

TAXATION IN ZAMBIA

ACHIEVEMENTS AND CHALLENGES



INTRODUCTION

Taxation, world over is mainly levied in order to raise revenue for Government. **Tax is a fee that is charged to individuals and organizations.** The funds raised from taxes are used by Government to implement various social-economic development projects such as the construction of schools, health facilities, roads, provision of salaries for civil servants including the police, the army and provision of social services like national security.

The Ministry of Finance is responsible for the formulation of tax policy, which is then implemented by the Zambia Revenue Authority. The Zambia Revenue Authority (ZRA) was established on 1st April 1994 as a corporate body and is charged with the responsibility of collecting tax on behalf of the Government of the Republic of Zambia under the supervision of the Ministry of Finance. ZRA also assesses and advises the state on aspects of tax policy. The ZRA has two divisions that are mandated to collect tax revenue these are Customs Services and Domestic Taxes.



DOMESTIC TAXES DIVISIONS OF ZRA ADMINISTERS THE FOLLOWING TAXES



Income Tax



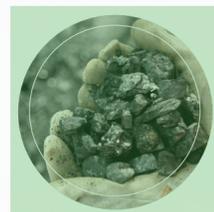
Value Added Tax



Property Transfer Tax



Medical Levy



Mineral Royalty

CUSTOMS SERVICES OF ZRA ADMINISTERS THE FOLLOWING TAXES



Customs Duty



Export Duty



Excise Duty



Import VAT



Motor Vehicle Fees



Carbon Emissions Tax

ACHIEVEMENTS IN TAX REFORM



Since the establishment of ZRA in 1994, there has been a major overhaul in tax administration. The **changes in tax reform have brought about better tax achievements:**

- The ZRA revenue system has proven to be better than the previous tax system under UNIP, in that it is more capable of capturing more revenue when the economy is doing well and has similarly recorded revenue declines during bad times when the economy is in a recession due to it being a semi-autonomous institution that uses modern management methods and often updates its systems.
- The introduction of the Value-Added Tax (VAT) has proven to be beneficial since VAT contributes up to 20% of the tax revenue collected each year.** VAT is a more effective tax when compared to the previous Sales Tax, which was poorly designed and complex to administer. VAT is uniform, uncomplicated, fairer, covers a wider tax base, promotes strong domestic manufacturing and competitive export prices.
- The launch of tax online by ZRA on the 28th of October 2013 has made it easier for the taxpayer to conduct their tax affairs, by registering and filing of returns online. As well as through making electronic payments through banks partnering with ZRA. **This tax online which is a web based e-service is set to improve the effectiveness of interaction with taxpayers online which is 24 hours a day and seven days a week.** This has enabled the authority to quickly check, **analyze and audit the taxpayers' register, effectively within the shortest period of time,** leading to total compliance on the part of taxpayers.
- Overtime, the contribution of tax revenue to the national budget has increased, from 50% in 2001 to 70% in 2010.
- The Zambian Tax System offers several tax incentives such as tax holidays and lower tax rates for potential investors.** This has proven to work as it has **attracted foreign investors not just in the mining industry but in the services and construction industries.** This has led to significant economic growth.

CHALLENGES



- ZRA has competent personnel in most of the departments to preside over tax matters but there is need for more training of the tax administration staff, to assist them in making sure they are keeping up with the latest developments in Information Technology and legal matters. For example, ZRA lacks well-trained tax inspectors when it comes to property evaluation. This leads to property being undervalued resulting in less tax revenue collected by ZRA.
- Tax literacy is low. **Many Zambians have limited knowledge of the tax and tax systems.** Many have not received training in tax literacy indicating that ZRA has limited programmes on increasing tax literacy among taxpayers.
- ZRA struggles with the issue of tax avoidance. Tax avoidance, takes place within the legal context of the tax system; that is, individuals or firms take advantage of the tax code and exploit loopholes, specifically engaging in activities that are legal but run counter to the purpose of the tax law. Usually, tax avoidance encompasses special activities with the sole purpose to reduce tax liabilities. An example of tax avoidance practice is strategic tax planning where financial affairs are arranged in order to minimise tax liabilities by using tax deductions and taking advantage of tax credits. Tax avoidance leads to less tax revenue collected.
- Zambia's largest group of employed persons largely comprises unregistered and hard-to-tax groups such as small-scale traders, farmers, small manufacturers, craftsmen, individual professionals and many small-scale businesses.** The informal sector is defined as a market based production of goods and services, legal and illegal, that escapes the established control structures of the Government; non-registration with Patent and Companies Registration Agency (PACRA), National Pension Scheme Authority (NAPSA) and Zambia Revenue Authority (ZRA) as well as escapes the detection in the official estimates of GDP. As the economy has grown over the years, so has the informal sector which remains largely untaxed, despite ZRA having taxes specifically targeting this sector.
- The level of tax compliance among the small taxpayers is still low. This is because smaller tax payers/smaller businesses, are not financially able to hire accountants, and therefore find it challenging to keep books of accounting records which adversely affects tax collection.
- Taxing of cross-border trading is another challenge faced by ZRA due to the difficulties involved in auditing of transfer pricing, that occur when multinational companies carry out their cross-border trading.
- The issue of tax evasion is another challenge facing ZRA. Despite ZRA having the Double Taxation Agreements in the Income Tax Act, which is meant to deal with reciprocal taxation arrangements on multinationals and foreign residents, these legal provisions do not adequately address tax evasion. Tax evasion refers to the illegal practices carried out in order to escape tax obligation as provided by the law.

RECOMMENDATIONS



- Government is urged to support the operations of ZRA by providing it with adequate funding which must be predictable and enable it to fund its operations, have adequate staff and operational infrastructure.
- Continued support, both financial and materially, is needed to enable ZRA keep pace with the complexities associated with mining taxation. This will increase its capacity to administer the mining tax regime.
- The tax system must move towards a tax structure that relies more on consumption taxes and less on income and trade taxes as these have proved to be volatile and may cause inefficiency and inequity.
- There should be improvement in the VAT refund administration. The mining sector receives 90% of the high tax refunds and this has dictated the performance of VAT.
- There should be greater investment in VAT administration processes using Information Communication Technology (ICT) options.
- There is therefore need to broaden the tax base by spreading to other sectors and individuals, this is because, the middle-class (those who obtain the majority of their income from formal salaries) are faced with the highest burden of taxation.
- Despite the ZRA having in place the Taxpayers Education and Advisory Services programme and Taxpayer Charter, many Zambians remain tax illiterate. ZRA needs to develop training and dissemination strategies in order to increase tax literacy, for example, putting videos (both in English and the common native languages) that explain taxes and the tax system on the ZRA website, could help increase tax literacy because not every person can read or understand the information on the ZRA website. This could help bring basic understanding of the tax system and could encourage tax compliance.
- ZRA must consider contracting the collection of some taxes to formal institutions, such as local councils, that have some degree of legitimacy and can exercise control and sanctions in case of non-compliance.
- Simplifying the tax law is necessary to make the application of tax simple. Simple tax laws are easy to understand and comply with. The law on Double Taxation Agreements should be strengthened in order to prevent tax evasion by multinational corporations. Company income tax needs to be simplified as well as it is considered to be a complicated tax, thus making it vulnerable to tax evasion.