

REVENUE PERFORMANCE REPORT FOR THE FIRST HALF OF 2017



Mrs W. Bonyongwe

ZIMRA Board Chairman

Preamble

The country's economic outlook for 2017 remains positive, buoyed by the good agricultural season and a battery of measures by the Government to stimulate investment, exports and production. The Reserve Bank of Zimbabwe (RBZ) has a number of initiatives, including targeted facilities and incentives to boost exports. The Reserve Bank has also pushed hard to reduce the level of interest rates and bank charges in general and for exporters in particular. The Office of the President and Cabinet (OPC) is working through all Government departments, including the Zimbabwe Revenue Authority (ZIMRA), to integrate and improve the ease of doing business which makes it faster, convenient and cheaper to do business in Zimbabwe. The Government has finally appointed a Board for the Special Economic Zones (SEZ) in an effort to attract foreign investment. However, local investors continue to lobby to benefit from the SEZs status as well particularly for those who are export oriented. The Government's Gross Domestic Product (GDP) projection of 3.7% in 2017 still stands, and is supported by the World Bank Outlook projection of 3.8%, although the International Monetary Fund and the (AfDB - African Economic Outlook, 2017) are still very pessimistic.

After a long slump, the local bourse - the Zimbabwe Stock Exchange (ZSE) - is now bullish with a huge jump in market capitalisation from below \$4 billion to about \$6 billion by the end of the second quarter of 2017. However, at the moment the upsurge is more to do with realigning the portfolio mix by investors to deal with the shortage of the US dollars than with any shift in fundamentals for the underlying assets.

The tobacco marketing season started on the 15th of March 2017. Deliveries by volume of tobacco sold as at 28th June 2017 stood at 168.49 million kilogrammes, which is a 1.32% decline from the 169.02 million kilogrammes sold during the same period last year. The comparable values are US\$494.98 million in 2017 and US\$501.20 million in 2016. The average selling price was unchanged at US\$2.94/kg for both periods while the highest price was US\$6/kg a decline of 4% from US\$6.25 for 2016 (TIMB). Nonetheless, analysts' expectations are that the current season is expected to exceed the previous year in terms of volume and value sold. The tobacco inflows have improved broad money supply which grew by 8.13% from US\$5.66 billion in January 2017 to US\$6.12 billion in April 2017. However, the improvement to liquidity only partially positively impacted on the obligations for external payments, albeit it's still like a drop in the ocean.

On the downside, there does not seem to be any reprieve to the economy's liquidity crunch. The RBZ reported that banks are holding on to only 2% of cash reserves against a benchmark of 15%. The RBZ has aptly laid the blame squarely on the high indiscipline of Zimbabweans which is caused by greediness and selfishness. It is on record that Zimbabweans have externalised US\$ billions of money, ranging from the relatively small bank deposits in neighbouring countries, to millions stashed in tax havens globally. It is the Revenue Authority's view that because of globalisation and the anti-money laundering laws currently in place worldwide, the Reserve Bank of Zimbabwe can and should trace, follow and bring back what was irregularly externalised through the banking system. We have to bring back what is due to Zimbabwe.

Last quarter we raised an alarm on the upward trend in inflation which threatens to derail economic revival and export growth. Unfortunately, nobody took notice and the annual rate of inflation rose to 0.75% as at May 2017, the highest it has been in more than three-and-a-half years (ZIMSTAT) - a rapid increase from -0.65% in January. This indicates serious inflation pressures in the economy largely driven by the shortage of foreign currency, and the consequent multi-tier pricing by some traders, the resurgence of the parallel foreign exchange market, and the impact of the Statutory Instruments 20 and 26A of 2017 [VAT (General) Amendment Regulations] on prices of the consumer basket. Retailers and traders in general are still putting enormous mark ups for local and imported goods. The cost structures need to be revisited urgently in order to curb the inflation drivers and avert a return to hyperinflation. This will be even worse because of the multi-currency usage.

On the global scene, economic recovery is now more certain and global growth is expected to be 3.5% for 2017 compared to 3.1% last year. Growth is expected to be driven by reduced deflationary pressures, slight rebound in investment, recovery in trade growth despite the uncertainty in US trade policy underpinned by America First, high financial optimism and accommodative monetary policies (IMF - World Economic Outlook, 2017).

The G20 summit, held recently in Hamburg Germany from 7-8 July 2017, came up with resolutions on Africa. These resolutions are provided in the G20 Africa Partnership Declaration embedded in the three partnership pillars that are designed to renew efforts towards economic development in Africa and are: -

- Improving inclusive economic growth and employment. This will focus on the creation of employment for rural people for sustainable economic development and food security.
- Developing quality infrastructure particularly in the energy sector in Sub-Saharan Africa. The thrust of this pillar is to improve access to renewable energy, reduce “energy poverty” and create sustainable renewable energy in Africa.
- Strengthening the framework for private finance under the Compact With Africa (CWA) initiative. This will assist African economies build credibility and visibility as well as investor confidence in order to attract investment.

These initiatives will be supported by the International Organizations, such as the African Development Bank (AfDB), the International Monetary Fund (IMF) and the World Bank Group (WBG) and will go a long way in assisting our economy towards positive growth.

ZIMRA’s Thrust and Focus

Tax Revenue is a function of economic performance and efficiency in tax collection. While economic performance is an exogenous factor beyond the control of ZIMRA, the efficiency in collection is an endogenous factor.

To that end, ZIMRA will focus on contributing to efforts that will maintain macroeconomic stability by continuing to attend to the following issues:

- Revenue mobilisation, which in the ZIMRA context, requires the tax paying community to play their part in attending to their obligations to enable Government to provide the required infrastructure for business and other public goods and services.
- Structured revenue reform programmes to which ZIMRA is attending to in terms of simplifying tax regimes, especially for small to medium enterprises as well as ZIMRA’s assigned objectives under the Rapid Results Initiatives (Ease of Doing Business).

Therefore, the major focus of ZIMRA during the period under review, the First Half of 2017, was on improving efficiency in mobilising revenue. This was through enhancing the Invoice Management System, implementing the Electronic Cargo Tracking System (ECTS), augmenting the Fiscalisation System and fighting corruption. ZIMRA also slightly reorganised its functional structure in line with the objective to increase efficiency and combat corruption.

The Moratorium offered to SMEs in collaboration with the Ministry of Small and Medium Enterprises and Cooperatives Development in January expired on 30th June 2017. It was successful in that ZIMRA registered 12 992 taxpayers. However, it is common knowledge that a lot more businesses are not tax compliant and ZIMRA will continue widening the tax net.

Corruption remains a challenge but ZIMRA's resolve to combat it is strong. The Anti-Corruption Hotline received 394 reports. Of these, 218 were fully investigated whilst the remaining cases are still under different stages of investigation. The investigations yielded about \$120 million dollars in assessments, 21 suspensions resulting in three (3) Officers who were dismissed as a result of these reports. Some officers are still undergoing disciplinary hearings.

Quite often people feel helpless to act against corruption because it is now endemic, but this case proves individuals can make a difference. Fighting corruption begins with me and begins with you and together we make an impact. The people who made the reports should be proud that they made a difference to Zimbabwe. The money collected will improve some school, some hospital or some road, etc.

Notwithstanding all the efforts to combat Tax corruption, the reality is that ZIMRA will never succeed on its own. The fight against corruption must include all other crime fighting agencies, the Judiciary and everyone in authority. The Legislature must enact laws which make it unprofitable to engage in corruption, while enforcing tougher penalties, including time in jail and fines that takes away all the gains. The law allows ZIMRA to name and shame people after conviction and ZIMRA might just start doing so to deter people from Tax fraud corruption.

The Tax Debt increased by **16.85%** during the First Half of 2017 from an opening debt of **US\$2.67 billion** in January 2017 to a closing amount of **US\$3.12 billion** as at 30th June 2017. However, **\$521,175,678.54** was recovered during the period and new debt of **\$450,573,695.82** million was added to it. Greater enforcement and audits tend to increase the debt levels.

REVENUE PERFORMANCE

Second Quarter of 2017 Performance

Gross collections for the second quarter (Q2:2017) amounted to **US\$926.96 million**, which was **9.94%** above the target of **US\$843.16 million**. Net collections amounted to **US\$874.64 million** after deducting refunds amounting to **US\$52.32 million**, surpassing the target by **3.73%**. Therefore, the (Q2:2017) revenue performance was **5.97%** above the (Q2:2016) collections of **US\$825.34 million**. The major performing tax heads were Company Tax; Dividends, Fees, Interest and Remittances; Customs Duty; Excise Duty; and Mining Royalties. The level of refunds soared in June 2017 and this will be investigated.

First Half of 2017 Performance

Gross collections for the First Half of 2017 were **US\$1.789 billion**, **8.05%** above the target of **US\$1.656 billion**. Net collections, after deducting refunds to the magnitude of **US\$88.16 million**, amounted to **US\$1.701 billion** yielding a positive variance of **2.72%** above the target. This translated to an increase of **9.74%** compared to **US\$1.550 billion** collected over the First Half of 2016.

Figure 1 shows a comparison of performance for First Half of 2016 vs 2017.

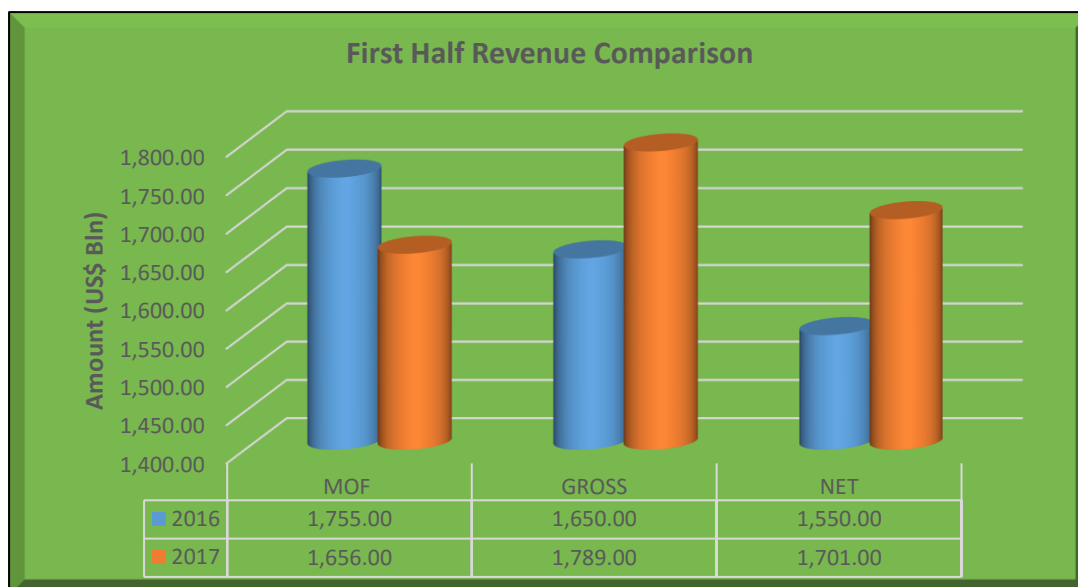


Figure 1: 2016 and 2017 First Half Revenue Contributions

Table 1 shows performance per revenue head for the First Half of 2017.

Table 1: First Half 2017 Collections Vs Targets

TAX HEAD	TARGET (US\$)	ACTUALS (US\$)	VARIANCE (US\$)	% VARIANCE
Individual Tax	375,286,000.00	347,414,495.48	(27,871,504.52)	-7.43%
Company Tax	157,000,000.00	214,266,790.40	57,266,790.40	36.48%
Net VAT on Local Sales	330,300,000.00	323,850,263.15	(6,449,736.85)	-1.95%
VAT on Imports	169,700,000.00	188,604,605.20	18,904,605.20	11.14%
Net Customs Duty	141,410,000.00	139,526,313.70	(1,883,686.30)	-1.33%
Excise Duty	330,401,000.00	319,078,308.79	(11,322,691.21)	-3.43%
Carbon Tax	17,250,000.00	15,225,404.88	(2,024,595.12)	-11.74%
Mining Royalties	27,900,000.00	34,272,605.87	6,372,605.87	22.84%
DFIR (Dividend, Fees, Interest & Remittances)	28,640,000.00	31,382,115.80	2,742,115.80	9.57%
WHT on Contracts	43,758,000.00	36,478,293.05	(7,279,706.95)	-16.64%
Other Taxes:	34,454,000.00	25,656,627.91	(8,797,372.09)	-25.53%
CGT & CGT WHT	12,460,000.00	10,692,308.43	(1,767,691.57)	-14.19%
Tobacco Levy	9,004,000.00			
Other Indirect Taxes	12,990,000.00	14,964,319.48	1,974,319.48	15.20%
Net Non-Tax Revenue		25,458,759.97		
NET REVENUE	1,656,099,000.00	1,701,214,584.20	45,115,584.20	2.72%
GROSS REVENUE	1,656,099,000.00	1,789,376,664.05	133,277,664.05	8.05%

Company Tax, VAT on imports, Mining Royalties, DFIR and other indirect Taxes surpassed their set targets for the First Half of 2017. VAT on Local Sales was 13.74% above prior period in 2016 but the Net VAT on local sales was eroded by huge refunds resulting in a 1.95% decline compared to the same period in 2016. This spike in refunds in June 2017 diluted the impact of the newly introduced Withholding VAT. It is also contrary to the improved profitability by some companies, the increased use of plastic money and the ongoing automation and other revenue enhancement measures. Extensive investigations and audit checks will be done to understand this spike in refunds.

2016 and 2017 First Half Net Revenue Collections Comparison

The following bar graph shows a comparison of revenue collections for 2016 and 2017, and the 2017 target per revenue head.

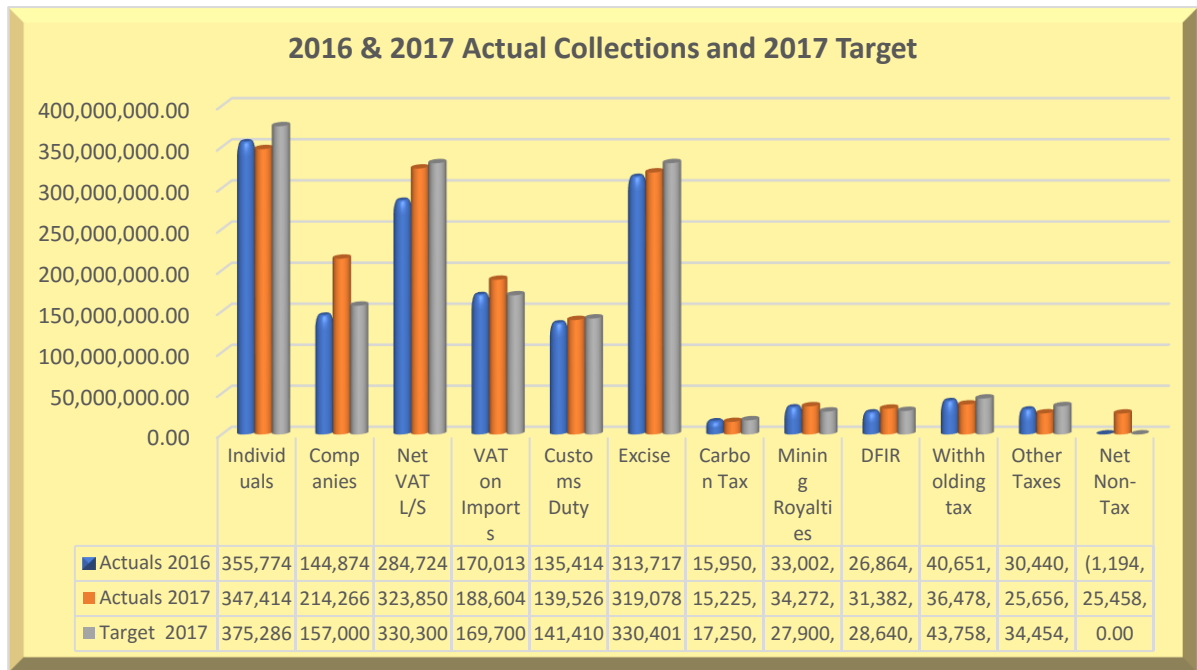


Figure 2: First Half Performance: 2016 Actual, 2017 Actual and 2017 Target

All major tax heads outperformed their First Half 2016 performance, except for Individual Taxes, owing to the improved enforcement efforts by the Authority to improve collections.

First Half 2017 Monthly Actual Revenue Collections vs Target

Figure 3 shows revenue collections versus Target for the First Half of 2017

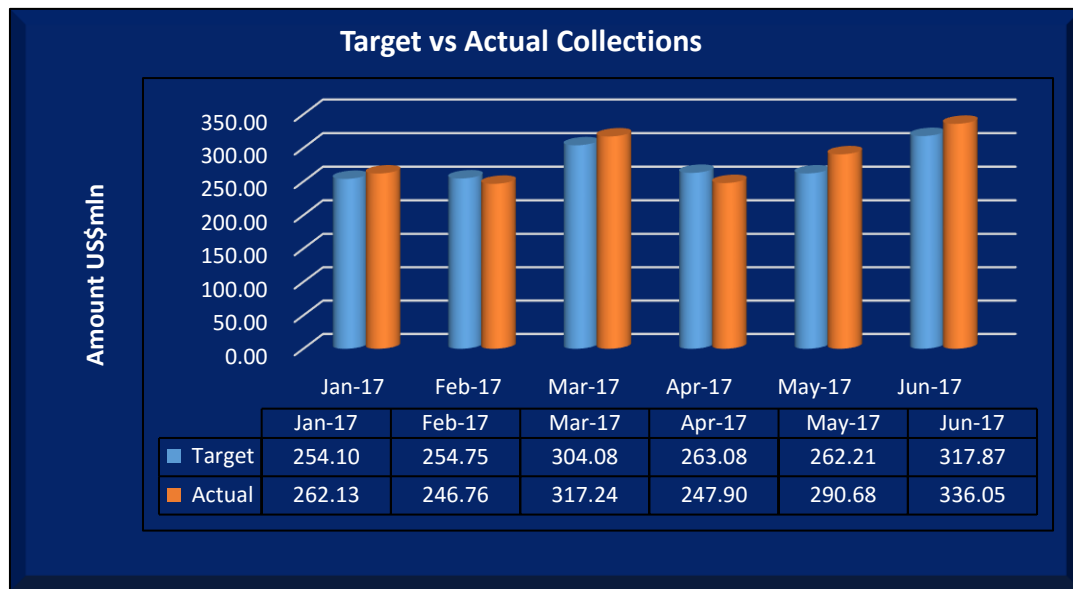


Figure 3: First Half 2017 Actual Revenue Collections vs Target

Revenue collections surpassed set targets for all the months except for February and April 2017 where targets were missed. The improvement is attributable to revenue enhancement initiatives implemented during the period.

Monthly Actual Collections and Variance for 2017 and 2016

Figure 4 shows a comparative presentation of the First Half for the years 2017 and 2016.

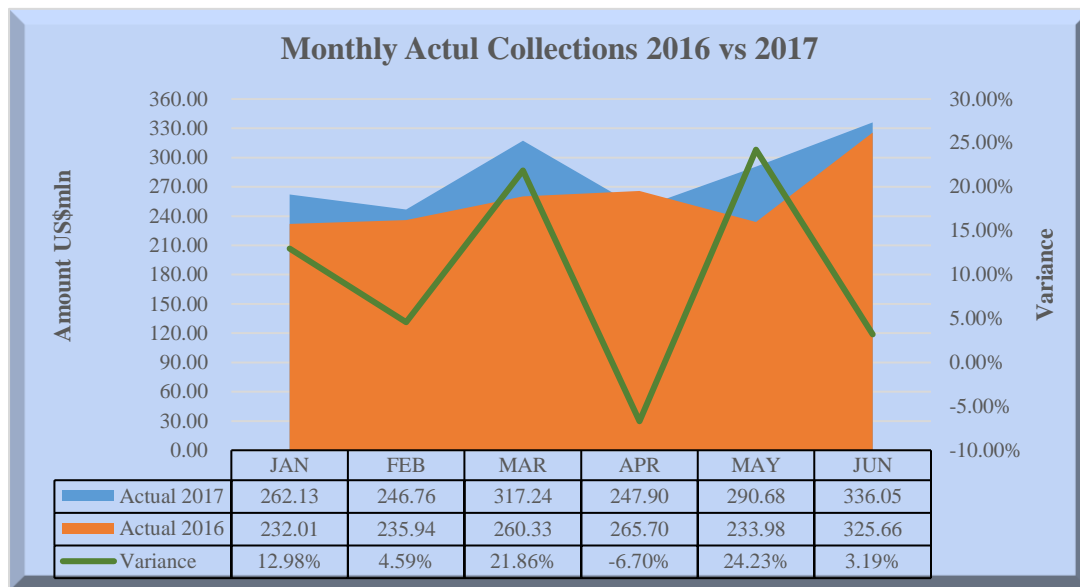


Figure 4: 2017 vs 2016 actual collections

Revenue collections for 2017 outperformed the 2016 collections, except for April 2017 where the revenue target was marginally missed by **6.70%**.

The revenue enhancement measures such as automation, audits and anti-corruption initiatives that ZIMRA continues to implement are bearing fruits to safeguard and enhance revenue collections.

Revenue Heads' Contribution

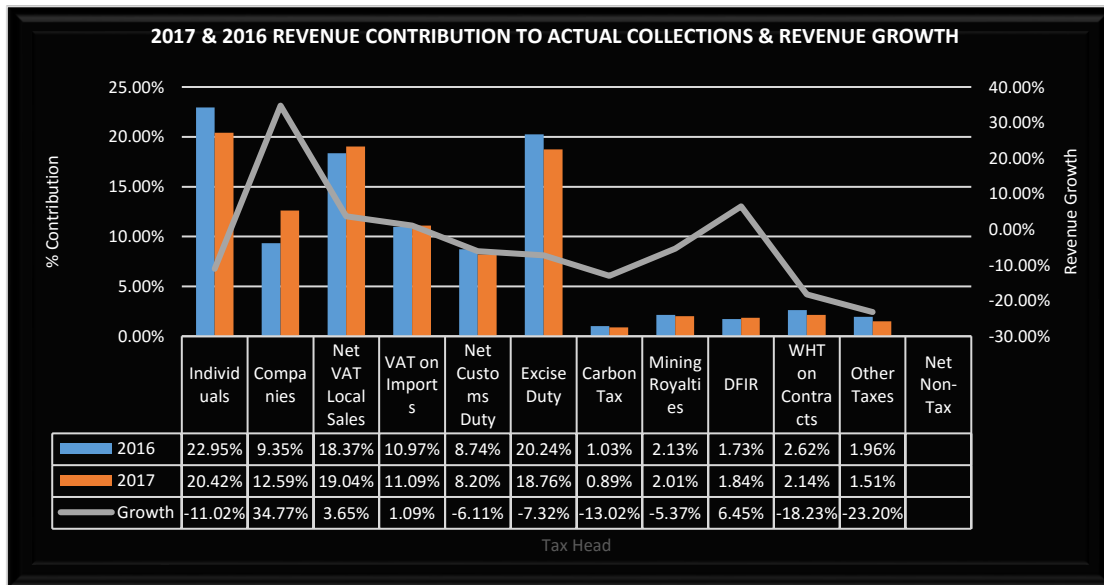


Figure 5: Revenue Heads' Contribution to Revenue collections and revenue growth

The graph shows revenue growth in four revenue heads during the First Half of 2017. Company Tax grew by **34.77%**, Net VAT on local Sales grew by **3.65%**, VAT on Imports grew by **1.09%** and DFIR grew by **6.45%**.

ANALYSIS OF THE SPECIFIC REVENUE HEADS' PERFORMANCE

Individual Tax

Collections under this revenue head amounted to **US\$347.41 million**, which was **92.57%** of the targeted **US\$375.29 million**, translating to a decline of **2.35%** from the **US\$355.77 million** collected in 2016. Salary cuts, retrenchments and irregular salary payments by some companies continue to affect the performance of this revenue head. The revenue head is expected to improve from the Small to Medium Enterprises (SMEs) contributions. However, the need to reduce costs of production will see more employees losing some benefits; more companies are likely to choose employment contracts which are more performance related.

Company Tax

Revenue from Company Tax contributed **US\$214.27 million** against a target of **US\$157.00 million** to give a positive variance of **36.48%**. Revenue collections during the period increased by **47.90%** from **US\$144.87 million** collected in 2016.

The above improved performance can be attributed to profitability in the financial sector and some sectors of the economy as well as the use of e-payment which makes it difficult for companies to cheat. Implementation of the new guidelines governing Transfer Pricing as well as ZIMRA compliance efforts which include appointment of agency, follow ups, risk based audits and debt set offs have also contributed to the performance.

VAT on Local sales

Gross VAT on Local Sales collections for the First Half 2017 amounted to **US\$411.01 million** against a target of **US\$330.30 million**, resulting in a positive variance of **24.44%**. VAT refunds for the First Half amounted to **US\$87.16 million**, resulting in net collections of **US\$323.85 million**. The net revenue, which represents **98.05%** of the target, grew by **13.74%** from **US\$284.72 million** collected in the First Half of 2016.

VAT refunds continue to negatively impact on this revenue head, although in 2017 the refund bill went down by **11.02%** from the **US\$97.95 million** that was refunded in the First Half of 2016.

The introduction of 10% VAT Withholding tax with effect from 01 April 2017 is a move that has shown marked improvement in the revenue collections. Out of the 20 registered agents as at 1st April 2017, a total of **US\$10.44 million** has been collected to date.

The Tax Management System initiative, audits, investigations and debt recoveries employed by the Authority have produced positive results by improving revenue collections. The increased usage of plastic money which produces an audit trail of records has also improved revenue collections and compliance.

The Moratorium offered to SMEs has also brought about registration of **12 992 SMEs**, which has the potential to expand the tax base which is crucial for future revenue generation. Nonetheless there are a lot of traders who are not issuing tax invoices. Some traders are even using those ancient book receipts which do not indicate VAT and the public should report them on the ZIMRA Hotline.

VAT on Imports

Collections amounted to **US\$188.60 million**, which translates to **11.14%** of the targeted **US\$169.70 million**. Revenue collections under VAT on Imports increased by **10.94%** from the **US\$170.01 million** realised in the First Half of 2016.

The positive performance of the revenue head is attributed to increased imports of VAT paying goods, in a bid to recapitalise local industry and complement production on the local market.

The impact of the commissioned Electronic Cargo Tracking System is still to bear much fruits in curbing smuggling and transit fraud of goods at border posts and along the approved operating routes. As expected there is resistance from ZIMRA officers and Beitbridge Border post, in particular, was sealing less than 10% of all trucks despite the capacity to seal all fuel trucks and most of the other trucks. The Board is seized with this matter. Meanwhile, the Cargo Tracking Unit has also been made an independent unit with direct access to the Board Risk Committee.

Customs Duty

Gross collections for the First Half amounted to **US\$139.73 million** against a target **US\$141.41 million**. Net revenue collections were **US\$139.53 million (98.67%** of the target) after refunds amounting to **US\$207062.35** were taken into account. However, there was an increase in revenue collections by **3.04%** from the **US\$135.41 million** that was collected in the First Half of 2016.

Excise Duty

Revenue collections from Excise Duty amounted to **US\$319.08 million** against a target of **US\$330.40 million**. Collections were **96.57%** of the target. Revenue growth of **1.71%** was realised in 2017 from **US\$313.17 million** collected in First Half 2016.

The growth in collections can be attributed to improved import volumes of diesel from **374.18 million litres** during the first half of 2016 to **394.56 million litres** in the First Half of 2017. Petrol imports declined by **4.62%** from **218.85 million litres** in the First Half of 2016 to **208.74 million litres** this year. The introduction of excise on paraffin during the year also enhanced excise revenue collections. The decline in the volumes of petrol could also be explained by that smugglers were declaring petrol as Jet Fuel and also under-declaring the volumes imported. There are investigations underway to follow the culprits but ZIMRA is lobbying the Ministry of Finance to increase the fines beyond the duty and penalties only because this does not seem to be deterrent enough. Often this is done with connivance with ZIMRA officers and there is still zero tolerance on corruption and all such officers will be dismissed.

Withholding Tax on Contracts

Revenue collections for the First Half amounted to **US\$36.48 million**, which was **83.36%** of the targeted **US\$43.76 million**. Revenue collections went down by **10.26%** from the **US\$40.65 million**, which was realised in the First Half of 2016.

The negative performance of this revenue head can be attributed to the depressed business activity in the economy. Efforts to bring non-compliant taxpayers onto the tax net will enhance revenue collections.

Carbon Tax

Carbon Tax collections were **US\$15.23 million** against a target of **US\$17.25 million**, resulting in **88.26%** of the targeted revenue being realised. Revenue collections decreased by **4.54%** from the **US\$15.95 million** collected in the First Half of 2016.

The performance of this revenue head can be attributed to the decline in imported volumes of petrol.

Mining Royalties

Collections under this revenue head were **US\$34.27 million** against a target of **US\$27.90 million**, hence surpassing the target by **22.84%**.

The performance of the revenue head can be attributed to the firming up of metal prices on the global market and an increase in production of platinum and gold during the period under review.

Dividends, Fees, Interest, Remittances

Collections that were realised from this revenue head were **US\$31.38 million** against a target of **US\$28.64 million**. The target was surpassed by **9.57%**. The 2017 collections increased by **16.82%** when compared to 2016 collections. Non-Resident Tax on Fees contributed the highest revenue with a contribution of **61.36%**.

The performance of the revenue head can be attributed to improved profitability of companies. Significant improvements are expected in the Second Half of 2017 as the economy recovers.

Other Taxes

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

Revenue collections were **US\$25.65 million**, giving a contribution of **74.47%** to the targeted **US\$34.45 million**. Collections decreased by **15.72%** from the 2016 collections of **US\$30.44 million**. Capital Gains Tax and Capital Gains Withholding Tax contributed the highest revenues under this tax head.

Revenue collections under this revenue head are expected to perform well with improvement in economic activities.

CONCLUSION

Revenue collections have surpassed revenue targets during the First Half of 2017, and this is the right direction and good progress. We commend Management and Staff for this achievement. However, the ZIMRA Board believes that the measures in place should increase compliance. Meanwhile, officers should redouble their efforts as most traders in the CBDs and major shopping centres are yet to comply. The GDP growth rate was revised to 3.7% and hence the projected revenue target is now **US\$3.4 billion** for 2017. With this level of economic performance and all the state-of-the-art cars being driven around Zimbabwe, all the construction going on, etc., the revenue collected could easily increase to \$6 billion if everyone complies.

It is with this in mind that the fight against tax corruption continues unabated. The Toll-Free Hotlines are still open.

I feel I need to comment on the topical issue of lifestyle audits. Firstly, ZIMRA has always done lifestyle audits on members of the public, the fact is ZIMRA deals confidentially with taxpayers and unless the tax payers themselves go public no one would ever know. It is a strategy used globally by all Tax Authorities and will not stop. However, there is always room to improve upon the way they are done and ZIMRA is open to suggestions. People need to have a culture of paying taxes, then there are no problems.

GRATITUDE

My most sincere gratitude as always goes to the Minister of Finance and Economic Development, Honourable P.A. Chinamasa and Permanent Secretary Mr Willard Manungo. They always support us and they also provide guidance and leadership to us all the time. The Authority went through a very difficult time over the past year and it was because of their open-door policy and support that we were able to sail through the contrary winds without a reduction in revenue. I also thank all Ministry of Finance and Economic Development officials, other

Government Departments especially the Office of the President and Cabinet, the State Procurement Board, the Office of the Auditor General, who in various ways provided support to the Authority during this period in pursuit of its objectives and goals.

To my fellow Board members, my kindred and colleagues - thank you so much for remaining dedicated to duty, and committed to the mandate in the manner you do. Thank you for your integrity against a lot of pressure. You make my role much easier and I know your aspiration for ZIMRA and would like to believe that we will be able to achieve that together. May you remain exemplary pillars of strength to me and the Management.

To our ever-faithful taxpaying community, I say thank you for enabling us to discharge our mandate effectively through your diligent voluntary compliance in the discharge of your own obligations in spite of the challenges of the current operating environment. Thank you to all those who have recently joined this very noble group of people. The role you play remains critical to the country's economic growth as you continue to build and dignify Zimbabwe. The Authority is indeed here to serve and where you find us uncivil and un-serving, our doors remain open for constructive dialogue with you.

To our Hotline whistle blowers, I thank you and urge others to follow suit. If you find that people are not charging VAT or are evading duty or any tax, it is your obligation to report it.

Our Hotline numbers and contact details are as follows:

- Toll Free Econet Line: 0808 190
- Toll Free Telecel Line: 0732 880 880
- WhatsApp: 0772135 690
- Email: zimraanticorruption@gmail.com

Next but by no means the least, the entire Board is grateful to the Acting Commissioner General, Mr H. Kuzvinzwa. It has not been easy for you but you managed not to lose focus and steer the ship forward. To the Management and the entire ZIMRA Staff, may you continue to display amazing commitment, dedication and diligence in your various leadership and functional roles. Your individual efforts make a difference to ZIMRA and Zimbabwe and never stop doing good.

I cannot however, fail to mention the few amongst you who continue with your corrupt tendencies. During the quarter, we have heard through the Hotline some of you in action and I can only say you have no room in ZIMRA, if you haven't been caught yet you will definitely

be caught soon. Taxpayers should not pay for Tax Clearances - if you owe the Authority you are better off formally negotiating with the relevant authority like Station Manager, Regional Manager, Commissioner, etc. When an assessment has been issued, do not pay for an officer to reduce it because it will eventually be discovered and you will pay the tax plus penalty and interest. Do not pay bribes, it does not pay.

Finally, I recognise that without the Lord Almighty we can do nothing and, therefore, I exalt Him for what we have achieved so far, and petition Him to guide us, strengthen us and protect us as we continue to achieve our mandate.

Proverbs 3 v 6: “In all thy ways acknowledge Him and He shall direct thy paths”.

I thank you.

A handwritten signature in black ink, appearing to read 'W. Bayagwe', written over a horizontal line.

ZIMRA BOARD CHAIRMAN