positive variance of **12.97% (US\$21.96 million)**. Revenue collections increased by **21.02%** from **US\$157.99 million** that was realised in the third quarter of 2016. Significant contributors under this revenue head were fuel (**US\$145.21 million**), airtime (**US\$20.37 million**) and beer (**US\$13.89 million**).

The positive performance of the tax head was mainly due to improved compliance by fuel importers. Diesel importations increased by **20.83%** from **194.00 million litres** during the third quarter of 2016 to **234.41 million litres** in the third quarter of 2017. This is a proxy of the success of the cargo tracking system. The Electronic Cargo Tracking System has been crucial in combating transit fuel fraud and has increased the submission of consumption declarations for fuel imports.

However, petrol imports declined by **54.19%** from **106.62 million litres** in the third quarter of 2016 to **48.85 million litres** this year. This decline is due to the mandatory blending requirements, which now make use of a significant high local content in the form of ethanol produced in Zimbabwe. It could also be indicating the level of petrol smuggling under the cover of jet fuel but ZIMRA is closely monitoring these imports. The law should not allow smugglers to continue operating and should put more stringent penalties on commercial smugglers to deter others. Just paying duty and penalty is not enough.

A total of **4.97 million litres** of paraffin was imported during the quarter. The introduction of Excise Duty on paraffin has also positively impacted on the performance of this revenue head. It should be noted, however, that household paraffin usage competes with other domestic sources of heating such as firewood, gas and charcoal as alternatives.

### **Withholding Tax on Contracts**

A total of **US\$36.18 million** was collected from Withholding Tax on Contracts, which is **64.67%** of the targeted **US\$21.97 million**. Revenue collections increased by **80.50%** from **US\$20.05 million** which was realised in (Q3, 16). The positive performance of the revenue head was mainly due to the efforts by ZIMRA to ensure the withholding and remittance of amounts withheld from traders who do not hold tax clearance certificates.

### **Carbon Tax**

During the period under review, **US\$8.03 million (90.46%)** was collected in Carbon Taxes against a target of **US\$8.88 million**. Revenue collections increased by **0.50%** from the **US\$7.99 million** collected in the third quarter of 2016. Declines in petrol importations have negatively impacted on the performance of this revenue head.

### **Mining Royalties**

The revenue head contributed **US\$16.59 million** against a target of **US\$21.93 million**, hence performing below target by **24.35%**. However, compared to the same period last year, revenue collections increased by **12.14%** from **US\$14.79 million** realised in (Q3, 16). Zimbabwe like all developing countries needs to find a more equitable tax regime for the mining sector. There is need for more transparency and verification through rigorous audits of what is coming out of our ground and going outside. Apart from the precious

metals which often use undesignated ports of entry, Zimbabwe needs to verify the exact quantity and composition of the ore going out of its borders. Currently, ZIMRA needs capital to put weighbridges at every border post. There is also need to invest in technology at the mines to monitor our resources. In the absence of local refineries, Royalties should be paid in ore so Government can process its own portion. This kills two birds with one stone, firstly Government benefits from all minerals in the ore which is of higher value and secondly prevents transfer pricing. Government could also be given information directly from external refineries for all ores processed abroad. ZIM-ASSET clearly articulates the need for and benefits of value addition, so we can no longer continue as before.

### **Dividends, Fees, Interest, Remittances**

Collections amounting to **US\$10.67 million** were **47.19%** below the set target of **US\$20.21 million**. In the (Q3, 17), collections decreased by **28.87%** when compared to the same period in 2016. The major contributor was Non-Resident Tax on Fees with a contribution of **US\$4.87 million (45.64%)** to total collections. The performance of the revenue head can be attributed to improved profitability of companies and the positive performance noted on the Zimbabwe Stock Exchange.

### **Other Taxes**

This composite revenue head comprises Capital Gains Tax and Capital Gains Withholding Tax, Tobacco Levy and Other Indirect Taxes (Stamp Duty, Banking Levy, Presumptive Tax and ATM Levy).

Collections of **US\$18.50 million** were **10.01%** above the set target of **US\$16.82 million**. During the period under review, collections increased by **40.41%** from **US\$13.18 million** collected in the same period last year. Other Indirect Taxes were the major contributors to this revenue head.

### **Conclusion**

While revenue collections have yet again surpassed the targets, the ZIMRA Board believes that current collections are still a tip of the iceberg and is determined to stir up management to re-double the current measures to ensure increased compliance.

We also call on the “informal” economic players to comply with the country’s tax laws. We observe evidence of the lavish lifestyles, characterised by various state-of-the-art residential properties, posh vehicles and the apparent high spending power of our people on luxurious and high-end consumer goods and services, mostly imported without paying taxes. It is not fair that formally employed people earning very little always pay tax whilst the so called “informal” business people get away with tax evasion. It is immoral. This is why we engage in lifestyle audits and urge members of the public to fully utilise the ZIMRA HOTLINE - it is completely confidential. Lifestyle audits will also continue, covering ZIMRA

officials and high-profile individuals to ensure that people account for their income and pay their fair share of taxes as a contribution to the national economy.

It is pleasing to note that our sister public institution, the Zimbabwe Republic Police, has made indications to carry out lifestyle audits on its members to deal with corrupt tendencies in the Force. As more and more public and private institutions come on board to join hands in the fight against corruption, it is our hope that there will be a tightening of control measures across the economy to help secure Government revenue and increase compliance, which will inculcate a sense of duty to the country.

We have received complaints through the HOTLINE pertaining to problems with our e-filing and new way of processing Capital Gains Tax (CGT). I take this opportunity to apologise to taxpayers on the gremlins on our e-filing platform, particularly on reporting dates. We apologise for the frustration and inconvenience but assure you that we are working towards a sustainable solution.

Taxpayers are frustrated by the speed of processing CGT. We urge taxpayers to cooperate and provide all the information but on our part, we pledge to improve and we again apologise.

## **Gratitude**

It is not possible to end without expressing my gratitude to the former Minister of Finance and Economic Development, Honourable P. A. Chinamasa and Permanent Secretary Mr Willard Manungo and all Ministry officials, who provide consistent support, guidance and leadership to the ZIMRA Board, Management and Staff. I know that we are assured of the support of the newly appointed Honourable Dr I. Chombo who was already working with us in the Inter-Ministerial Task Force on Anti-Poaching and Anti-Smuggling as Minister of Home Affairs. I would like also to thank other Government officials, who, in various ways, have continued to provide direct or indirect support to the Authority's pursuit of its objectives and goals.

To my fellow Board members, you continue to excel in your commitment and diligence. I take this opportunity to thank you for your support and advice. I congratulate you for the (Q3, 17) results.

To our ever-faithful taxpaying community, I say thank you for your voluntary compliance in the discharge of your own obligations. You play a critical role to the country's economic growth.

To our Hotline whistle blowers, I thank you for your valuable input and request you to urge others to follow your patriotic participation. It is everyone's duty to report non-compliance, even by those we transact and trade with.

Our Hotline contact numbers and e-mail are:

- Toll-Free Econet Line: 0808 190


- Toll-Free Telecel Line: 0732 880 880
- WhatsApp: 0772 135 690
- E-Mail: zimraanticorruption@gmail.com

I thank and congratulate the Acting Commissioner General, Mr Happias Kuzvinzwa, Management and Staff for the results. You are in the right direction but need to redouble our efforts because there is more room for improvement.

**John 11.40: “... Did I not tell you that if you believe you will see the Glory of God”**

As usual, all glory to God who continues to amaze us.

I thank you.



Mrs W. Bonyongwe  
ZIMRA Board Chairman