

Zimbabwe Revenue Authority

BOARD CHAIR'S REPORT FOR PUBLICATION FOR THE SECOND QUARTER ENDED 30 JUNE 2021



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ZIMRA vice Board Chairman

1. Introduction

The economic environment continued to improve in the second quarter of 2021 on the backdrop of heightened implementation of the National Development Strategy 1 (NDS-1). Inflation eased by 133.91 percentage points from 240.55% in March 2021 to 106.64% in June 2021. Generally, the exchange rate remained stable despite the local currency weakening slightly in the second quarter of 2021. The stability in exchange rates and the decreasing inflation have instilled more confidence in business and the performance of the economy as a whole, thereby boosting economic activity leading to a positive effect on tax revenue collections.

The recent reports by World Bank and the International Monetary Fund (IMF) that projected a 3.9% and 6% growth respectively for the year 2021 (World Bank Press Release NO: 2021/162/AFRI and MF, Press Release No. 21/183) reinforce the optimistic expectation of a 7.5% growth projected by the government at the beginning of the year. This is underpinned by a bumper harvest for the 2020/21 agricultural season, increased energy production and the resumption of increased manufacturing and construction activities. However, the projected improvement in economic growth could be threatened by the emerging COVID-19 induced business interruptions.

ZIMRA has continued to respond with several measures to protect both staff and clients across the country while it remained focused on revenue collection and facilitation of trade and travel during this devastating COVID-19 pandemic period. The coordinated responses include the continued enhancement of online virtual services, provision of personal protective equipment, temperature screening, hand sanitization and decongesting offices by allowing staff to work from the confines of their homes. The Authority also continues to encourage clients to use the online facilities in conducting their tax compliance business.

2. Strengthening Revenue Collection In Support Of NDS-1

2.1 Second Quarter 2021 Gross / Net Revenue Collections against Target

Gross revenue collections for the Second Quarter of 2021 amounted to ZW\$ 108.93 billion against a set target of ZW\$93.93 billion (15.96% above target). The Authority paid out refunds of ZW\$ 2.29 billion during the quarter under review. The table below shows that net collections for the quarter were ZW\$ 106.64 billion (13.53% above target):

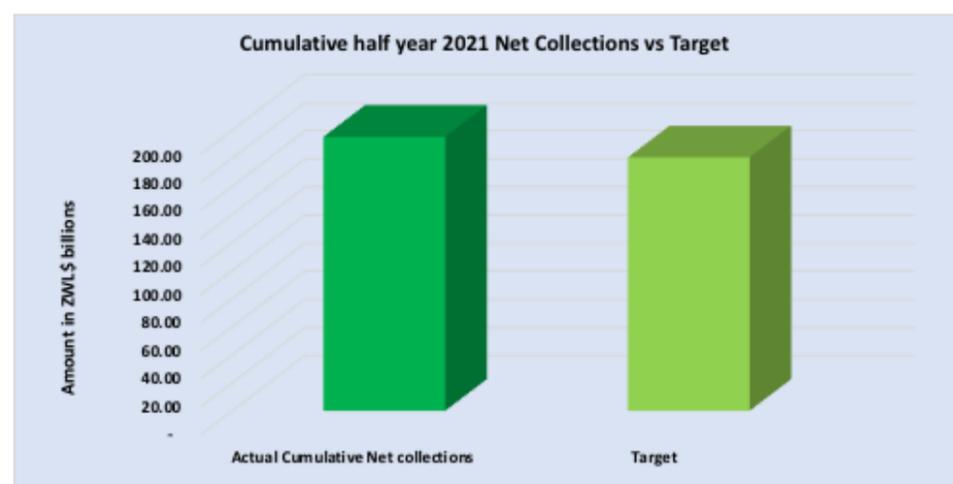
Table 1: Q2 2021 Net Revenue Collections

Second Quarter 2021 Actual Net Revenue Collected against Target	
Net revenue collected (ZWS)	106,636,473,409.72
Target (ZWS)	93,931,575,000.00
Variance	13.53%

2.2 Cumulative Half-Year Net Revenue Collections against Target

Cumulatively, net revenue collections for the first half of 2021 amounted to \$195.18 billion after deducting refunds of \$4.64 billion (8.16% above target):

Cumulative net revenue collected Vs. Target for half year ending 30 June 2021	
Net revenue collected (ZWS)	195,175,812,161.71
Target for the period (ZWS)	180,453,427,238.00
Variance	8.16%



2.3 Nominal and Real Net Revenue Growth by Revenue Head from Q2 2020

In comparison with the same period in 2020 where a total of ZW\$ 20.11 billion was collected, nominal net revenue collections grew by 430.19%. All revenue heads registered positive growth in nominal terms. After adjusting for inflation, net revenue grew by 202.30% in Q2 2021 as compared to the same period in 2020.

Table 2 below summarises the revenue performance for the quarter by revenue head:

Table 2: 2021/2020 Second Quarter Revenue Performance Comparison

TAX HEAD	Q2 2021 TARGET \$	Q2 2021 ACTUAL \$	VARIANCE	Q2 2020 ACTUAL \$	% Nominal Growth	% Real Growth
Individuals	16,627,321,000.00	18,061,777,522.13	1,434,456,522.13	3,466,136,486.98	421.09%	207.22%
Companies	17,720,020,000.00	22,864,244,834.39	5,144,224,834.39	4,137,407,539.51	452.62%	350.69%
Gross VAT L/Sales	15,726,000,000.00	17,072,916,111.89	1,346,916,111.89	3,596,907,734.77	374.66%	186.44%
Less VAT Refunds		2,264,633,540.27		1,494,425,128.62	51.54%	103.95%
Net VAT L/Sales	15,726,000,000.00	14,808,282,571.62	-917,717,428.38	2,102,482,606.15	604.32%	205.32%
VAT on Imports	9,080,000,000.00	10,696,218,105.82	1,616,218,105.82	1,599,755,540.89	568.62%	180.69%
Gross Customs Duty	6,700,000,000.00	6,844,824,391.61	144,824,391.61	1,140,321,775.83	500.25%	150.80%
Less Customs Refunds		17,116,396.63		940,513.39		
Net Customs Duty	6,700,000,000.00	6,827,707,994.98	127,707,994.98	1,139,381,262.44	499.25%	153.21%
Excise Duty	12,479,760,000.00	12,660,815,215.46	181,055,215.46	2,966,535,816.42	326.79%	116.10%
Mining Royalties	2,730,000,000.00	4,352,594,450.22	1,622,594,450.22	724,170,650.25	501.05%	419.55%
WHT on Contracts	1,126,000,000.00	1,685,144,086.46	559,144,086.46	253,025,316.07	566.00%	31.43%
Intermediated Money Transfer Tax	7,000,000,000.00	9,492,455,567.07	2,492,455,567.07	2,139,514,086.65	343.67%	126.02%
Other Taxes	919,774,000.00	1,400,975,353.51	481,201,353.51	254,933,960.82	449.54%	400.15%
CGT & CGT Withholding	557,600,000.00	467,317,979.17	-90,282,020.83	87,210,255.18	435.85%	288.16%
Other Indirect Taxes	81,960,000.00	335,389,197.07	253,429,197.07	44,935,907.46	646.37%	110.66%
Tobacco Levy	280,214,000.00	598,268,177.27	318,054,177.27	122,787,798.18	387.24%	91.67%
Carbon Tax	657,000,000.00	1,287,600,468.75	630,600,468.75	54,533,602.86	2261.11%	1935.36%
DFIR	3,125,500,000.00	712,330,665.43	-2,413,169,334.57	161,752,630.75	340.38%	69.66%
Gross Non Tax	40,200,000,000.00	1,793,108,446.98	1,752,908,446.98	1,114,061,923.78	60.95%	6536.60%
Less Other Refunds		6,781,873.10		858,405.47		
Net Non-Tax	40,200,000,000.00	1,786,326,573.87	1,746,126,573.87	1,113,203,518.31	60.47%	7411.46%
Total Net Revenue	93,931,575,000.00	106,636,473,409.72	12,704,898,409.72	20,112,833,018.11	430.19%	202.30%
Total Gross Revenue	93,931,575,000.00	108,925,005,219.71	14,993,430,219.71	21,609,057,065.59	404.07%	199.07%

The revenue enhancement measures implemented by the Authority during the quarter positively influenced revenue collections. On the other hand, although inflation is decreasing, it is still high enough to exert a positive influence on nominal revenue performance.

2.4 Distribution of Net Revenue Collected By Revenue Head

The Chart below shows net revenue contribution (%) by Revenue Head. Major contributors to net revenue collections for the quarter were Companies (21.44%), Individuals (16.94%), VAT on Local Sales (13.89%), Excise Duty (11.87%) and VAT on Imports (10.03%).

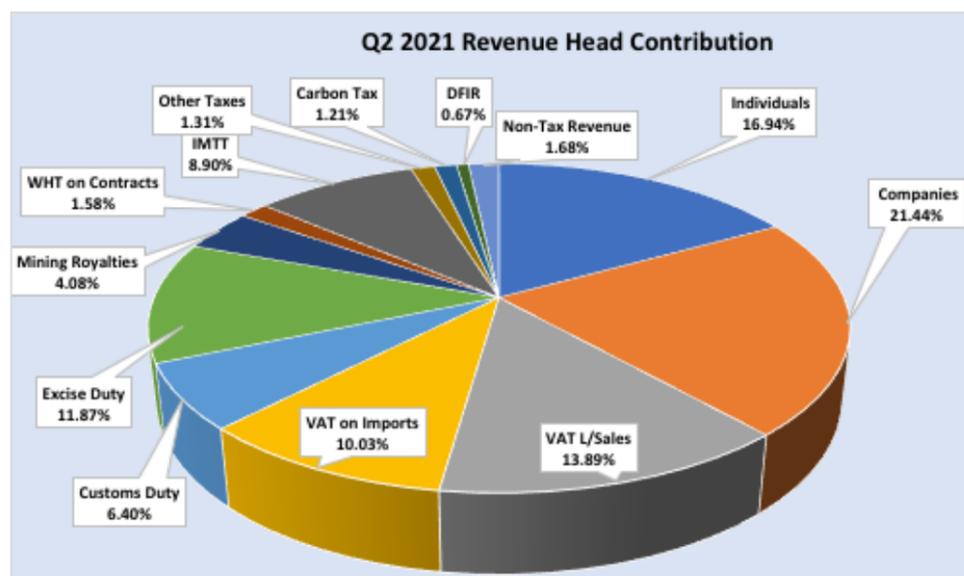


Figure 3: 2021 Q2 Revenue Contributions by Tax Head

- **Companies:** The relaxed Covid-19 lockdown restrictions allowed most companies to resume operations and others to increase productivity. This buoyed with the increased access to foreign currency through the forex auction system and the intensified enforcement and revenue enhancement activities by the Authority resulted in enhanced revenue collections.
- **Individuals:** Salary and allowances adjustments by most companies in the first quarter of 2021 are the major reasons behind the revenue head's positive performance. In the second quarter of 2021, companies continued to adjust salaries to cushion their employees against the increasing cost of living. The opening up of the economy after several months of strict lockdown conditions resulted in many companies paying full salaries and others re-engaging their previously laid off employees.
- **VAT on Local Sales:** The revenue head contributed 13.89% to total revenue collections. However, it missed the set target by 5.84% largely due to depressed consumption because of the Covid-19 induced lockdowns. Specifically, consumption during these periods of uncertainty is focused on the basics, which in most cases are exempted from VAT or are VAT zero-rated. On the other hand, huge amounts of refunds paid also negatively affected the performance of the revenue head.
- **VAT on Imports:** The revenue head contributed 10.03% to total revenue collections and surpassed the set target by 17.80%. Despite the negative effects of Covid-19 on international global supply chains, the revenue head recorded a positive growth as many importing companies have adapted and adjusted to the new normal.
- **Customs Duty and Excise Duty:** The revenue heads contributed 6.40% and 11.87% to total revenue collections respectively. The revenue heads also narrowly surpassed their set targets. The Covid-19 induced lockdowns continue to negatively affect these revenue heads. Excise Duty was largely affected by depressed consumption of the excisable goods while smuggling is also hindering the performance of Customs Duty.
- **IMTT:** The revenue head contributed 8.90% to total revenue collections. The increased use of electronic payment platforms is enhancing the performance of this revenue head.

3. Ease of Doing Business

ZIMRA remains committed to improving the ease of doing business in Zimbabwe. To this end, the Authority continues to leverage digital technologies particularly in this new normal. The Authority continues to implement the following key strategic projects which on completion will go a long way in improving ease of doing business:

- **Replacement of the Domestic Taxes IT System** – This is a major project which involves acquisition and replacement of the current Domestic Taxes IT operational system with a new Tax and Revenue Management System (TaRMS). This project is going to improve the efficiency and effectiveness of domestic taxes transactions and bring more convenience to the clients.
- **Upgrade of Customs IT System (ASYCUDA System)** - The Authority is upgrading the ASYCUDA System in phases with a major focus on automation of a number of processes so as to reduce human interface on border clearance processes.
- **Systems Automation Program/Digitalisation** – ZIMRA is implementing a set of automation projects which involves automation of identified key processes in order to improve service delivery.
- **Systems Integration** - The Authority has identified key external systems to integrate with internal IT Systems. This allows for quick-flow and interchange of information between the ZIMRA databases and external databases which improves efficiency in information collection and processing.
- **Inland Dry Ports** - In order to ease traffic pressures at the borders, ZIMRA is working on Dry Ports Projects which involve the construction and setting up of inland dry ports where customs clearance processes will be executed. The construction of Dry Ports will go a long way in decongesting borders at the same time positioning Zimbabwe as the gateway of trade

in Africa. In 2021, the Authority is prioritising construction of a Dry Port in Makuti to ease traffic congestion at Chirundu Border Post and another Dry Port in Mutare to ease traffic congestion at Forbes Border Post. Other Dry Ports sites have been identified in Bulawayo and Masvingo.

4. Plugging Of Revenue Leakages

The Authority has a zero tolerance to corruption and efforts are underway to minimize revenue leakages from both the Customs and Excise, and Domestic Taxes fronts. In addition, the Authority is also on guard to ensure that all its systems and operations are safe from being manipulated to cause revenue leakages. Actions being implemented include joint operations with security agents to curb smuggling at the country's borders and acquisition of surveillance systems. ZIMRA is also implementing the following strategic projects that will immensely contribute to plugging of revenue leakages:

- **ZIMRA Surveillance and Monitoring Centre** - Establishment of a central Surveillance and Monitoring Centre to monitor activities at the points of entry/exit through state of the art surveillance cameras linked to a central monitoring and command centre.
- **Drones** – this project involves the acquisition and operationalisation of Drones for border surveillance. Drones will be used to detect smuggling across national border lines. The smuggling detections will be supported by a ground force made up of ZIMRA compliance enforcement teams and other law enforcement agencies.

5. Summary Revenue Enhancement Strategies

During the second quarter of 2021, the Authority implemented the following revenue enhancement measures:

- **Foreign Currency Voluntary Disclosure Compliance Project** - The project's focus is to encourage taxpayers to disclose voluntarily their foreign currency activities and remit to ZIMRA what is due to it. This project will ensure continued voluntary compliance by taxpayers who are trading in foreign currency.
- **Risk Based Audits** – Carrying out risk-based audits with the assistance of Tax Inspectors Without Borders (TIWB) experts. The audits are mainly focusing on cases with high revenue potential.
- **Intensified Intelligence Gathering** – The Authority has intensified its intelligence gathering exercises. In some instances, officers are deployed to various businesses including Micro-Small and Medium Enterprises (MSMES) to gather intelligence on business activities undertaken and the forms and methods utilised to evade tax.
- **Effective Debt Management** – The Authority continues to implement its debt recovery strategy including effective follow up on outstanding taxes. Dedicated teams to follow up on debt were created within the Debt Management Unit.
- **Joint Post Clearance Compliance Enforcement** - To curb smuggling and other forms on evading trade taxes, the Authority is engaging with other security agents during border patrols and roadblocks. Efforts are also underway to coordinate fully with other border authorities from countries with which Zimbabwe shares borders.

6. Outlook

The stabilisation of the exchange rates coupled with the decreasing inflation rates is increasingly instilling confidence in the economy. This will in turn stimulate economic activity thereby enhancing revenue collections. The Authority will continue to implement its revenue enhancement activities and encourage clients to voluntarily comply with the tax laws and honour their obligations. ZIMRA also encourages taxpayers to embrace and utilise its digital platforms in interacting with the Authority. On the outlook, the surfacing of the Covid-19 third wave is posing threats to revenue performance in the next quarter. To avert this possibility, the Authority is already implementing remedies that will ensure minimum shock to revenue collections.

7. Gratitude

On behalf of the Board, I would like to thank the Minister of Finance and Economic Development, Honourable Professor M. Ncube, the Permanent Secretary Mr G. Guvamatanga and their entire team for guiding and working with the Board as we continue to navigate through the Covid-19 storm. I want to thank my colleagues on the Board for their commitment in providing oversight over the affairs of ZIMRA.

I further wish to thank ZIMRA Acting Commissioner General, Mr. Rameck Masaire, management and staff for their endurance in ensuring that the Authority continues to deliver on its mandate even in the midst of economic and other Covid-19 induced challenges.

Finally, I wish to thank the clients for their continued support through honouring their tax obligations.

As I present this report, I do so with renewed gratitude and a hope for a bright future for Zimbabwe.

I thank you.

Josephine Matambo
ZIMRA Vice-Board Chairperson