

REVENUE PERFORMANCE REPORT FOR THE FIRST QUARTER OF 2016



Mrs W. Bonyongwe
ZIMRA Board Chairman

Foreword

As predicted in our 2015 annual performance report, the revenue performance for the first quarter (Q1) of 2016 was poor. This can be largely attributed to the economic environment which has remained harsh, even worsened by the shift in the rainy season, and the inadequate rainfall due to the El Nino phenomenon. A drought season adversely impacts on the whole economy because of the intricate linkages between the agricultural sector and the rest of the economy. Further, the liquidity situation worsened, depressing the operations of the few companies still functional thus leading to even lower industrial capacity utilisation. Companies continued to downsize and closures continued, giving rise to more job losses. Company profitability was also softened in the main.

Consequently, revenue mobilisation was below target and the Zimbabwe Revenue Authority (ZIMRA) is struggling to restrain the tax debt which rose by 30.9% from US\$1.97 billion at the end of 2015 to US\$2.58 billion by the end of Q1 (2016). It is noteworthy that the breakdown of this debt is 0.18 % Government, 26.77% Municipalities, Parastatals and State Owned Entities, and 73.05% Private Entities. The debt is composed of 53.12% principal, 20.23% penalty and 26.65% interest.

Revenue Performance

Gross collections for Q1 (2016) amounted to US\$782.00 million and refunds, consisting of Value Added Tax (VAT) and Customs Duty, stood at US\$57.11 million. This gave rise to net collections of US\$724.89 million. Net collections were 84.11% of the targeted US\$861.83 million and recorded a decline of 9.75% when compared to Q1 2015.

The bulk of the revenue for 2016 was realised from Individual Tax (23.10%) followed closely by Excise Duty (22.13%). VAT on Local Sales contributed 18.08% while VAT on Imports contributed 11.55%. The remainder of the revenue came from the rest of the revenue heads.

Revenue Performance per Revenue Head for First Quarter 2016

Table 1 below shows a comparison of actual collections per revenue head against the target during Q1 (2016).

Table 1: Revenue Performance per Revenue Head for 2016 1st Quarter

Revenue Head	Actual (US\$)	Target (US\$)	Variance(US\$)	% Variance
Individual Tax	167,429,294.08	196,000,000.00	-28,570,705.92	-14.58
Excise Duty	160,447,996.38	179,083,000.00	-18,635,003.62	-10.41
VAT Local sales	131,095,421.27	151,900,000.00	-20,804,578.73	-13.70
VAT on Imports	83,692,503.87	84,100,000.00	-407,496.13	-0.48
Customs Duty	67,672,173.44	90,300,000.00	-22,627,826.56	-25.06
Company Tax	52,553,046.48	76,000,000.00	-23,446,953.52	-30.85
Withholding Tax on Contracts	18,047,879.33	20,171,503.98	-2,123,624.65	-10.53
DFIR (Dividends, Fees, Interest & Remittances)	14,714,747.69	16,736,250.00	-2,021,502.31	-12.08
Mining Royalties	13,395,017.76	24,500,000.00	-11,104,982.24	-45.33
Carbon Tax	8,111,851.03	9,070,000.00	-958,148.97	-10.56
Other Taxes	9,656,029.35	13,972,246.02	-4,316,216.67	-30.89
<i>CGT & CGT Withholding Tax</i>	<i>4,507,755.08</i>	<i>6,999,996.00</i>	<i>-2,492,240.92</i>	<i>-35.60</i>
<i>Other Indirect Taxes</i>	<i>4,702,046.58</i>	<i>4,872,250.02</i>	<i>-170,203.44</i>	<i>-3.49</i>
<i>Tobacco Levy</i>	<i>446,227.69</i>	<i>2,100,000.00</i>	<i>-1,653,772.31</i>	<i>-78.75</i>
Non-Tax Revenue	-1,927,306.98	0.00	-1,927,306.98	0.00
Total	724,888,653.70	861,833,000.00	-136,944,346.30	-15.89

The following bar graph shows a comparison of actual collections during Q1 (2015) and the actual collections and targets for Q1 (2016).

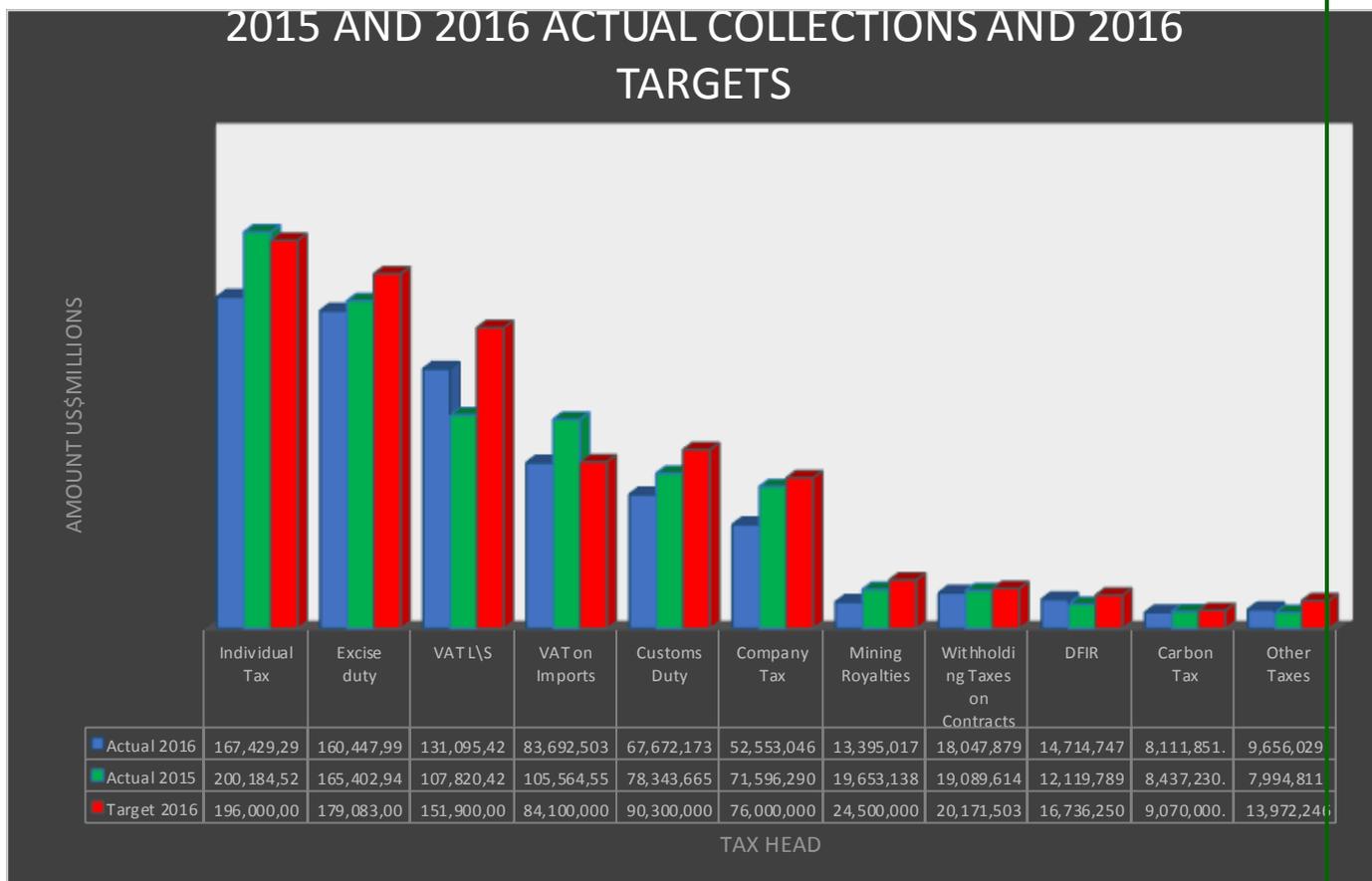


Figure 1: 2015/2016 1st Quarter Actuals vs 2016 Targets

The actual revenue collected across all revenue heads was below target, and disappointingly below Q1 (2015) levels, with the exception of VAT on Local Sales, DFIR and Other Taxes. The major reason for this is obviously the prevailing economic environment. However, apart from that there are other reasons accounting for the poor revenue collection. These are non-compliance by taxpayers, corruption and lack of complete automation. Some taxpayers do not pay their tax in full, and others do not pay their tax at all. ZIMRA will in Q2 (2016) enhance measures to improve taxpayer compliance.

The Zimbabwe Revenue Authority will also soon complete the Fiscalisation process it started in 2010. The old fiscal gadgets are being linked to the new and versatile Tax Management System (TMS). The TMS is being rolled out fast. This is a smart system which collects an incredible variety of information about transactions and taxpayers. Already, the system has

revealed some interesting insights about taxpayers, including gross understatement in the returns to ZIMRA. The system has also revealed a lot of businesses that have hitherto been operating outside the tax net. The reality now is that as long as one is trading in Zimbabwe, as the roll out continues, it will be impossible to hide from ZIMRA. Therefore, the prudent thing to do is for all taxpayers to regularise their businesses with ZIMRA.

Automation will, therefore, enable ZIMRA to meet its 2016 targets by Q3 or Q4 at the latest, all things being equal.

Revenue Head Contribution

The pie charts below show the revenue heads' contribution to actual collections for Q1 (2015) and Q1 (2016).

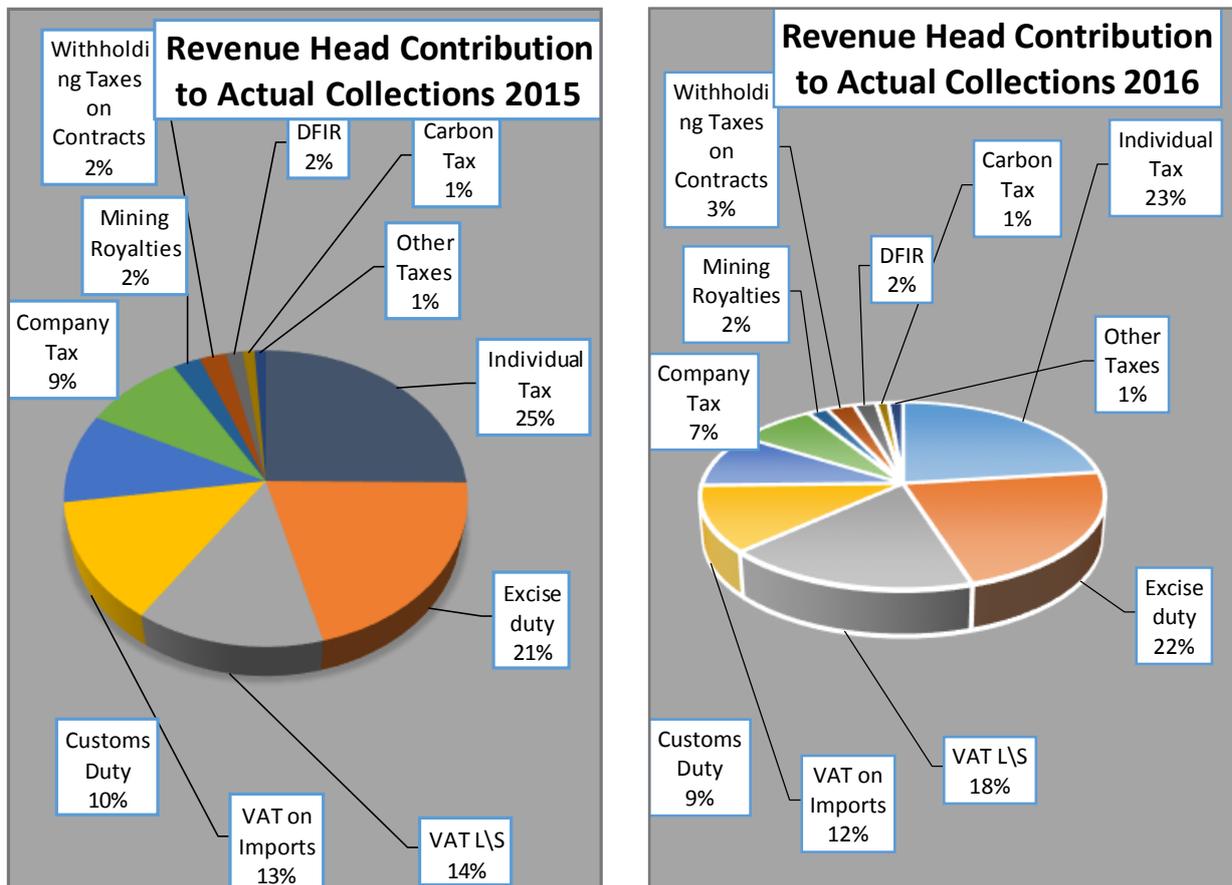


Figure 2: Revenue Heads' Contribution to Revenue collections for 2015 and 2016

The pie charts indicate a slight shift in the contribution of the various revenue heads to total revenue. Of note is the increase in the contribution of VAT on Local Sales from 14% in Q1

(2015) to 18% in Q1 (2016). This is the right direction and with automation and greater compliance, this tax head is expected to contribute even more (well above 25%) to total revenue. The contribution of Individual Tax and Company Tax declined by 2%, whilst contribution by Excise Duty rose slightly (by 1%) to 22%. Meanwhile, the contribution of VAT on Imports and Customs Duty dropped by 1% to 12% and 9% respectively. The share of Mining Royalties, Carbon Tax and DFIR remained unchanged.

Analysis of the Specific Revenue Heads' Performance

Individual Tax

Collections under this revenue head amounted to US\$167.43 million, which is 85.42% of the targeted US\$196 million. This is also 16.36% down from the US\$200.18 million that was collected in Q1 (2015). This reflects the impact of job losses and also pay cuts for those still in their jobs as companies struggle to survive. A number of companies no longer have bonus payments which are normally paid during Q1 when the annual performance is finalised.

The Pay as You Earn (PAYE) debt as at the end of Q1 (2016) stood at US\$692.86 million, up from US\$578.78 million as at end of Q1 (2015). This largely reflects incapacity to pay on some companies, some of which may no longer be operational.

In the short term, this tax head will remain under pressure and performance is not expected to improve, all things remaining equal.

Corporate Income Tax

The revenue head contributed US\$52.55 million to total revenue during the quarter. Collections were 69.15% of the targeted US\$76.00 million and were 26.59% below the US\$71.60 million collected in Q1 (2015). Tax forgone through tax incentives for the quarter amounted to US\$8.11 million.

The Corporate Income Tax debt stood at US\$751.80 million at the end of Q1 (2016) up from US\$366.20 million as at the end of Q1 (2015).

The under-performance of the revenue head is largely attributed to the prevailing economic environment, but also partly reflects tax evasion and under-declaration of profits. In the short term, the operating environment is likely to continue impacting negatively on this revenue head, but there should be a slight improvement in the second half (H2) of 2016 due to improved efficiency to collect on the part of ZIMRA.

VAT on Local Sales

Net revenue collected under this tax head recorded a growth of 21.59% from the US\$107.82 million in Q1 (2015). Gross collections amounted to US\$187.89 million, which were reduced by refunds amounting to US\$56.79 million. This resulted in net revenue of US\$131.10 million. Refunds were remarkably high at 30.22% of gross VAT on Local Sales.

Net VAT on Local Sales collections were, therefore, only 86.31% of the target of US\$151.90 million. The refunds are significant and have a material effect on revenue collection. The list of eligible refunds should, therefore, be constantly reviewed. The benefit of the refunds should be real and accruing to the majority of the people.

Notwithstanding the dim prospects of economic recovery, the performance of VAT on Local Sales is expected to improve due to the accelerated roll out of the Tax Management System, which is expected to improve compliance in the short to medium term.

The VAT on Local Sales debt at the end of Q1 (2016) amounted to US\$861.89 million, up from the US\$481.55 million recorded at the end of Q1 (2015)

VAT on Imports

The actual revenue collected in Q1 (2016) was US\$83.69 million, which is 99.52% of the targeted US\$84.10 million. The revenue head was almost on target. However, when compared with Q1 (2015), the collected revenue actually declined by 20.72% in 2016 from the US\$105.56 million in Q1 (2015). Even with revenue forgone as a result of VAT suppressing instruments to the tune of US\$10.03 million, the performance was disappointing.

VAT suppressing instruments refer to the impact of policies put in place to encourage importation of certain capital goods as well as some policies meant to discourage the importation of products that were hampering productivity of local industry. The decline could

also indicate a certain level of transit fraud. To mitigate this risk, ZIMRA will launch a Cargo Tracking System to curb transit fraud by the end of June 2016.

Customs Duty

Gross collections from Customs Duty declined by 13.6% from US\$78.34 million in Q1 (2015) to US\$67.99 million in Q1 (2016). A total of US\$313,257.65 was refunded, resulting in net collections of US\$67.67 million which were 74.94% of the targeted US\$90.30 million.

Customs Duty suppressing instruments, which enabled the importation of goods under rebates and concessions, resulted in revenue forgone amounting to US\$173.99 million during the quarter.

Customs Duty which could not be cleared by importers by end of Q1 resulted in debts amounting to US\$108.21 million.

The performance of the revenue head can be attributed to:

- Customs Duty suppressing instruments which resulted in 72.05% of gross potential revenue of US\$241.66 million being forgone. Gross potential revenue is made up of the net collections of US\$67.67 million and revenue forgone of US\$173.99 million.
- Some policies introduced in 2015 to deter the importation of specified products and to protect the local industry had a negative effect on import volumes and consequently performance of the revenue head. Government might need to review some of these lists because of the magnitude of the revenue forgone.

The introduction of Conformity Based Commodity Assessment (CBCA), or pre-shipment assessment, also resulted in a decline in imports when it became effective on 1 March 2016.

The impact of the Regional Agreements also has an effect on this revenue head. Further integration will have an adverse impact on Customs Duty collections. There should be compensatory measures in these agreements so that they benefit all countries fairly.

The bottom line, however, is that Zimbabwe resuscitates its industries and assists companies to increase capacity utilisation so that the country can also increase its exports. The policy of

value addition should be seriously implemented. Zimbabwe should also seriously look at the structure of its entities and interrogate the cost structures so that competitiveness can be regained.

Excise Duty

Revenue from Excise Duty amounted to US\$160.45 million during Q1 (2016). This was 89.59% of the targeted US\$179.08 million and a decrease of 2.99% from the US\$165.40 million collected in Q1 (2015).

Excise Duty on Fuel was the main contributor to the revenue head with a contribution of 79.35%. Excise Duty on Beer and Airtime contributed 8.92% and 6.09% respectively, with the remainder of the revenue coming from Excise Duty on Tobacco, Wines and Spirits, Second-Hand Motor Vehicles and Electric Lamps.

The performance of the revenue head can be attributed to a reduction in the volumes of fuel imports. Diesel volumes fell from 199.97 million litres in Q1 (2015) to 190.14 million litres in Q1 (2016). Petrol volumes also fell from 122.14 million litres to 113.86 million litres over the same period. The decline could also be partly ascribed to fuel transit fraud and smuggling as signified by a proliferation of illegal service stations during the period under review.

The slump in the global oil prices could also explain part of the performance by the revenue head.

It is anticipated that the Cargo Tracking System will particularly curb fuel transit fraud.

Withholding Tax on Contracts

Revenue from Withholding Tax on Contracts amounted to US\$18.05 million during Q1 (2016). This was only 89.47% of the target of US\$20.17 million and a decline of 5.46% from the US\$19.09 million collected over the same period in 2015.

The performance of the revenue head in the first quarter of 2016 can be attributed to the low levels of business in the first quarter of the year as some companies opened for business at the end of January. The revenue head was also negatively affected by the depressed economic environment.

The performance of the revenue head is not expected to rise sharply in the medium term. A lot depends on whether Zimbabwe is able to stimulate its economy soon. The Ministry of Finance and Economic Development together with the Reserve Bank of Zimbabwe are spearheading re-engagement efforts with the international finance community and success in this regard will improve recovery prospects of the Zimbabwean economy.

The consolidation of the diamond mining companies in Marange is also expected to give rise to an increase in liquidity from the sale of diamonds. The work being done by the Office of the President and Cabinet (OPC) in making e-government a reality and in improving the ease of doing business will also improve the country's recovery prospects.

Carbon Tax

The revenue collected was again short of target. It was 89.43% of the targeted US\$9.07 million, with collections of US\$8.11 million. This compares to US\$8.44 million over the same period in 2015.

The revenue head's performance was below target due to a decrease in import volumes of petrol and diesel this year as compared to 2015. Diesel volumes fell from 199.97 million litres in 2015 to 190.14 million litres in 2016. Petrol volumes also fell from 122.14 million litres in 2015 to 113.86 million litres in 2016.

Going forward, the performance of the revenue head is expected to track the volume of fuel imports.

Mining Royalties

Mining Royalties closed the quarter with collections of a mere US\$13.39 million against a target of US\$24.50 million, resulting in a negative variance of 45.33%. The revenue head recorded a 31.84% decline in revenue collections from the US\$19.65 million that was collected during the same period last year.

The performance of Mining Royalties was negatively affected by the slump in commodity prices due to the slowdown in global economies outside the USA. The revenue head's

performance in future will be subject to the prices of minerals and local production levels. It will also be subject to the mining fiscal regime.

ZIMRA holds the view that the tax regime for mines must be reviewed. It continues to call on Government to find a fairer way of taxing the mining sector so that the country, communities and mining companies can all benefit equitably from the finite mineral resources. The serious call for value addition in this industry should be heeded.

Dividends, Fees, Interest and Remittances

A total of US\$14.71 million was collected against a target of US\$16.74 million. Non-Resident Tax on Fees contributed the highest revenue with a contribution of 74.21% while Residents Tax on Interest contributed 9.17%. Revenue collections increased by 21.41% from the US\$12.12 million that was collected in 2015.

The performance of the revenue head can be attributed to under-performance of Non-Resident Shareholders' Tax. This is likely to continue for as long as activity on the Zimbabwe Stock Exchange (ZSE) is low. The ZSE continues to lose value and only those companies with a long term view remain active on the market.

Other Taxes

This revenue head is composed of Capital Gains Tax (CGT) and Capital Gains Withholding Tax (CGWT), Tobacco Levy and Other Indirect Taxes (Stamp Duty, Banking Levy, Presumptive Tax and ATM Levy).

Revenue collections from Other Taxes amounted to US\$9.66 million, which is 69.11% of the targeted US\$13.97 million. Other Indirect Taxes had the highest contribution of 48.70%, while CGT and CGWT contributed 46.68% to total revenue under this revenue head. CGT debt as at the end of Q1 (2016) amounted to US\$165.17 million up from the US\$108.35 million recorded in Q1 (2015).

Tobacco Levy contributed 4.62% of Other Taxes and is set to improve following the opening of the tobacco marketing season

Conclusion

Zimbabwe's economy is obviously going through troubled waters. The economy requires a BIG PUSH to stimulate it sustainably. Efforts are being made to attract foreign capital inflows but in the meantime there is much Zimbabweans should do by themselves.

Firstly, to curb all unnecessary consumption imports and concentrate on increasing productive capacity with the resources available.

Secondly, immediately review our cost structures because we are using a very strong currency. Executive salaries and packages should be linked to productivity, the bank charges and cost of money must be reduced, the margins across the board must also be reduced. These are some of the things which make us uncompetitive in exports market, and also the reason why we are a dumping ground for other nations' products.

Gratitude

I would like to profoundly thank all my colleagues on the Board for the diligence, hard work and long hours you put for the good of our country. Thank you team, you make my assignment much easier to bear.

My appreciation also goes to Commissioner General Pasi and the entire Management and Staff of the Zimbabwe Revenue Authority. I salute those among you who work hard and long hours quite often away from your families. Our performance is below target and we must work harder to achieve our target. Automation will greatly assist in this regard.

There are some few bad apples amongst us who are inspired by greedy and selfishness to engage in corrupt activities. ZIMRA has no place for them and the Board is determined to weed them out of the system. The recently introduced HOTLINE should be used to expose them and they will surely be dealt with.

The entire Board is indebted to the Minister of Finance and Economic Development, Honourable P.A. Chinamasa, Ministry officials and the entire Government of Zimbabwe for the steadfast support and guidance. We would not be able to do what we do without your support.

I would also like to acknowledge the taxpaying public who continue to meet their fiscal obligations honestly, timely and in full. Those who are not in compliance will soon have no place to hide and are advised to comply.

Let me also take this opportunity to advise the public that ZIMRA has set up an Anti- Corruption Hotline for reporting corruption cases on evasion of Duties and Taxes. The hotline is managed by an independent service provider. Please make use of it.

Finally, I give thanks to the Almighty God who gives us all grace to do what we are commissioned to do. I commit all the work of ZIMRA into His Hands for **“unless the Lord builds a house, the builders build in vain”**. (Psalm 127.1).

Thank You



ZIMRA BOARD CHAIRMAN



"We are here to serve"

"We are here to serve"

