

# **ZIMRA CHAIRMAN'S STATEMENT ON REVENUE PERFORMANCE FROM JANUARY TO DECEMBER 2009**

## **Introduction**

In 2009, Zimbabwe witnessed a transition from use of the Zimbabwe Dollar to the multicurrency system as well as the implementation of the Global Political Agreement. The transition saw an improvement in the macro-economic environment. As a vital State enterprise responsible for revenue collection and trade facilitation, the Zimbabwe Revenue Authority (ZIMRA)'s operations improved with the change in the socio-economic and political spectrum.

## **Overview of 2009**

The steady increase in revenues can be attributed to the efforts made by the All Inclusive Government to restore viability in the economy coupled with the hard work by the Zimbabwe Revenue Authority. It should, however, be noted that various challenges were faced during 2009. For instance, most businesses were still adapting to the payment of duties and taxes in foreign currency especially in the first quarter. Low productive capacity, loss of jobs, shortages of foreign currency and liquidity crunch were some of the challenges faced during the year.

## **Interventions**

### *Policy level*

The Government of the Republic of Zimbabwe, through the Ministry of Finance, rendered valuable support to ZIMRA throughout the year. The Government also allowed the suspension of Customs Duty on basic commodities to remain as strategies for economic recovery are being put in place. The move saw the

availability of basic commodities on the domestic market at fairly competitive and sustainable prices.

#### *Administrative level*

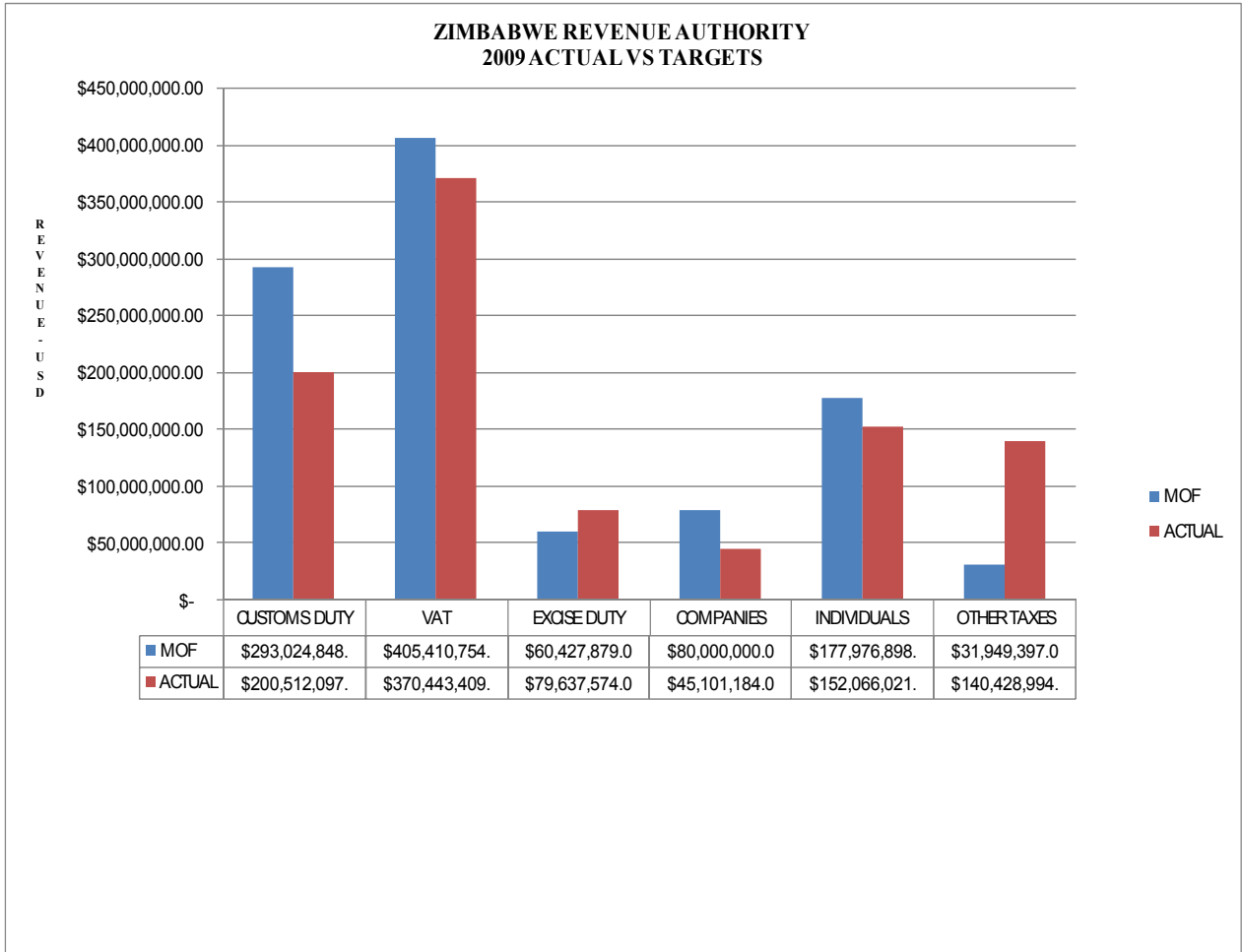
The Zimbabwe Revenue Authority managed to intensify information and communication technological advancement by upgrading the AYSCUDA++ to ASYCUDA World, a more interactive and integrated Customs environment software.

In addition, the Authority continued to play a pivotal role in the regional integration process at both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) regional economic blocks. The first ever One Stop Border Post in Africa was commissioned at Chirundu, the border between Zimbabwe and Zambia.

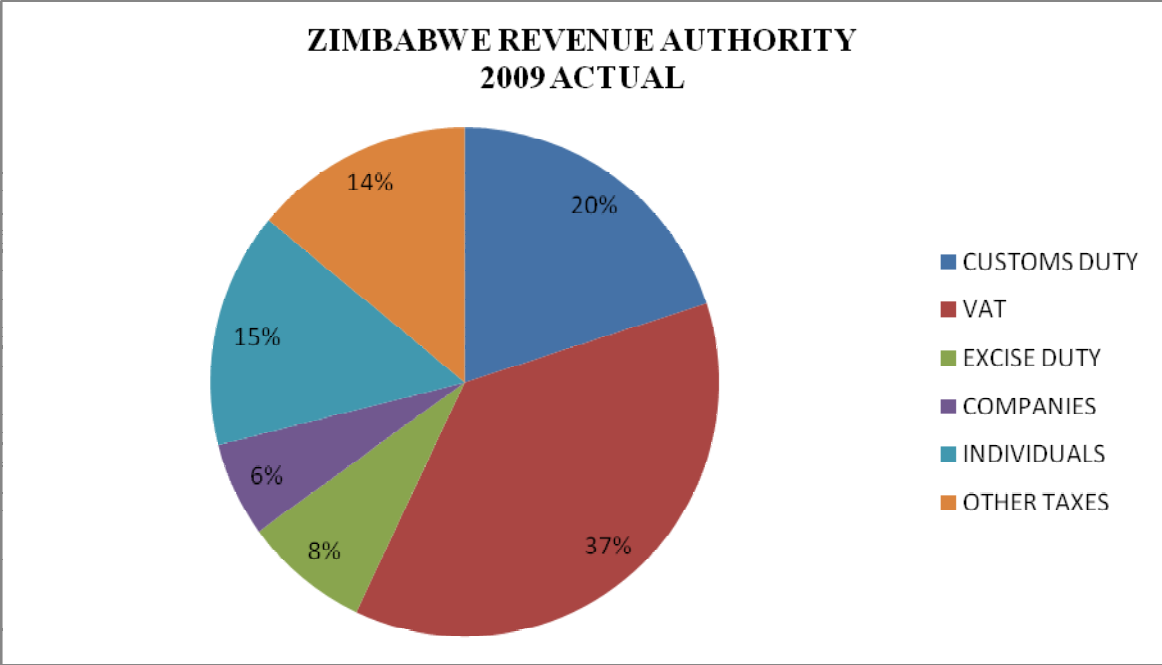
#### **Revenue performance for the year 2009**

The close of the year 2009 has seen revenue inflows improving significantly although the annual target from the Ministry of Finance was missed. Cumulative collections for the year stood at US\$988.5 million against a target of US\$1.05 billion resulting in a negative variance of 6%. The percentage contributions to total revenue by quarter were 5%, 26%, 27% and 42% for the first, second, third and fourth quarters respectively.

The 2009 annual collections against targets are shown below:



The revenue head that contributed the most revenue was Value Added Tax (VAT) with 37%, followed by Customs Duty which contributed 20%. Individual Tax contributed 15% to total revenue collections. The rest of the revenue heads' contributions are as represented in the pie chart below:



Individuals raked in US\$152 million against a target of US\$178 million, giving rise to a negative variance of 15%. Individual Tax failed to meet the set target as most companies were struggling to pay their workers, with some even retrenching or closing shop temporarily pending recapitalisation. Due to the harsh economic environment that existed especially in the first quarter, most companies downsized, especially banks. Some companies had prolonged annual shut downs whilst others forced their employees to go on unpaid leave thus negatively affecting the revenue head's contribution.

In addition, some companies were still paying salaries within the tax free range and had not reviewed their employees' salaries upwards. Public servants who used to contribute around 20% of Pay As You Earn (PAYE) collections were receiving salaries hovering around the tax-free threshold thus resulting in their contributions to total collections falling significantly. However, bonuses and performance awards offered to employees especially towards the end of the year significantly boosted PAYE collections and the revenue head at large.

Companies contributed 6% to total revenue. Collections for 2009 stood at US\$45 million against a target of US\$80 million, leading to a 44% negative variance. The poor performance of this revenue head is attributed to the fact that most companies were still operating below capacity and lacked working capital to kick-start their operations. In addition, exorbitant utility tariffs, higher wage demands, credit and liquidity crunch, among others were major challenges faced by many companies. Due to these challenges currently being faced by the nation, most companies have failed to increase capacity utilisation to previously projected levels leading to suppressed inflows from this revenue head.

VAT has contributed 37% to the total collections for the year. Value Added Tax collections stood at US\$370 million against a target of US\$405 million. The slight under-performance of VAT could be attributed to liquidity constraints on the market that have resulted in most firms failing to import enough raw materials and rehabilitate equipment to boost capacity utilisation. In addition, the low salaries offered by many companies negatively affected disposable income and consequently depressed VAT performance.

The rise in PAYE revenue as a result of upward salary reviews and performance awards in the second and fourth quarters, however, meant an increase in disposable income and consequently an increase in VAT revenues. VAT on Local Sales surpassed VAT on Imports, a clear indication that the economy is picking up.

Customs Duty brought in US\$200 million against a target of US\$293 million giving rise to a negative variance of 32%. The introduction of multiple currencies in the economy resulted in the cost of importing rising, resulting in low volumes of goods being imported thereby depressing this revenue head's collections. In

addition, the replacement of Customs Duty on fuel with Excise Duty also contributed to a reduction in total collections from this revenue head. Furthermore, the removal and reduction of duty on capital goods, raw materials and finished goods was also a factor in the poor performance of this revenue head.

Excise Duty contributed 8% to total revenue for the year with collections of US\$79.6 million against a target of US\$60.4 million giving a positive variance of 32%. The replacement of Customs Duty on fuel with Excise Duty in the mid-year Fiscal Policy Statement boosted the performance of this revenue head. Fuel had the highest contribution to this revenue head followed by beer. The production of excisable goods like beer also improved significantly in 2009; with some companies increasing capacity utilisation through installing new state-of-the art equipment. Consumption of excisable commodities also increased towards the festive season resulting in more revenue emanating from this tax head.

Withholding Tax on Tenders contributed the most revenue under Other Taxes while Road Access Fees came second. Cross-border traffic volumes continue to be high as truckers and other private travellers continue to source commodities outside the Zimbabwean borders.

### **2010 Outlook**

Although some challenges are still prevailing in the economy, the year 2010 promises to be a better year after more than a decade of economic slump. With the Inclusive Government in place and the policy measures expected to come on board, it is hoped that ZIMRA will be able to collect revenue in a stable political and economic environment, from increasingly compliant and capable clients. The improved environment is expected to make planning, budgeting and forecasting

by policy makers, ZIMRA and its stakeholders much more practical, professional, possible and predictable.

### **Conclusion**

Looking forward, we are confident that ZIMRA - with the continued support from our parent ministry and the Minister of Finance, our valued clients and other stakeholders - will surpass the 2010 target.

**Dr Gibson M Mandishona**

**ZIMRA Board Chairman**