REVENUE PERFORMANCE REPORT FOR THE YEAR
ENDED 31 DECEMBER 2016

Mrs W. Bonyongwe

ZIMRA Board Chairman
Preamble

This report covers the revenue performance for the last quarter of 2016 and the outturn for the whole year. The major driver to revenue collection is always the performance of the economy, but unfortunately the economy performed badly again in 2016.

The Ministry of Finance and Economic Development (MOFED) in the 2016 Mid-Term Fiscal Policy Review revised the economic growth for the year 2016 from 2.7% down to 1.2%. The International Monetary Fund (IMF) is more optimistic projecting a decline of 0.3% in 2016. The major factors behind the decline in 2016 are declining commodity prices, reduction in production capacity across the board (in agriculture, mining, tourism, construction and the service sectors, among others). However, according to the results of the Confederation of Zimbabwe’s (CZI) 2016 Manufacturing Sector Survey, the manufacturing industry’s capacity utilisation increased significantly from 34.3% in 2015 to 47.4%. The survey attributed the increase in production levels to Statutory Instrument (SI) 64 of 2016 for companies whose products are protected by the SI.

The use of the strong US dollar makes Zimbabwe’s both local production and exports uncompetitive, and this exacerbates the trade deficit which has come down by over 20% but still remains unsustainably high. Meanwhile, the country experienced serious illegal outflows (externalisation) leading to low liquidity which developed into a serious cash shortage by the end of the year. The budget deficit continues to widen as the public sector seriously crowds out the productive sector for the limited US dollar available.

As a result of the above and in the absence of any significant Foreign Direct Investment (FDI), the economy had low investment levels, declining levels of employment and low income levels. Consequently, Aggregate Demand for goods and services continued to fall and this had an adverse impact on all tax heads during the year but particularly during the Fourth Quarter of 2016 (Q4:2016).

The Reserve Bank of Zimbabwe (RBZ) intervened in November 2016 and introduced the 5% bond note export incentive aimed at stimulating domestic production for export and to ease the cash shortage. The monetary authorities are also encouraging the use of plastic money and ZIMRA is fully supportive of this because it enhances tax compliance. The impact of the bond notes is yet to be felt mostly because they are a very small percentage of the Money Supply but also because they were introduced towards the end of the year. But so far, the bank queues have disappeared. Maybe people are finally catching up on plastic money.

Year-on-year inflation rate during 2016 moved from the negative rate of 2.2% in January 2016 to negative rate of 1.10% as at the end of November 2016 (Source: ZIMSTAT), but prices rose noticeably in Q4:2016.
Despite the prevailing economic challenges, in 2016 the Zimbabwe Revenue Authority stepped up its efforts to collect revenue for the fiscus. The Revenue Authority put in place and accelerated several revenue enhancement measures to increase the tax base, the compliance rate, and enforcement by the revenue officers. The major force behind all these measures being automation in the form of completing the Fiscalisation process, serious rolling out of the Tax Management System, the introduction of the Cargo Tracking System and the use of various databases from related stakeholders to catch up tax evaders.

The same measures were also meant to increase the efficiency of ZIMRA and improve the ease of doing business and provide convenience to the taxpayers. Important measures were also taken to reduce the rampant corruption and to strengthen the internal control systems and improve adherence to good corporate governance practices. All these measures had tangible positive impact to the revenues especially in the second half of 2016, which clearly indicate an upward trend in some tax heads despite the decline in the economy.
Revenue Performance

Fourth Quarter (Q4) 2016

Gross collections for the fourth quarter amounted to US$893.89 million, which was 95.59% of the targeted US$935.17 million. Net collections after deducting refunds of US$50.15 million from the gross collections were US$843.74 million. However, there was a 12.10% decline in net collections in Q4 2016 compared to the same period in 2015 and the most affected tax heads being Customs Duty, Excise Duty, Mining Royalties and PAYE.

Annual Performance 2016

Annual gross collections amounted to US$3.462 billion, which was 96% of the targeted US$3.607 billion. The 2016 target was, therefore, missed by 4%. Despite the MOFED revising the Gross Domestic Product (GDP) growth figure by almost half, the ZIMRA target remained the same and the performance is testimony that the Revenue Authority is going in the right direction. The ZIMRA Board would like to commend Management and Staff for their sterling performance under the harsh economic environment. The automation drive and other revenue enhancement measures are expected to improve collections in 2017.

Net collections amounted to US$3.248 billion but were 91.05% of the target. They were affected by an upsurge in refunds in Q3 and Q4 and the Authority is investigating what caused that surge. Net collections went down by 7.22% in relation to the same period in 2015 which should be reviewed in light of a 2.7% GDP growth in 2015 compared to 1.2% in 2016. The table below depicts the upward trend in revenue collection in 2016

![2016 Quarterly Collections trend](chart)

**Figure 1:2016 Quarterly Revenue Trend**
In terms of the revenue mix, the revenue for 2016 comprised Individual Tax [22.68%], Excise Duty [19.71%], Net Value Added Tax (VAT) on Local Sales [18.51%], Company Tax [10.49%] and Customs Duty [8.39%]. Collections were negatively affected by the growing debt. The year 2016 started with a debt of US$1.97 billion, which accumulated to US$2.67 billion at the close of 2016. The figure does not include US$1.11 billion, which is the amount that was recovered in 2016 from outstanding debt. The growth in debt reflects the new debt arising from assessments done due to automation either from previous under-declarations and evasion as well as inability to pay by taxpayers. Most people do not take their tax obligations seriously and due to corruption have gotten away with it in the past but the system has caught up with them. There is also a noticeable increase in litigation from non-compliers and we hope that the Judiciary will allow these cases to be heard fast and we commend the introduction of the Fiscal Court in this regard.

Table 1: Revenue Performance per Revenue Head for 2016

<table>
<thead>
<tr>
<th>TAX HEAD</th>
<th>JAN-DEC TARGET 2016</th>
<th>JAN-DEC ACTUALS 2016</th>
<th>VARIANCE (US$)</th>
<th>% VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Tax</td>
<td>802,140,000.00</td>
<td>736,530,576.49</td>
<td>-65,609,423.51</td>
<td>-8.18%</td>
</tr>
<tr>
<td>Company Tax</td>
<td>366,400,000.00</td>
<td>340,718,146.10</td>
<td>-25,681,853.90</td>
<td>-7.01%</td>
</tr>
<tr>
<td>Net VAT on Local Sales</td>
<td>610,100,000.00</td>
<td>601,220,865.49</td>
<td>-8,879,134.51</td>
<td>-1.46%</td>
</tr>
<tr>
<td>VAT on Imports</td>
<td>344,900,000.00</td>
<td>358,251,387.14</td>
<td>13,351,387.14</td>
<td>3.87%</td>
</tr>
<tr>
<td>Net Customs Duty</td>
<td>368,700,000.00</td>
<td>272,385,063.99</td>
<td>-96,314,936.01</td>
<td>-26.12%</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>751,700,000.00</td>
<td>640,297,810.52</td>
<td>-111,402,189.48</td>
<td>-14.82%</td>
</tr>
<tr>
<td>Carbon Tax</td>
<td>35,940,000.00</td>
<td>32,464,271.38</td>
<td>-3,475,728.62</td>
<td>-9.67%</td>
</tr>
<tr>
<td>Mining Royalties</td>
<td>110,025,000.00</td>
<td>62,901,509.54</td>
<td>-47,123,490.46</td>
<td>-42.83%</td>
</tr>
<tr>
<td>DFIR (Dividend, Fees, Interest &amp; Remittances)</td>
<td>66,945,000.00</td>
<td>55,722,733.57</td>
<td>-11,222,266.43</td>
<td>-16.76%</td>
</tr>
<tr>
<td>WHT on Contracts</td>
<td>92,430,000.00</td>
<td>72,422,078.93</td>
<td>-20,007,921.07</td>
<td>-21.65%</td>
</tr>
<tr>
<td>Other Taxes:</td>
<td>57,939,000.00</td>
<td>56,365,987.26</td>
<td>-1,573,012.74</td>
<td>-2.71%</td>
</tr>
<tr>
<td>CGT &amp; CGT WHT</td>
<td>28,000,000.00</td>
<td>23,793,638.54</td>
<td>-4,206,361.46</td>
<td>-15.02%</td>
</tr>
<tr>
<td>Tobacco Levy</td>
<td>10,450,000.00</td>
<td>13,787,338.15</td>
<td>3,337,338.15</td>
<td>31.94%</td>
</tr>
<tr>
<td>Other Indirect Taxes</td>
<td>19,489,000.00</td>
<td>18,785,010.57</td>
<td>-703,989.43</td>
<td>-3.61%</td>
</tr>
<tr>
<td>Net Non-Tax</td>
<td></td>
<td></td>
<td>18,858,991.01</td>
<td></td>
</tr>
</tbody>
</table>

Overall, the performance of the tax heads recorded a positive revenue trajectory on a month by month basis but only VAT on Imports surpassed the 2016 target.
The following bar graph shows collections for 2016 and 2015, and the 2016 targets per revenue head.

**Figure 2: Annual Performance: 2015 Actual, 2016 Actual and 2016 Target**

Given the steep decline in economic growth most of the revenue heads performed below their 2015 level.
Figure 3 shows quarterly performance for 2016 against quarterly targets. The comparison for annual performance is also reflected.

<table>
<thead>
<tr>
<th></th>
<th>Actual 2016</th>
<th>Target 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>724.89</td>
<td>861.83</td>
</tr>
<tr>
<td>Q2</td>
<td>825.34</td>
<td>892.88</td>
</tr>
<tr>
<td>Q3</td>
<td>854.17</td>
<td>917.33</td>
</tr>
<tr>
<td>Q4</td>
<td>843.74</td>
<td>935.17</td>
</tr>
<tr>
<td>Annual</td>
<td>3248.14</td>
<td>3607.21</td>
</tr>
</tbody>
</table>

The performance for all the quarters in 2016 indicate an improvement in the revenue collections. This is attributable to revenue enhancement initiatives introduced during the year.
Revenue Heads’ Contribution

The pie charts below show revenue heads’ contribution to total revenue for 2015 and 2016.

**Pie Charts: Actual Collections for 2016 and Actual Collections for 2015**

Contribution by Individual Tax grew from 22% to 23%, whilst VAT on Local Sales grew from 15% to 18%, Mining Royalties grew from -1% to 2% and Other Taxes grew from 1% to 2% comparing 2016 and 2015.

**Analysis of Revenue Heads Performance**

**Individual Tax**

Collections under this revenue head amounted to US$736.53 million, which is 91.82% of the targeted US$802.14 million, translating to a decline of 5.31% from the US$777.83 million collected in 2015. The Pay as You Earn debt as at the end of the year was US$662.16 million, compared to US$591.89 million in 2015.

The negative performance of the revenue head is attributed to salary cuts, most companies reviewed their remuneration packages downwards. Company closures and retrenchments also resulted in the revenue head
failing to meet the target for the year. The operating environment is expected to improve in 2017, the trend is anticipated to continue in the short to medium term. The stimulus from the SI 64 of 2016 and the impact of a good agricultural season following good rains and the Command Agriculture intervention together as well as the rise in global mineral prices augurs well for this tax head next year. Zimbabwe is predominantly an agricultural economy and hence growth in 2017 should be at 2.5%, other things remaining equal.

**Corporate Income Tax (Company Tax)**

Revenue from Company Tax contributed US$340.72 million to total collections during the year. This was 92.99% of the targeted US$366.40 million and was down by 19.77% from the 2015 collections of US$424.68 million. Corporate Income Tax debt was US$751.49 million, compared to US$474.97 million in 2015.

The performance of the tax head can be attributed to low profitability and tax evasion by companies. Low profitability due to cash shortages, low industrial capacity utilisation, high cost of utilities and insufficient credit lines. However, most companies evade or avoid tax at all costs and the tax audits are revealing the extent companies go to avoid their tax obligations. The debt tends to rise steeply due to penalties and interest when the taxman catches up with the non-complying taxpayers.

Again in 2017 the revenue head is expected to perform better due to the projected improvement in the economic environment and the efficiency measures by the taxman.

**VAT on Local Sales**

Gross VAT on Local Sales collections for the year amounted to US$812.82 million against a target of US$610.10 million, resulting in a positive variance of 33.23%. VAT refunds for the year amounted to US$211.60 million, resulting in net collections of US$601.22 million. Net revenue collections were 1.46% below the target. However, net revenue collections went up by 9.90% from the US$547.08 million that was realised in 2015. VAT refunds continue to negatively impact on this revenue head, although in 2016 the refund bill went down by 24.46% from the US$280.10 million that was refunded in 2015.

VAT on Local Sales debt amounted to US$1.02 billion, as compared to US$721.89 million in the prior year.

The performance improved from 2015 levels due to the implementation of the Tax Management System and audits that were carried out by the Zimbabwe Revenue Authority. The wide usage of plastic money by economic agents benefit the taxman because they make it difficult for evaders to under-declare their income
or revenue and works to improve the performance of this revenue head. However, net collections were negatively affected by a refund bill of US$211.60 million.

Going forward, the revenue head is expected to improve in tandem with improvements in capacity utilisation, automation and in the attitudes of people towards taxation. ZIMRA is pushing for stiffer penalties including jail for tax evaders as is best practice globally.

**VAT on Imports**

Collections amounted to US$358.25 million, which translates to 103.87% of the targeted US$344.90 million. Revenue collections under VAT on Imports went down by 18.70% from the US$440.65 million realised in 2015 to US$358.25 million in 2016. Collections for 2016 were enhanced by imports which attract VAT, that included raw materials and finished goods.

The future performance of the revenue head will depend on whether volumes of imports which attract VAT continue to rise. However, policies that were put in place to deter the importation of some goods that are manufactured locally through SI 64 of 2016 may impact negatively on the performance of this revenue head.

**Customs Duty**

Annual gross collections amounted to US$273.91 million, which was 74.29% of the targeted US$368.70 million. Refunds of US$1.52 million resulted in net collections of US$272.39 million. There was a fall in revenue of 19.21% from the US$337.16 million that was collected in 2015.

Customs Duty reliefs, which include rebates, suspensions and trade agreements, amounted to US$858.30 million. Revenue forgone through trade agreements amounted to US$642.39 million, while US$215.91 million was forgone through rebates and suspensions. Government should do a cost benefit analysis of the impact of the rebates and suspensions to the fiscus and other development measures to find if it is worth the cost. On trade agreements, a mechanism should be put in place to ensure that all partners benefit.

Policies that were put in place to protect local industry, for instance through SI 64 of 2016, resultantly reduced imports of goods which attract Customs Duty. This impacted negatively on the revenue head and we should measure the impact of the SI to other revenue heads. Going forward, the performance of the revenue head is expected to remain depressed.
**Excise Duty**

Revenue from Excise Duty amounted to US$640.30 million against a target of US$751.70 million. Collections were 85.18% of the target. Excise Duty on fuel was the major contributor to this tax head, with a contribution of 79.31%. Excise Duties on Beer and Airtime were 7.91% and 6.18%, respectively. The rest of the revenue was from Excise Duty on Tobacco, Wines and Spirits, Second-Hand Motor Vehicles and Electric Lamps. 2016 revenue collections decreased by 10.34% from the US$714.22 million collected in 2015. The revenue head’s performance is attributed to:

- A reduction in the import volumes of petroleum products in 2016 as compared to 2015. Diesel volumes went down from 863.69 million litres in 2015 to 826.12 million litres in 2016, while petrol volumes were 488.26 million litres and 456.15 million litres in 2015 and 2016 respectively. It is, however, estimated that the declared volumes are understated as some importers claimed their cargo was in transit and that they were importing paraffin. Paraffin now attracts duty and the cargo tracking should greatly reduce transit fraud.
- Decline in the consumption of other excisable products due to low disposable income.

The future performance of the revenue head is likely to improve due to improvements in local industry’s capacity utilisation, which will lead to high demand in petroleum products. The efficiency measures should also greatly assist.

**Withholding Tax on Contracts**

2016 collections were US$72.422 million, which was 78.35% of the targeted US$92.43 million. Revenue collections went down by 26.55% from the US$98.60 million which was realised in 2015.

The negative performance of this revenue head is generally attributed to low business activity in both the formal and informal sectors of the economy. The revenue head is expected to remain depressed in the short term until economic conditions improve.

**Carbon Tax**

Carbon Tax collections were US$32.46 million against a target of US$35.94 million, resulting in 90.33% of the targeted revenue being realised. Revenue collections decreased by 9.80% from the US$35.99 million collected in 2015.
The negative performance of the revenue head is attributed to a fall in import volumes of petrol and diesel in 2016, compared to 2015 as well as smuggling.

As the economy gradually improves, the revenue head is expected to perform better, owing to an increase in the consumption of petrol and diesel.

**Mining Royalties**

Collections under this revenue head were US$62.90 million, which translates to 57.17% of the targeted US$110.03 million being collected. Actual collections missed the target by 42.83%.

The future performance of the revenue head is dependent on the movement in international prices of minerals; production levels of key minerals such as gold, platinum and diamonds; level of sales of mineral products; as well as the viability of the diamond mining sector. The commodity prices are rising and the Consolidated Diamond Mining Company is expected to have posted a significant performance in 2017 having dealt with most of the historical challenges of consolidation. The previous significant difference in the prices per carat for the different companies justify the move to consolidate but people are waiting to see the gains.

**Dividends, Fees, Interest and Remittances**

Collections that were realised from this revenue head were US$55.72 million. This was 83.24% of the targeted US$66.95 million being met. The 2016 collections decreased by 0.71% when compared to 2015 collections. The performance of the revenue head can be attributed to low profitability of companies and low investment levels in the economy. Significant improvements are expected in 2017.

**Other Taxes**

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

Revenue collections were US$56.37 million, giving a contribution of 97.29% to the targeted US$57.94 million. 2016 collections increased by 9.90% from the 2015 collections of US$51.29 million. Capital Gains Tax and Capital Gains Withholding Tax contributed the highest revenues under this tax head.
The positive performance of the revenue head is attributed to the positive performance of Tobacco Levy, which surpassed its target by 31.94%. The other two sub-revenue heads performed below set targets due to depressed economic activity.

The future performance of this revenue head will depend on the degree of economic activity in the mortgage and equities market, as well as the success of the 2017 agricultural season, which is likely to impact positively on the performance of Tobacco Levy.

**Conclusion**

The failure to surpass revenue targets in 2016 is largely due to the prevailing harsh economic conditions but, like indicated previously, in unwillingness to meet tax obligations by economic agents. If Zimbabwe is to develop, there is need for a paradigm shift in the way we view this obligation across the board. ZIMRA has started but is still a long way from fully implementing its efficiency and compliance measures. But there has to be a concerted effort by all stakeholders to ensuring that we can sufficiently fund our roads, man and equip our hospitals and schools and pay our civil servants adequately and on time. We also need to have a significant surplus for capital investment and we in ZIMRA believe that is achievable. We cannot afford to have enclaves who do not pay tax.

The ZIMRA Board has a zero tolerance on corruption and we make no apologies for it because it is wicked for someone to get revenue destined for Government and not meet the Government’s obligations. ZIMRA has gone a long way in fighting the corruption scourge through various anti-corruption initiatives, which include the toll-free hotline, asset declarations and life-style audits for staff members, disciplinary hearings and suspensions in accordance with the ZIMRA Code of Conduct for those found on the wrong side of the law. To continue the drive towards fighting corruption and in conjunction with other State agencies, ZIMRA recently introduced polygraph testing for its staff, beginning with those working at the border posts.

ZIMRA’s anti-corruption crusade will be a futile if the Executive, Legislature and the Judiciary do not fully and actively support ZIMRA beyond the talk. Eradicating corruption at ZIMRA will impact positively on the performance of the economy. So, we need to walk the talk, people are waiting for people to lose the gains of corruption through appropriate penalties and to see some people go to jail. It is heartening that the Judiciary has recognised and is also having an anti-corruption campaign to clean the system. It gives us hope.
Gratitude

I am sincerely grateful to the Minister of Finance and Economic Development, Honourable P.A. Chinamasa (MP), all Ministry officials and the entire Government in general for the support rendered to the Zimbabwe Revenue Authority in the execution of its mandate.

To my fellow Board members, thank you for the unity of purpose and dedication to duty. In fact, beyond the call of duty. We would not have achieved what we did in this short period of time if you were not men and women of integrity. Thank You and may we continue with our zeal and dedication.

Taxpayers who continue to pay their Taxes and Customs Duties on time and in full are playing a critical role in Zimbabwe’s economic development agenda. Please continue to build and dignify Zimbabwe. I am gratified by many who have come to my office to pledge to be tax compliant and have actually moved to do so. Many of you continue to provide invaluable information through the Hotline, thank you so much. Fiscalisation is a reality now and we urge everyone to comply. There are some teething supply bottlenecks but we are working with the Central Bank to ensure that gadgets become fully available.

I wish to express my profound gratitude to ZIMRA Management and Staff, led by the Acting Commissioner General, Mr H. Kuzvinzwa, for the commitment and diligence in an uncertain environment. We salute you. To the bad apples amongst us, the writing is on the wall.

Lastly, to God Almighty, we thank you for the Grace to do what we are doing, and we know you have good plans, for a future with hope for Zimbabwe (Jeremiah 29 v 11).

Thank You

Mrs W. Bonyongwe
ZIMRA Board Chairman