

OVERVIEW OF DOMESTIC RESOURCE MOBILISATION (DRM)

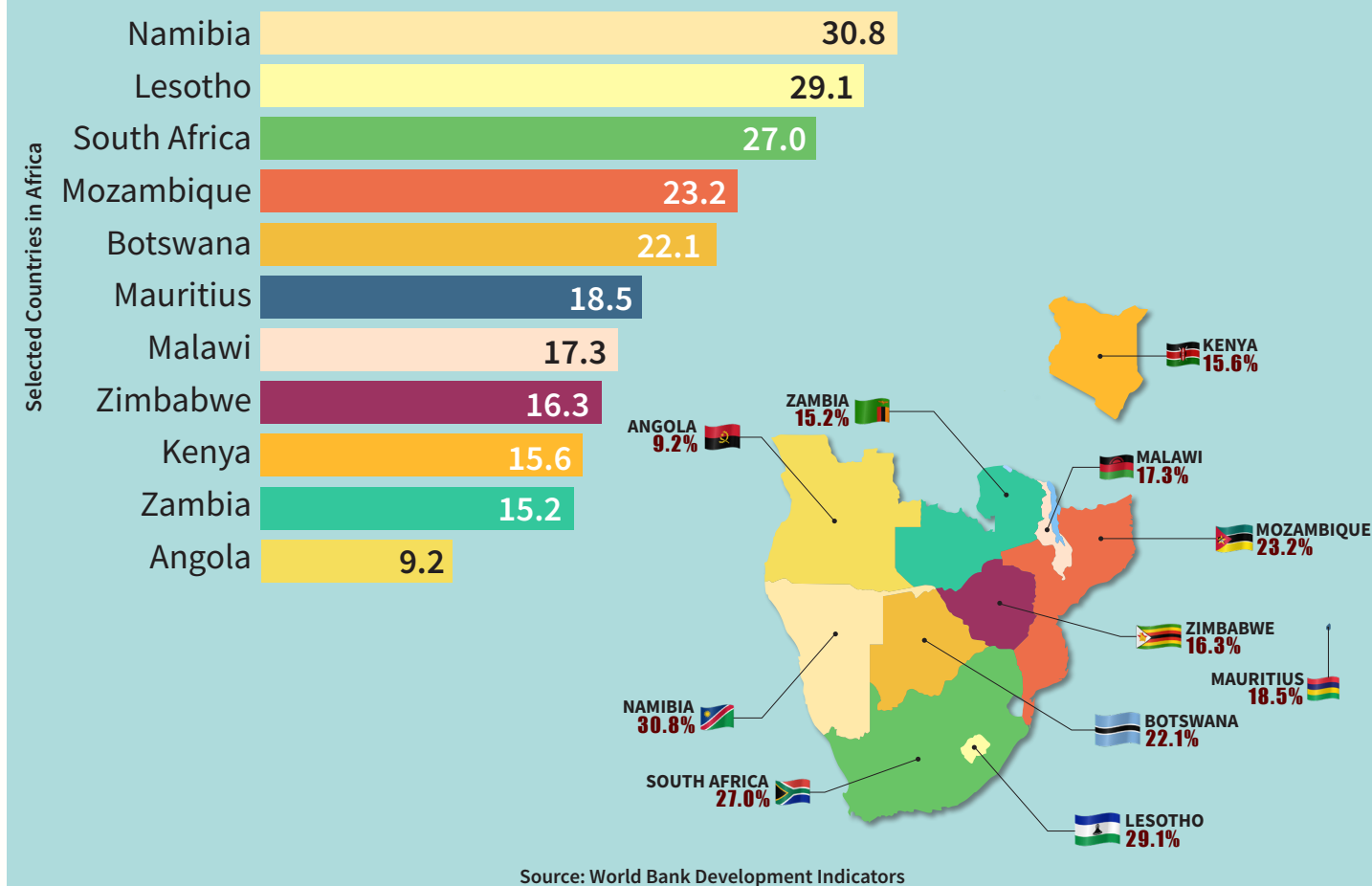
DOMESTIC RESOURCE MOBILIZATION (DRM)

DRM refers to the generation of Government revenue from domestic resources, from tax or non-tax sources. Ultimately the focus should be the development of the **long-term path to sustainable development finance**. DRM not only provides Governments with the funds needed to alleviate poverty and deliver public services, but is also a critical step on the path out of aid dependence. DRM is important because;

- Government needs to raise more money to help alleviate fiscal constraints.
- There is need to balance increased revenue with promotion of growth. **Broadening the scope of revenue base, instead of increasing taxes, guarantees sustainable growth.**

Tax **revenue** as a **percentage of GDP** is regarded as one measure of the degree to which the Government mobilizes/controls the economy's domestic resources. Tax **revenue** as a **percentage of GDP** indicates the share of a country's output that is collected by the Government through taxes.

TAX REVENUE (% OF GDP) IN 2017



Zambia's tax revenue declined from **30 percent of GDP in the 1970s**. Over the medium term, Government will continue to enhance domestic resource mobilization strategies so as to increase the contribution of domestic revenue to **19.1 percent of GDP by 2021**.



30%

Tax Revenue percentage of GDP in the 1970s

15.2%

Tax Revenue percentage of GDP in 2017

19.1%

Tax Revenue percentage of GDP targeted in 2021



Making reference to the Tax Revenue map above, the Government has realized that the Tax Revenue, as percentage of GDP, can be increased. Therefore, In the medium term, one of the macro-economic objectives of Government according to 2019-2021 **Medium Term Expenditure Framework** is to:



Increase domestic revenue collection by broadening the tax base.



Enhancing tax compliance levels.

A CHALLENGES IN SCALING UP DRM



A large and hard-to-tax informal sector of the economy. The informal sector's tax potential in Zambia is about 42% of total tax revenues per annum.



Low tax morale.



Revenue losses through excessive tax exemptions and incentives.



Corruption in tax administration. Corruption both directly reduces tax revenue, but is also a determinant of tax morale, because it affects people's trust in Government.



DETERMINANTS OF TAX MORALE



The relationship between Government and the taxpayer; when citizens trust their Government to use their tax contributions appropriately, they are likely to show a higher tax morale and compliance.



If individuals feel a sense of guilt or shame at the thought of evading taxes, then it can be assumed that they would be less likely to evade.



If people believe that taxes are too high, hence unfair or that the tax system is unduly complicated, the likelihood is that they would feel a moral justification to evade tax.

Corruption is noted as a major constraint in tax collection. **For example, in June 2019, Government lost K480 million through dubious imported vehicles.**

K480 MILLION

Money lost through dubious importation of vehicles



B GOVERNMENT INTERVENTION TO ENHANCE DRM

Medium Term Expenditure Framework (MTEF) objectives; To achieve the objective of increasing revenue, the Government through the (MTEF) will implement among others, the following:



Digitalization of revenue collection processes. **[ALREADY IMPLEMENTED]**



Data Matching and Risk Management in revenue collection: To maximize revenue collection, Zambia Revenue Authority (ZRA) continues to strengthen system interfaces with other institutions such as banks, Patents and Companies Registration Agency (PACRA). **[ALREADY IMPLEMENTED]**



Implementation of Customs Valuation Database: Government has established, and regularly updated a Customs Valuation Database in order to curb under-declarations. **(ALREADY IMPLEMENTED)**



Government has reviewed the Rating Act to facilitate for the mass valuation of properties so that all properties can be brought into the tax net. **(ALREADY IMPLEMENTED)**



Further, measures are being taken to accelerate the **implementation of the National Land Titling Programme.** **(IN PROGRESS)**



Base Erosion and Profit Shifting: The Government will remain committed to implementing the Base Erosion and Profit Shifting (BEPS) minimum standards as a member of the Inclusive Framework on BEPS. e.g. in the 2019 budget Government Increased the penalty for non-compliance with transfer pricing regulations. Interest allowable on debts owed was limited to 30% of Earnings Before Interest, Tax Depreciation and Amortization (EBITDA). **(ALREADY IMPLEMENTED)**



Enhanced Tax Payer Services: To increase operational efficiency and effectiveness, ensure fairness of tax administration and reduce the costs of compliance, Government will place prominence on;

- Provision of quality customer-oriented services to taxpayers.
- Appointment of Revenue Collecting Agents to improve efficiency.
- Enhanced use of electronic enquiry services, such as the interactive telephone answering system or call center and use of mobile money platforms. **[ALREADY IMPLEMENTED]**

C RECOMMENDATIONS

Strategies to increase tax compliance

1. Increase penalties and custodial jail sentences for non compliance especially with introduction of sales tax which lacks self-policing mechanism.
2. Scale up of IT/mobile payment platforms and the use of electronic fiscal devices.
3. Equip revenue administrators with knowledge and tools to raise revenues in hard-to-tax sectors and reduce the size of the shadow economy.
4. Fight tax evasion through early detection, smarter auditing, and effective investigation and prosecution that hold evaders accountable and thus create public confidence in the tax system.
5. Increase taxpayers' voluntary compliance with tax laws through outreach and education to increase collection and address informality.
6. Close wasteful loop holes and reduce unwarranted tax exemptions for investors.
7. Promote knowledge exchange on country experiences and increased sensitization on the importance of taxation to the general citizenry to boost the tax morale.

Strategies to broaden the tax base and increase revenue

1. Government needs to upscale the monitoring and enforcement of the austerities as announced by the Republican President.
2. Prioritize the diversification within the Agriculture sector and Manufacturing value addition which can lead to increased revenue collection.
3. Invest in other forms of cheaper transportation such as rail for heavy vehicles to reduce on the costs of road maintenance.
4. Massive Land Titling Programme which can enhance payment processes for the collection of ground rates.
5. Reforms to energy sector to guarantee stable supply of electricity coupled with monetary policy incentives to lower lending rates will spur growth.
6. Promote private sector investments to spur quality investments through policy consistency
7. Phase out electricity subsidies.