# REVENUE PERFORMANCE REPORT FOR THE THIRD QUARTER OF 2016

**Mrs Willia Bonyongwe**

**ZIMRA Board Chairman**

**Foreword**

The combined effect of automation, enhanced enforcement and efficiency measures, and the fight against corruption are beginning to pay off for the Zimbabwe Revenue Authority (ZIMRA). This finds expression in the revenue performance for the third quarter of 2016 (Q3: 2016) despite the continuing economic challenges. Gross collections for the quarter were US$919.91 million, which is 6% up from the $866.96 million collected in (Q2:2016). The quarter under review was also characterised by continuous falling prices a phenomenon known as deflation. Inflation during the quarter was (-1.4%). Government also revised the projected Gross Domestic Product (GDP) growth rate by 55% from 2.7% to 1.2% by year end. Government further gazetted the contentious Statutory Instrument (SI) 64 of 2016 during (Q3:2016).

The SI 64 has in effect stimulated local manufacturing production which improved capacity utilisation by the companies whose products are protected by the SI. This had a positive outcome on their profitability, and a marked improvement in their contribution to the fiscus during the quarter. SI 64 should, other things remaining equal, also have a multiplier effect on the economy in the medium term with rising employment levels and increasing Aggregate Demand.

The imminent advent of the bond notes has brought some uncertainty into the economy, and this is exacerbating the existing liquidity challenges because everyone wants to keep their US dollar cash. There is a serious confidence issue on this matter but the Reserve Bank of Zimbabwe is working hard to allay the people's fears. In the meantime, general expenditure levels are lower as some retailers are refusing to use the Point of Sale (POS) machines at a time banks are seriously rationing cash. In addition, most importers are overstocking whatever they can in case they would not find the US dollars to restock fully. All these actions had an adverse impact on the September VAT.

The third quarter was also characterised by the softening of global commodity prices which had a direct impact on the performance of the country's major foreign currency exports such as diamonds, platinum, gold and chrome. The strength of the US dollar also continues to negatively affect Zimbabwe's export competitiveness. The trade deficit narrowed during the third quarter, but still remains high, especially in the absence of effective strategies to increase exports in the short to medium term.

Debt was US$2.65 billion at the end of the (Q3:2016) which is an increase of 0.60% from US$2.63 billion at the beginning of the quarter after adjusting for new debt and recoveries. Although there was a marginal increase in debt, vigorous debt follow-ups resulted in debt reduction in Individual Tax by 3.91% and Corporate Tax by 4.81%.

In terms of mix 8.75% of the debt is owed by Councils, Parastatals owe 14.35% whilst private businesses owe 76.90%. The expectation is that the newly announced measures to withhold VAT by specified companies will help to curb the growth of the debt and improve Government's cash flows.

**Revenue Performance**

Table 1 below compares the actual performance of revenue heads to their set target during the third quarter of 2016.

**Table 1: Revenue Performance per Revenue Head for 2016 3rdQuarter**

***DFIR refers to Tax on Dividends, Fees, Interest and Remittances***

| Revenue Head | Target 2016 (US$) | Actual 2016 (US$) | Variance (US$) | % Variance |
|---|---|---|---|---|
| **INDIVIDUAL TAX** | 202,200,000.00 | 204,030,886.65 | 1,830,886.65 | 0.91% |
| **EXCISE DUTY** | 192,333,000.00 | 157,987,593.02 | - 34,345,406.98 | -17.86% |
| **GROSS VAT LOCAL SALES** | 152,100,000.00 | 222,441,361.69 | 70,341,361.69 | 46.25% |
| ***Less Refunds*** | - | *64,981,366.00* | 64,981,366.00 | 0.00% |
| **NET VAT ON LOCAL SALES** | 152,100,000.00 | 157,459,995.69 | 5,359,995.69 | 3.52% |
| **VAT ON IMPORT** | 86,900,000.00 | 89,793,922.53 | 2,893,922.53 | 3.33% |
| **GROSS CUSTOMS DUTY** | 94,000,000.00 | 64,317,473.99 | - 29,682,526.01 | -31.58% |
| ***Less Refunds*** | | *213,236.00* | 213,236.00 | 0.00% |
| **NET CUSTOMS DUTY** | 94,000,000.00 | 64,104,237.99 | - 29,895,762.01 | -31.80% |
| **COMPANIES** | 97,000,000.00 | 102,027,436.41 | 5,027,436.41 | 5.18% |
| **MINING ROYALTIES** | 28,925,000.00 | 14,791,031.86 | - 14,133,968.14 | -48.86% |
| **WITHHOLDING TAX ON CONTRACTS** | 23,371,983.31 | 20,045,628.92 | - 3,326,354.39 | -14.23% |
| **DFIR*** | 17,205,000.00 | 14,999,082.23 | - 2,205,917.77 | -12.82% |
| **CARBON TAX** | 8,880,000.00 | 7,993,064.63 | - 886,935.37 | -9.99% |
| **OTHER TAXES** | **14,418,016.69** | **20,936,290.42** | **6,518,273.73** | **45.21%** |
| ***CGT & CGT Withholding Taxes*** | *7,890,000.00* | *5,460,840.20* | - 2,429,159.80 | -30.79% |
| ***Other Indirect Taxes*** | *4,928,016.69* | *4,494,750.36* | - 433,266.33 | -8.79% |
| ***Tobacco Levy*** | *1,600,000.00* | *3,220,555.38* | 1,620,555.38 | 101.28% |
| ***GROSS Non-Tax Revenue*** | - | *8,308,165.48* | 8,308,165.48 | |
| ***Less Other Refunds*** | - | *548,021.00* | 548,021.00 | |
| ***Net Non-Tax Revenue*** | - | *7,760,144.48* | 7,760,144.48 | |
| **NET REVENUE** | **917,333,000.00** | **854,169,170.35** | **- 63,163,829.65** | **-6.89%** |
| **GROSS REVENUE** | **917,333,000.00** | **919,911,793.35** | **2,578,793.35** | **0.22%** |

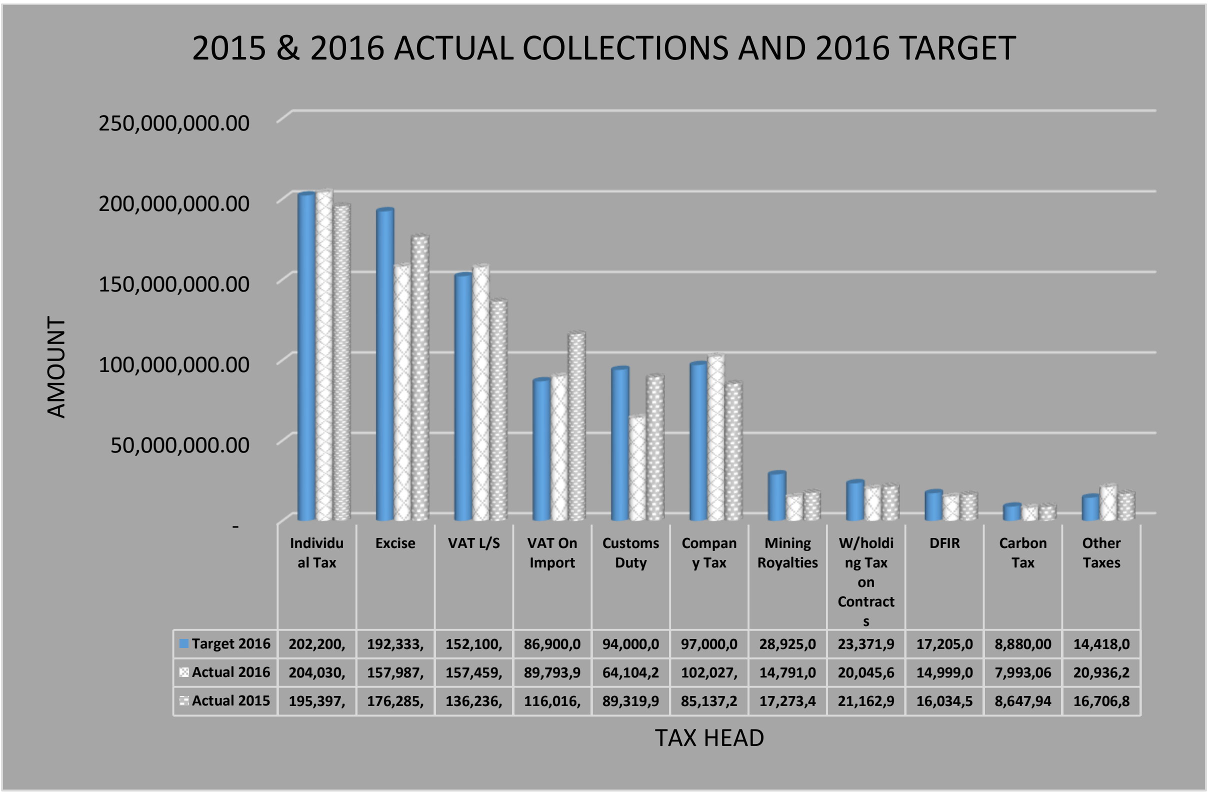
The revenue performance has been gradually improving with the collections for September, recording $364.08 million, which is 4.73% above the gross target. The net for September 2016 was $351.99, translating to 1.26% above the target. This has not been achieved in a long time.

Gross revenue collected during (Q3:2016) stood at US$919.90 million compared to $866.96 in (Q2:2016). The net revenue was US$854.17 million after VAT refunds of US$64.98 million, and Customs and other refunds amounting to US$761 257.00. Net collections were thus 93.11% of the expected US$917.33 million and are 2.71% below (Q3:2015).

The major contributors of revenue for (Q3 2016) are as follows: Individual Tax (23.89%), Excise Duty 18.50%, VAT on Local Sales 18.43%, whilst VAT on Imports contributed 10.51%. The rest of the revenue heads contributed the remaining 28.67%.

**Comparison of Quarter 3, 2015; Quarter 3, 2016 Actual Collections and Quarter 3 2016 Target**

The following bar graph compares the targeted revenue to actual revenue collections in 2016 against 2015




| | Individual Tax | Excise | VAT L/S | VAT On Import | Customs Duty | Company Tax | Mining Royalties | W/holding Tax on Contracts | DFIR | Carbon Tax | Other Taxes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Target 2016 | 202,200, | 192,333, | 152,100, | 86,900,0 | 94,000,0 | 97,000,0 | 28,925,0 | 23,371,9 | 17,205,0 | 8,880,00 | 14,418,0 |
| Actual 2016 | 204,030, | 157,987, | 157,459, | 89,793,9 | 64,104,2 | 102,027, | 14,791,0 | 20,045,6 | 14,999,0 | 7,993,06 | 20,936,2 |
| Actual 2015 | 195,397, | 176,285, | 136,236, | 116,016, | 89,319,9 | 85,137,2 | 17,273,4 | 21,162,9 | 16,034,5 | 8,647,94 | 16,706,8 |

***Figure 1: 2016 Targets vs 2016/2015 3rd Quarter collections***

The economic environment continues to worsen prompting a downward revision of the GDP for 2016 by economic analysts. Since tax revenues are a function of the GDP, it follows that they would be lower in 2016. Notwithstanding, five revenue heads remarkably exceeded their (Q3:2015) performances. These were Individual Tax, VAT on Local Sales, VAT on Imports, Company Tax and Other Taxes, despite the fact that VAT on Local Sales performance was dampened by a 58% increase in refunds in (Q3:2016) owing to overstocking by retailers for September. The improved performance of VAT on Local Sales is attributable to automation, more enforcement and compliance checks and is expected to improve as compliance levels increase. The above initiatives, i.e. automation and enforcement, unearthed significant irregularities relating to those who under-declared their revenues, and those who were not even registered. Consequently 3 232 new taxpayers were registered and 106 cases were referred to audits. But more importantly, non- compliant taxpayers are increasingly coming to the Authority to normalise their relationship and this is commendable.

**VAT on Local Sales**

The Hon P. Chinamasa, the Minister of Finance and Economic Development, presented the 2016 Mid-Year Fiscal Policy Review on September 8, 2016. One of the Revenue enhancing measures introduced was to extend the fiscalisation programme to Category A, B, and D taxpayers providing taxable goods and services. This will add to Category C taxpayers who are already covered under the current legislation. These measures are effective January 1, 2017. What this means is that it will be an offence for any taxpayer providing goods and services not to be on the Tax Management System (TMS) or on any fiscal device. That means everyone who purchases goods and services must receive a fiscal receipt from that date. ZIMRA has advertised to increase the number of vendors providing the fiscal machines as specified by the Authority, and everyone must be prepared to comply. In the same statement and in order to minimise loss of revenue arising from failure to fully declare or remit VAT, Hon. Chinamasa introduced a 10% withholding VAT on output tax charged by specified suppliers of goods and services effective October 1, 2016. This will improve collections, reduce the rate of increase in VAT debt and improve Government cash flows.

**Company Tax, Customs Duty and VAT on Imports**

A number of companies reported improved profitability resulting in increased revenue collections by the Authority in (Q3:2016) compared to the same period in 2015. This has been attributed to the positive impact of the SI 64 of 2016 in June 2016. The SI essentially removed numerous products on open general import licence (OGIL) and hence gave local manufacturers companies some competitive edge. On the other hand, automation improves the accuracy of revenues reported to ZIMRA and this boosted revenue. However, going forward profitability will remain under pressure until we have a significant recovery in the economy, but efficiency measured will in the short term counter the downward trend somehow.

The other impact of removing products from OGIL was to significantly reduce Customs Duty and VAT on Imports. The important thing is to ensure that the net impact to revenues remains positive.

**Comparison of 2016 quarterly revenue collections**

The graphs show a comparison of performance for the Q1, Q2 and Q3 of 2016

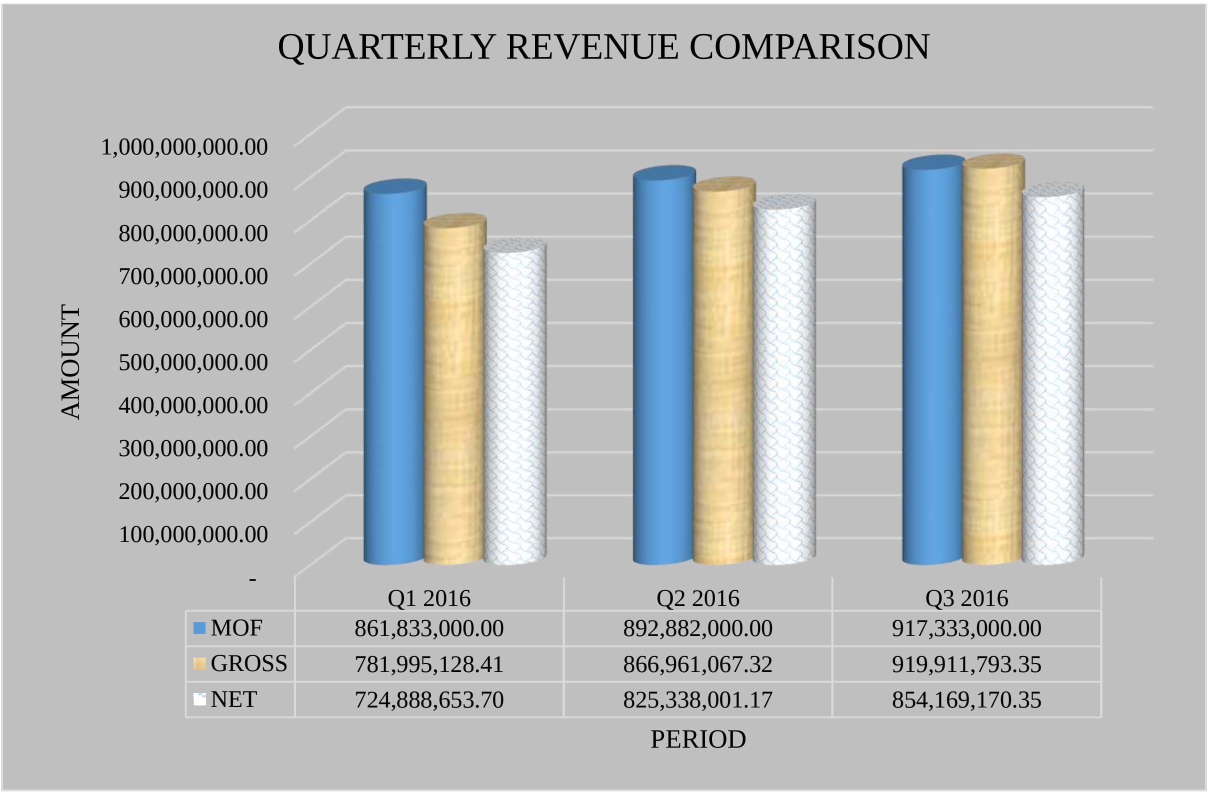



***Figure 2: Quarterly Revenue Contributions***

The graphs show that there has been a gradual improvement in Revenue Collections during 2016 due to the measures by Management to increase compliance and enforcement.

**Revenue Head Contribution**

The pie charts below show the contribution of revenue heads to actual collection in Q3:2015 and Q3:2016.

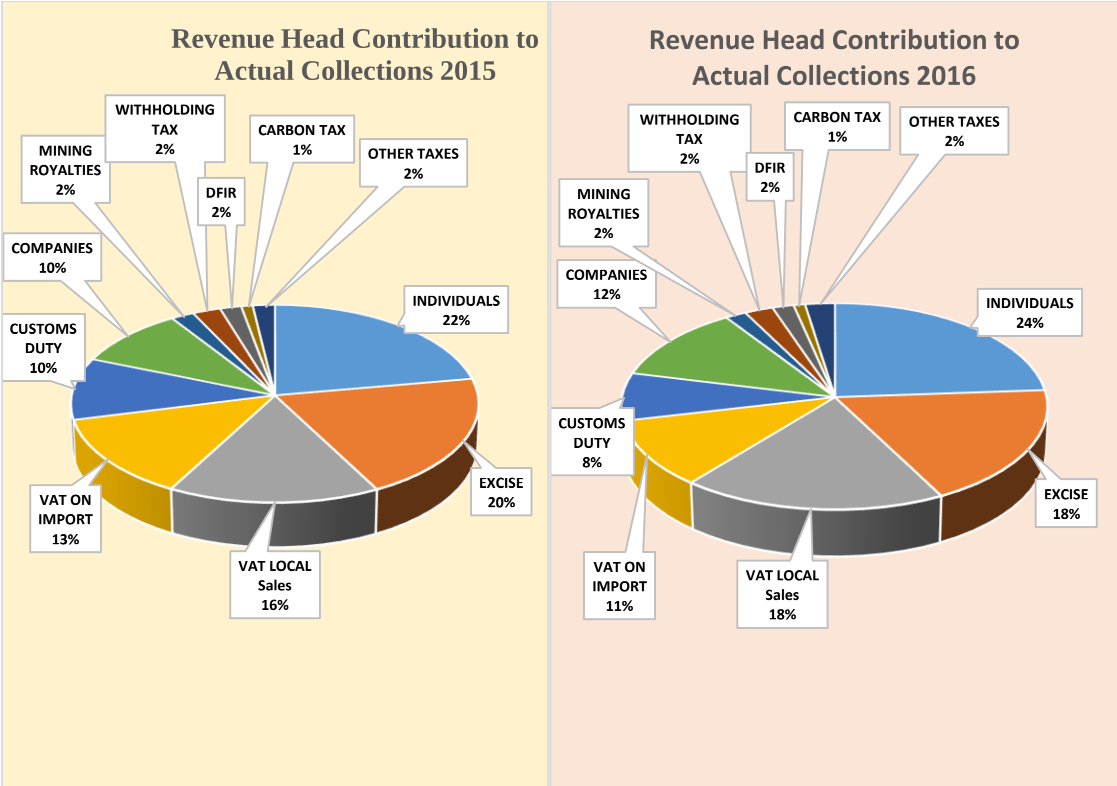



***Figure 3: Revenue Heads' Contribution to Revenue collections for 2015 and 2016***

There was an increase in revenue contributions on Individual Tax from 22% in (Q3:2015) to 24% in (Q3 2016), but this is not likely to continue going forward because the collections were buoyed by previous debt repayment and set offs. VAT on Local Sales and Company Tax registered a 2% growth from (Q3 2015) compared to (Q3 2016), a positive indication of efficiency and effectiveness of automation projects currently running. VAT on Imports and Customs Duty all declined by 2% due to policies introduced to discourage imports. Excise Duty contribution to total revenue declined from 20% in (Q3 2015) to 18% in (Q3 2016). The lower contribution of excise duty is attributable to low disposable incomes as reflected in the financial statements of the companies providing such goods. It is also explained by lower consumption of fuel although the lower consumption could also be masking the increasing levels of transit fraud and direct smuggling especially through Forbes Border Post, and the illegal crossing points at Marymount in Mutare and Imbeza in Penhalonga.

Transit fraud will be effectively curbed by the Cargo Tracking System. Although the Revenue Authority failed to develop an interim cargo tracking system as reported in the last quarterly review, the good news is that the company which won the tender for the more comprehensive system, Techno Brain (T) Ltd of Tanzania has already started installation. They indicated that they will complete by the end of October 2016 and their progress to date indicates they are likely to meet their target. The aim is to integrate the cargo tracking system with other operational systems in ZIMRA, and the systems of related stakeholders to tighten the system and make life difficult for smugglers in Zimbabwe.

**Analysis of the Specific Revenue Heads' Performance**

**Individual Tax**

This revenue head contributed US$204.03 million which is 0.91% slightly above the targeted US$202.20 million. Collections were 4.42% above (Q3 2015) collections of US$195.40 million and they grew by 9.26% from (Q2 2016). Year to date collections amounted to US$555.41 million. The performance was largely increased by the set off payments which were done during the quarter, but generally the revenue head is not performing well due to job losses and failure to pay salaries by taxpayers. The situation is likely to remain bleak in the short term.

The Authority embarked on extensive lifestyle audits on selected individuals in an effort to evaluate their compliance. Debt follow ups are being vigorously pursued. During the next quarter lifestyle audits will be focused on ZIMRA officers. Corruption by ZIMRA officers is costing Government a lot of money and it is expected that regular staff audits and other measures to combat corruption will see this revenue head and others improving, other things remaining equal.

**Corporate Income Tax**

A total of US$102.03 million was realised in (Q3 2016) which was 5.18% above the target of US$97.00 million. Actual collections grew by 19.84% when compared to (Q3 2015), and they also increased by 10.80% in comparison with (Q2 2016) revenue collections. The debt component declined by 4.81% from US$750.16 million to US$414.05 million during the period under review. Revenues were enhanced by the TMS initiatives which are being employed by the Authority to improve compliance and reduce under-declaration of profits. From the Published financial statements of 26 listed companies for the Year ended 30 June 2016 and Half Year ended 30 June 2016, it was observed that 21 of them recorded profits. Of the 21 companies: 13 companies realised an improvement in performance as compared to the same period in 2015, 5 recorded profit less than for the same period in 2015 and 3 companies were unchanged.

**VAT on Local Sales**

The revenue head realised growth of 15.58% from the US$136.24 million collected in (Q3: 2015). Gross collections were US$222.44 million which translated to 24.19% of total gross revenue for (Q3:2016). However, this worked to US$157.46 million net after US$64.98 million in refunds. The net revenue posted a growth of 2.60% when compared to (Q2 2016). Net collections exceeded the set target by 3.52%. The positive performance was a result of improved compliance and automation as indicated above.

The Year to date performance amounts to US$440.15 million. An increase in the use of plastic money, improved voluntary compliance and reduction in under-declaration of sales value will improve this revenue head going forward.

VAT debt as at the end of (Q3:2016) amounted to US$986.48 million from a balance of US$920.40 million at the beginning of the quarter showing an increase of US$66.08 million. VAT forgone on exempt and zero rated goods amounted to US$113.10 million and US$409.02 million respectively.

In the near future the refund bill will be expected to decline owing to the new policy which was introduced in the Mid-Year Fiscal Policy Review which allows certain taxpayers to withhold VAT on Local Sales on behalf of ZIMRA. This will also reduce the accumulation of VAT debt.

**VAT on Imports**

The revenue head realised a total of US$89.79 million which exceeded the set target of US$86.90 million by 3.33%. From January to September a total of US$261.48 million has been collected. Revenue declined by 22.60% when compared to (Q3:2015), but was an increase of 4.02% when compared to (Q2:2016). Revenue foregone during the quarter amounted to US$27.94 million.

The positive performance of the revenue head was enhanced by imports of raw materials used by the local industry as well as other companies which are recapitalising. The good performance was surprising, and was enhanced by efficiency and the positive effect of the fight against corruption. However, in the short term performance should remain rather shaky.

**Customs Duty**

Gross collections contributed US$64.32 million during (Q3:2016), and of this US$64.10 million were net collections which posted a decline of 28.23% compared to (Q3:2015) collections of US$89.32 million. Net revenue declined by 5.04% when compared to (Q2:2016). Year to date collections amount to US$200.74 million.

The unsatisfactory performance was mainly due to revenue forgone through Concessions, Trade Agreements and Rebates amounting to US$150.75 million, and government policies which were introduced to curb the influx of imports of designated manufactured products. Positive results have already been reported by some companies who have increased their capacity utilisation to meet local demand. The introduction of Conformity Based Commodity Assessment (CBCA) has forced other importers to shun imports because they could not meet the set quality standards.

Some importers have been facing challenges in accessing their Nostro accounts to process their transactions because of limits set on the utilisation of foreign currency.

**Excise Duty**

Revenue from Excise Duty amounted to US$157.99 million during (Q3:2016) against a set target of US$192.33 million. Revenue collected accounts for 82.14% of the target and it declined by 10.38% compared to (Q3:2015). There was an increase in revenue of 3.08% when comparing with (Q2 2016) performance, whilst year to date collections amounted to US$473.25 million.

The performance of the revenue head was attributed to the decline in the volume of petroleum products. Petrol imports decreased from 122.42 million litres in (Q3:2015) to 106.62 million litres in (Q3:2016). Diesel imports declined from 222.20 million litres in (Q3: 2015) to 194 million in (Q3:2016). In (Q2 2016) a total of 104.98 million litres were imported and 184.04 million litres of diesel. The decline could be a proxy for smuggled volumes of fuel. The future revenue performance is expected to improve especially when smuggling cases are curbed on goods in transit and fuel consignments through use of Electronic Cargo Tracking system and escorts.

**Withholding Tax on Contracts**

The revenue head contributed US$20.05 million in (Q3:2016) which accounts for 85.77% of the set target of US$23.37 million. Revenue declined by 5.28% when compared with (Q3:2015) collections, and a decrease of 10.95% against (Q2:2016). For the period January to September a total of US$61.99 million has been mobilised.

The performance of the revenue head is affected by the increase in compliance of taxpayers. The TMS project has forced a number of taxpayers to update their tax issues because fiscal machines will avail all their sales data to ZIMRA. The targeted audits and investigation done during the quarter encouraged taxpayers to update their tax issues voluntarily.

The future performance of this tax head is expected to improve due to increased transparency and accountability of transactions of non-compliant tax payers by business resulting from technological developments which are being stepped up by the Authority.

**Carbon Tax**

Revenue collected was short of the set target by 9.99%. Q3:2016 collections of US$7.99 million declined by 7.63% when compared to (Q3:2015). Revenue grew by 1.91% from Q2:2016 collection and year to date collections amounts to US$24.04 million.

The revenue heads’ performance was below target due to the reduction in the imports of petrol and diesel as explained under Excise Duty above.

**Mining Royalties**

Mining Royalties revenue collections closed (Q3:2016) at US$14.79million way below the set target of US$28.93 million resulting in a 48.86% negative variance. Revenue declined by 14.37% when comparing with (Q3:2015) and it also declined by 24.57% when comparing with (Q2:2016) revenue collections. Year to date collections amount to US$47.77 million.

Performance of the revenue head was adversely affected by the slump in the commodity prices and despite the increase in export volumes for gold and platinum exports, the performance was still subdued. The value of diamonds exported have also been declining and volumes are much lower than at the same period last year.

**Dividends, Fees, Interest and Remittances**

A total of US$14.99 million was collected which accounts for 87.18% of the set target amounting to US$17.21 million. Revenue declined by 6.46% in relation to (Q3:2015) collection of US$21.16 million, but it grew by 23.40% when compared to (Q2:2016). Non-Resident Tax on Fees has always been the highest contributor with 48.19% while Non-Residents Tax on Dividends contributed 21.14%. The under-performance of this revenue head mainly reflects the bears on the Zimbabwe Stock Exchange and subdued payment of fees for foreign services.

**Other Taxes**

The revenue head consists of Capital Gains Tax (CGT), Capital Gains Withholding Tax, Tobacco Levy and Other Indirect Taxes (Stamp Duty, ATM Levy, Banking Levy, Presumptive Tax) and Non-Tax Revenue. Revenue collections amounted to US$20.94 million which was 45.21% above the set target of US$14.42 million. Year to date revenue collection amounted to US$52.78 million. Collections grew by 25.32% in comparison with (Q3:2015), and a decline of 12.17% relative to (Q2:2016). Tobacco levy contributed 15.38% and is no longer expected to contribute in the fourth quarter due to closure of tobacco auction floors.

**The Forensic Audit**

HLB Zimbabwe Chartered Accountants, the winners of the tender, have submitted their audit report to the Auditor General. The Board has received the report. It contains various adverse and material observations with respect to the operations at ZIMRA. These include the following: corrupt practices, abuse of office and fraud and theft by certain executives;

Numerous violations of the Zimbabwe Revenue Act, as well as the Customs and Excise Act and the Procurement Act; poor Corporate Governance practices and weak internal control systems; failure to or incomplete disclosure of operational issues with regard to the Board and parent Ministry by ZIMRA executives; systemic violation of procurement procedures; and abuse of the whistle blower facility, among others.

The Board has studied the report and has deliberated on it. Appropriate measures in accordance with the Zimbabwe Revenue Act, the ZIMRA Code of Conduct, the Labour Laws of Zimbabwe and the Criminal Code will be taken in the coming weeks following proper due process. Thereafter, the Executive Summary of the Report will be availed to stakeholders.

**Fighting Corruption**

The Forensic Audit confirmed the existence of endemic corruption in ZIMRA, and the Board is now more resolved than before to eradicate the cancer corruption has become. Part of it involves automation but a great deal has to do with changing the mindset of the people and the culture in the Authority. It is a mammoth task but can be achieved if all stakeholders stand with the Board and walk the talk. Often it has been said the economy is resilient but I contend that it can no longer withstand the current levels of corruption. The Board has an absolute zero tolerance on corruption and this message has been relayed to all officers. But it takes two to Tango and the public is also expected not to entice officers into corrupt activities. Many who have cut deals with ZIMRA officers have had to pay the Authority what they were supposed to pay then plus penalties and interest. We have also dismissed a number of officers on account of corruption. It is a painful experience when the system catches up with perpetrators of corruption.

The anti-corruption hotline has been a source of valuable information and it unearthed several cases of corruption that yielded potential revenue of more than US$23 million.

We continue to urge people to use the Hotline. In the next few weeks we shall be publicly reporting back on the cases reported. The Hotline contact details are as follows;

**Telecel** toll free line 0732880880

**Econet** toll free line 0808190

**E-mail:** zimraanticorruption@gmail.com

**Whatsapp** line 0772135690

**Gratitude**

I would also like to thank my colleagues on the Board for your commitment and resolve to achieve the mandate. Without your support and ***esprit de corps,*** we would not have achieved the goals we have achieved to date. There is still a long way to go but we give God the glory for taking us this far and we will get there.

To Acting Commissioner General Happias Kuzvinzwa, ZIMRA management and staff, thank you for the hard work, commitment and achievements this quarter. You have demonstrated that targets can be met despite the harsh economic environment.

To Hon. Patrick Chinamasa, the Minister of Finance and Economic Development, the Permanent Secretary, Ministry's Staff and the entire Government, thank you for the guidance and steadfast support rendered during the period under review. May God bless you.

I always save the best for last and the best goes to the taxpayers. Without you there is no ZIMRA and those who continue to pay their dues in full and on time are the ones keeping Zimbabwe going, you have saved many lives. May God give you recompense.

***Psalms 124:2 If it had not been the Lord who was on our side ….***

Thank you.


Mrs. W. Bonyongwe

Board Chairperson

Zimbabwe Revenue Authority