REVENUE PERFORMANCE REPORT FOR THE FIRST HALF OF 2016

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ZIMRA Board Chairman

Introduction

Since the beginning of the year, the Zimbabwe Revenue Authority (ZIMRA) has been seized with the matter of improving operational efficiency and effectiveness, eradicating corruption and increasing the level of compliance amongst the taxpayers. The efforts are beginning to bear fruit as demonstrated by the gradual improvement in the revenue performance over the first half of 2016 (H1:2016) which was more evident towards the end of the second quarter of 2016 (Q2:2016). The impetus is expected to continue into the second half of 2016 (H2:2016) despite the forecast decline in economic growth.

Revenue Performance

The revenue targets are derived from the Gross Domestic Product (GDP) forecasts. Analysts had initially projected the economy to grow by 2.7% in 2016, but this has since been revised downwards to 1.5%. As expected, the economy continues to ride on choppy waters and, consequently, gross collections for H1:2016 amounted to US$1.65 billion, which is 6.03% below the target of US$1.75 billion, and also 9.31% below the same period last year.

A closer analysis of the gross revenue collected reveals that the gross revenue for Q2:2016 was US$866.96 million or 10.87% more than the US$782 million collected in Q1:2016. It also reveals that in June 2016 gross revenue collected surpassed the monthly target by 3.20%. This trend is expected to continue into the second half of the year.

The total refunds paid during H1:2016 stood at US$98.73 million, comprising Value Added Tax (VAT) (99.21%), Customs Duty (0.47%) and Non-Tax Revenue (0.32%). Therefore, net revenue collections in the first half of 2016 amounted to US$1.55 billion, compared to US$1.66 billion over the same period in 2015.

The bulk of the revenue for H1:2016 was realised from Individual Tax (22.95%) followed closely by Excise Duty (20.24%). VAT on Local Sales contributed 18.37% while VAT on Imports contributed 10.97%.

The tax debt rose by 33.50% to US$2.63 billion by the end of H1:2016. Of this, US$1.45 billion was the principal, whilst interest amounted to US$641.51 million and penalties amounted to US$542.63 million. In terms of the origin mix, 14.50% emanated from parastatals, 8.58% from councils and municipalities, and the remaining 76.92% was from private entities. Over 70% of the debtors are still operational and ZIMRA is engaging them to ensure that current obligations are met, and at the same time arranging for the repayment of the old debt. Those with debts are advised to approach ZIMRA offices for the way forward.

Net Revenue Performance per Revenue Head for the First Half of 2016

Table 1 below shows a comparison of actual collections per revenue head against the target during the first half of 2016.

Table 1: Revenue Performance per Revenue Head for First Half 2016

REVENUE HEAD	ACTUAL US$	MOF TARGET US$	VARIANCE US$	% VARIANCE
Individual Tax	355,774,081.53	392,000,000.00	-36,225,918.47	-9.24%
Company Tax	144,874,280.66	167,000,000.00	-22,125,719.34	-13.25%
DFIR *	26,864,679.22	32,640,000.00	-5,775,320.78	-17.69%
Carbon Tax	15,950,212.73	17,850,000.00	-1,899,787.27	-10.64%
VAT on Local Sales	284,724,010.55	303,300,000.00	-18,575,989.45	-6.12%
VAT on imports	170,013,080.27	169,700,000.00	313,080.27	0.18%
Customs Duty	135,414,454.70	179,700,000.00	-44,285,545.30	-24.64%
Excise Duty	313,717,643.47	364,396,000.00	-50,678,356.53	-13.91%
Withholding Tax on Contracts	40,651,072.58	45,355,687.34	-4,704,614.76	-10.37%
Other Indirect Taxes	30,440,425.84	30,873,312.66	-432,886.82	-1.40%
Mining Royalties	33,002,985.15	51,900,000.00	-18,897,014.85	-36.41%
Non-Tax Revenue	(1,194,496.93)		-1,194,496.93	
Total	**1,550,232,429.77**	**1,754,715,000.00**	**-204,482,570.23**	**-11.65%**

* DFIR refers to tax on dividends, interest, fees and remittances

Four revenue heads performed better in H1:2016 compared to their performance in H1:2015. These are DFIR, VAT on Local Sales, Withholding Tax on Contracts and Other Indirect Taxes.

VAT on Imports marginally surpassed the set target for H1:2016 but going forward, this should be dampened by the blend measures to curb imports and revive local industrial production. These measures are the reason why imports fell by 18% during the period under review. The revenue head is expected to decline in performance but it is hoped that the losses under this revenue head will be compensated by other measures designed to stimulate the economy which would have positive impact on Local VAT, PAYE and Corporate Tax, among others.

Notwithstanding the depressed economic environment, VAT on Local Sales for H1:2016 was 38.82% above prior year. This significant rise is attributable to the benefits of automation, specifically the efficiency arising from finalising the Fiscalisation Project and the roll out of the Tax Management System (TMS). Full automation of ZIMRA systems is expected to improve revenue inflows and compliance across all tax heads. It is also expected to make it more difficult to commit fraud or engage in corruption.

- ZIMRA is speeding up the automation process, connecting in real time the fiscal devices which were installed from 2011, and linking them to the ZIMRA servers. This process is expected to be finalised by September 2016.
- The roll out of the Tax Management System has also gained impetus and more and more companies are being linked directly to the TMS devices, or having their servers directly linked to ZIMRA.
- The roll out of the fiscal gadgets will gather momentum in H2:2016. The legislation will be changed to obligate everyone to use fiscal gadgets and produce fiscal receipts. This will necessitate improved connectivity throughout the country, and in this regard ZIMRA supports initiatives by the Ministry of Information Communication Technology, Postal and Courier Services to promote sharing of infrastructure amongst players in the telecommunications industry.
- The Electronic Filing Programme is also progressing well. The pace of automation given the capital constraints is satisfactory. However, it is regrettable that due to bureaucracy ZIMRA missed the deadline for implementing an in-house Cargo Tracking System at the end of June 2016.
- ZIMRA is quite enthused by the quality of data being processed through the automation systems. The data show the level of honesty/dishonesty in the declarations filed by taxpayers. Quite a significant number of people consistently under-declare their revenue returns and are now faced with huge bills. Yet others tend to customarily cut deals with ZIMRA officials at the border or in the offices. Unfortunately, this is working out to be a very costly endeavour. ZIMRA is catching up with all these people and they will have to pay what is due to ZIMRA, and probably with penalties and interest. The results of an

audit for imported vehicles revealed grave under-declarations and this will be broadened to other imports and even direct tax payments. ZIMRA is obligated to make good any such prejudice and will apply the law. The law will equally be applied to ZIMRA officers who will be found on the wrong side of it.

- The data obtained through the system have also exposed many economic players who were operating outside the Tax Authority's radar. Some of them are quite big businesses but who are not registered taxpayers. ZIMRA is following up on these people and thereby increasing the tax base to share the tax burden amongst the taxpayers. ZIMRA, therefore, advises everyone to regularise their relationship with the Authority.

- ZIMRA has also observed that the compliance level amongst taxpayers is relatively low, and will deploy more resources on enforcement to push it higher. ZIMRA believes that increased use of plastic money will improve compliance levels.

Revenue Head Contribution

The pie charts below show the revenue heads' contribution to actual collections for the first halves of 2015 and 2016, respectively.

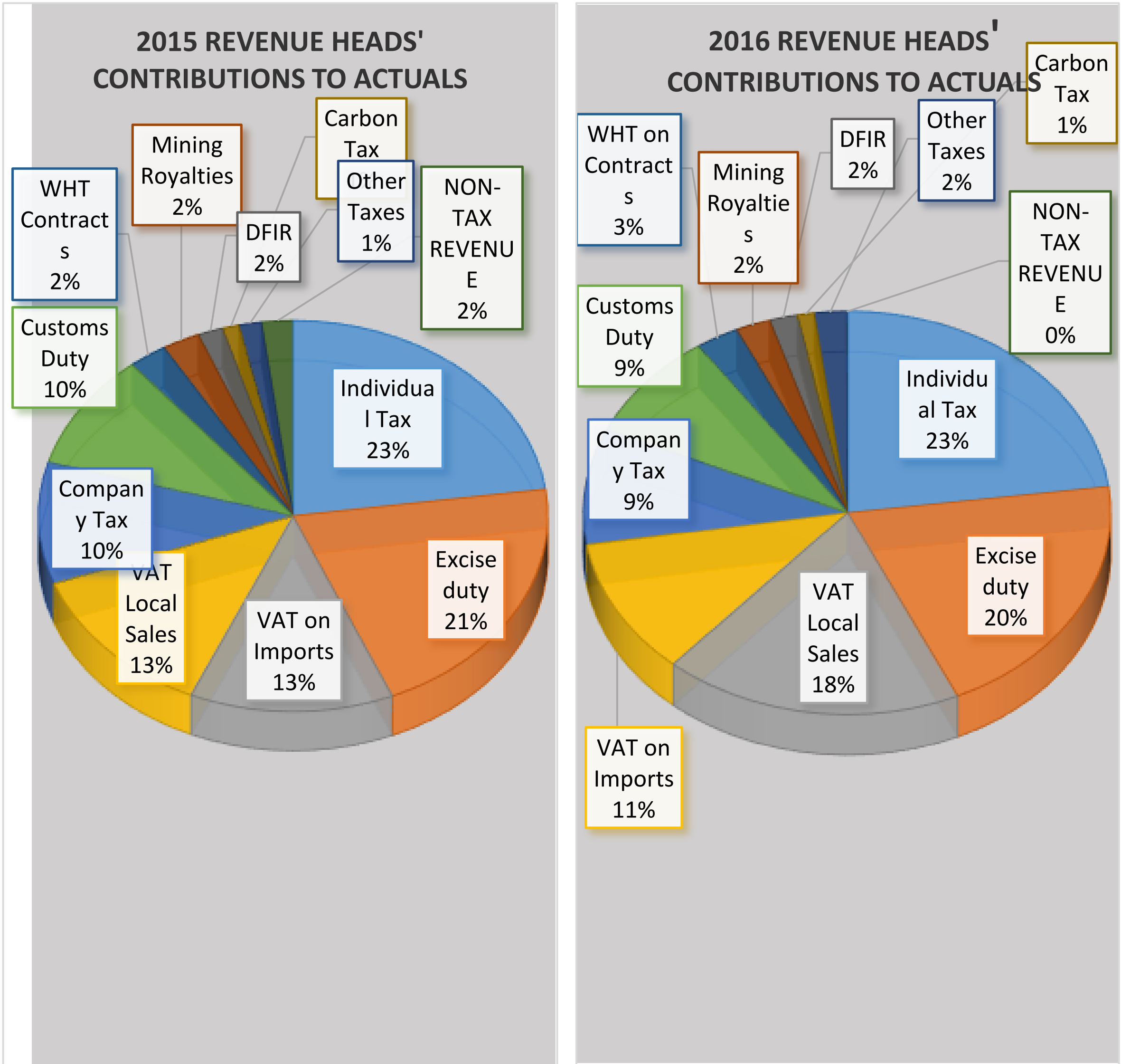

Figure 1: Revenue Heads' Contribution to Actual Revenue collections for 2015 and 2016

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 13% in H1:2015 to 18% in H1:2016. Local VAT is a low hanging fruit in the short to medium term and its contribution is expected to increase to 25% by year end.

The contribution of Individual Tax remained constant, while the contributions of Customs Duty, Excise Duty and Company Tax declined by 1%. The contribution from VAT on Imports declined by 2% due to a decrease in imports. The share of Mining Royalties, Carbon Tax and DFIR remained unchanged. Sustainable increase in revenue collection will only come when sustainable solutions to economic growth and development are implemented.

2016 First and Second Quarter Actual Collections per Revenue Head

Table 2: 2016 First and Second Quarter Actual Collections per Revenue Head

REVENUE HEAD	ACTUAL Q1 US$	ACTUAL Q2 US$	GROWTH
Individual Tax	167,429,294.08	186,747,043.27	12%
Company Tax	52,553,046.48	92,086,341.61	75%
DFIR	14,714,747.69	12,154,562.78	-17%
Carbon Tax	8,111,851.03	7,838,361.70	-3%
Gross VAT on Local Sales	187,888,638.33	194,619,540.69	4%
VAT Refunds	56,793,217.06	41,157,136.65	-28%
Net VAT on Local Sales	131,095,421.27	153,462,404.04	17%
VAT on Imports	83,692,503.87	86,320,515.81	3%
Gross Customs Duty	67,985,431.09	67,651,197.56	0%
Refunds	313,257.65	145,968.18	-53%
Net Customs Duty	67,672,173.44	67,505,229.38	0%
Excise Duty	160,447,996.38	153,269,476.75	-4%
Withholding Tax on Contracts	18,047,879.33	22,509,536.65	25%
Other Indirect Taxes	9,656,029.35	20,737,194.91	115%
Mining Royalties	13,395,017.76	19,607,967.39	46%
Gross Non-Tax Revenue	-1,927,306.98	2,779,405.55	244%
Refunds	-	-319,961.32	
Net Non-Tax Revenue	-1,927,306.98	3,099,366.87	261%
Total Net	**724,888,653.70**	**825,338,001.17**	**14%**
Total Gross	**781,995,128.41**	**866,321,144.68**	**11%**

The table above shows the general improvement in revenue performance in Q2:2016 almost across the board. Of note is the decline in refunds due to automation, the strengthening of the system and plugging of loopholes.

Analysis of the Specific Revenue Heads' Performance

Individual Tax

Although Individual Tax increased by 12% in Q2:2016 compared to Q1:2016, collections under this revenue head amounted to US$355.77 million over H1:2016, which is 9.24% below target and 6.26% down from the US$379.54 million collected in H1:2015.

Whilst this largely reflects job losses and pay cuts in the economy, it also indicates the level of non-compliance by most people. The posh houses being built and flashy cars being driven around Zimbabwe do not tally with the decline in Individual Taxes recorded. In this regard, ZIMRA will continue to conduct lifestyle audits to enforce compliance.

The Pay as You Earn (PAYE) debt as at the end of the first half stood at US$679.85 million, up from US$555.87 million as at the beginning of the year. In the short term, this tax head is expected to remain under pressure owing to the prevailing economic environment and the new structure of the economic units.

Corporate Income Tax

As anticipated, revenue from Corporate Tax declined to US$144.87 million during H1:2016. This was 13.25% below target and 13.50% below H1:2015. Tax forgone through tax incentives for the period amounted to US$8.11 million. Poor compliance is a big issue in Corporate Tax but, as a result of automation, this revenue head performed modestly rising by 75% in Q2:2016. Again, ZIMRA will increase its enforcement endeavours.

The Corporate Income Tax debt stood at US$750.16 million at the end of the first half of 2016, up from US$554.69 million at the beginning of the year 2016. Again, engagements are taking place with ZIMRA to begin reducing this debt.

VAT on Local Sales

Net revenue collected under this tax head recorded a growth of 33.82% from the US$212.76 million in H1:2015. Gross collections amounted to US$382.67 million, which were reduced by refunds amounting to US$97.95 million. This resulted in net revenue of US$284.72 million. Despite the increase, net VAT on Local Sales collections were 6.12% below target.

Refunds were 25.60% of gross VAT on Local Sales. ZIMRA is working to reduce any leakages through fraudulent VAT refunds. The major leakages will be eliminated by automation.

The VAT on Local Sales debt at the end of the first half amounted to US$920.40 million, up from the US$694.31 million recorded at the beginning of the year. The level of this debt is unacceptably high because quite often the VAT would have been collected. The enhanced enforcement shall work to ensure that all VAT collected is remitted to ZIMRA on time.

VAT on Imports

The actual revenue collected in H1:2016 was US$170.01 million, which is 0.18% above the targeted US$169.70 million. However, when compared with H1:2015, the revenue actually declined by 21.01% in 2016 from the US$215.24 million in 2015. Revenue forgone as a result of VAT suppressing instruments was US$16.59 million.

The decline from the prior year can be attributed to policies implemented which are geared at discouraging importation of some products. However, if productive capacity increases, the decrease in Import VAT will be compensated by an increase in VAT on Local Sales and in other revenue heads.

Customs Duty

Net collections from Customs Duty declined by 15.59% from US$160.42 million in H1:2015 to US$135.41 million in H1:2016. Gross collections for H1:2016 were US$135.64 million whilst refunds amounted to US$222,190.13. Net collections were 75.36% of the targeted US$179.70 million.

Revenue forgone due to Customs Duty suppressing instruments, which enabled the importation of goods under rebates and concessions, amounted to US$356.30 million during H1:2016.

The debt under this revenue head declined marginally from US$109.31 million at the beginning of the year to US$108.62 million at the end of H1:2016. The performance of the revenue head can be attributed to:

- Tax expenditures, in the form of rebates and concessions, which resulted in 72.46% of gross potential revenue being forgone. Gross potential revenue is made up of the gross collections of US$135.64 million and revenue forgone of US$356.30 million.
- Policies introduced in 2015 and 2016 to control importation of specified goods.

Excise Duty

Revenue from Excise Duty amounted to US$313.72 million during H1:2016. This was 86.09% of the targeted US$364.39 million and a decrease of 9.39% from the US$346.24 million collected in the first half of 2015.

Excise Duty on Fuel was the main contributor to the revenue head with a contribution of 79.41%. Excise Duty on Beer and Airtime contributed 8.23% and 6.29% 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 404.01 million litres in the first half of 2015 to 374.18 million litres in H1:2016. Petrol volumes also fell from 247.66 million litres in H1:2015 to 218.85 million litres in the first half of 2016.

The reduction in fuel consumption can be attributed to reduced consumption by industry, transit fraud and smuggling. Transit fraud and smuggling will be significantly reduced by introducing cargo tracking. ZIMRA is ready to implement a cargo tracking system as soon as the relevant approvals are granted.

Withholding Tax on Contracts

Revenue from Withholding Tax on Contracts amounted to US$40.65 million during H1:2016. This was 89.63% of the targeted US$45.36 million.

The performance of the revenue head in H1:2016 can be attributed to the depressed business activity in the economy as a whole. The revenue head depends on business activity by non-compliant taxpayers who trade with compliant taxpayers. Future positive performance of the revenue head depends on resuscitation of the economy.

Carbon Tax

Collections under this revenue head were 89.36% of the targeted US$17.85 million, with collections of US$15.95 million. This is 8.21% short of the US$17.38 million collected 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. The future performance of the revenue head is heavily dependent on industry's consumption of fuel (petrol and diesel).

Mining Royalties

Mining Royalties brought in US$33.00 million against a target of US$51.90 million. Collections were 63.59% of the target. The revenue head recorded a 17.05% decline in collections from the US$39.79 million that was collected during the same period last year.

The performance of Mining Royalties was negatively affected by the slump in commodity prices. The creation of a consolidated diamond mining firm in Marange is expected to improve transparency and efficiency from diamond mining, hence positively influencing the performance of royalties from diamonds in the near future.

ZIMRA continues to call for a review of the mining taxation system to a situation where Zimbabwe benefits equitably from its mineral resources.

Dividends, Fees, Interest and Remittances

A total of US$26.86 million was collected against a target of US$32.64 million. Non-Resident Tax on Fees contributed the highest revenue with a contribution of 58.29% while Non-Residents Shareholders' Tax contributed 11.74%. Revenue collections increased by 0.77% from the US$26.66 million that was collected in 2015. Recovery of the revenue head is a function of economic recovery.

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$30.44 million, which is 98.60% of the targeted US$30.87 million. Both CGT and CGWT had the highest contribution of 36.97%, while Tobacco Levy was 34.57%. Other Indirect Taxes contributed 28.46% to total revenue under this revenue head. CGT debt as at the end of the H1:2016 amounted to US$170.55 million up from the US$168.81 million recorded at the beginning of the year. Tax expenditures from CGT for H1:2016 amounted to US$5.39 million.

Performance was negatively affected by the lack of mortgage financing in the economy which resulted in CGT and Capital Gains Withholding Tax failing to meet their set target. However, there has been a bit of movement in this industry but it may not be sustainable enough to improve performance.

Low business activities affected the other sub-revenue heads like Stamp Duty, Banking Levy, Presumptive Tax and ATM Levy. On the other hand, the revenue head benefitted from the positive contribution of Tobacco Levy due to high volumes of tobacco delivered to the auction floors and high prices of tobacco.

Resuscitating the Economy

Zimbabwe’s economy is agricultural-based and its people’s core competences lie in that industry. Farming is our way of life. Therefore, Zimbabwe’s economic recovery will always lie in this sector and there is need to support farming in a systematic and sustainable manner which also does not reverse the gains of land reform, which was the basis of the liberation struggle. Government must build sufficient dams, and develop sufficient irrigation infrastructure. This will increase both employment and the Gross Domestic Product.

Government must also look into the cost structure in the agricultural production value chain, inputs, electricity, water, cost of money and tenure thereof. It must also regulate the operations of the powerful cartels in the marketing of agricultural produce, the current pricing does not advance successful farming.

Any increase in agricultural production has a positive impact on industrial capacity and commercial activity. To the rest of the world, China has provided tremendous markets for food, the demand is huge. Farmers can be organised to supply specific agricultural products to China to revitalise the economy. The mode of contract farming can also be used so as to have mutual benefits and ensure adequate working capital. That approach will resuscitate our economy, create jobs and increase aggregate demand. It is only then that the revenue collection can increase sustainably for economic development.

Fighting Corruption

The economy is in serious distress and requires urgent solutions and a unity of purpose amongst all Zimbabweans to move forward. We can never overemphasise the debilitating effect of sanctions on our economy. Everyone in business knows that sanctions are not targeted and have had a huge adverse impact on every Zimbabwean. One day a study must be carried out to quantify the cost of sanctions. But the other thing which has had another devastating impact on our economy is corruption.

Whilst sanctions are exogenous, corruption is endogenous and within our control to deal with as a deliberate policy. The culture of corruption has destroyed good business strategy, every good Government policy and efforts to revive the economy. Corruption destroys legitimate businesses. Unfortunately, it has permeated into every area of our society. It is no longer time to talk about it; we just have to deal with it decisively.

Gratitude

I would like to thank all those members of the public who have given us and continue to give us information on our Anti-Corruption Hotline. Your information is invaluable and so accurate that we have been able to plug some leakages and collect significant amounts of money from tax evaders. We are also bringing some culprits to book. We shall be providing feedback through the media on the issues reported. Thank you so much.

I would also like to thank my colleagues on the Board for being so committed and for all the support and teamwork. I am so proud that slowly we are edging towards achieving the targets set before us on appointment. God bless you all.

To Acting Commissioner General Happias Kuzvinzwa, ZIMRA Management and Staff, thank you for the hard work and commitment you have demonstrated in the past few months.

The Board appreciates all your efforts in attaining the collections despite the challenging economic environment.

I also wish to thank Honourable Patrick Chinamasa, the Minister of Finance and Economic Development; the Permanent Secretary; Ministry’s Staff; and the entire Government, for the guidance and support rendered during the period under review.

Last but not least, my gratitude goes to the taxpayers, especially those who continue to pay their dues in full and on time. May God give you recompense.

Zimbabwe, God has good plans for us, for a future with hope to prosper us - (Jeremiah 29 v 11).

Thank You.

ZIMRA BOARD CHAIRMAN