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 LUPP 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 25% of the tax revenue collected each year. VAT is more effective when compared to the previous Taxes, which was poorly designed and managed, and was complex and difficult to administer.
- 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 has enabled the authority to quickly check, register, effectively within the shortest period of time, and comply with the tax rules of the land.
- The Customs 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 preserve 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 codes and exploit loopholes, specifically engaging in activities that are legal but not counter to the purpose of the tax law. Usually, tax avoidance encompasses special activities within the wide purview to reduce tax liabilities. An example of tax avoidance practices in strategic tax planning where taxpayers enjoy a web of tax deductions and taking advantage of tax credits. Tax avoidance is what leads to revenue collected being less than the theoretical revenue estimate.
- Zambian largest group of employed persons largely comprises unregistered and hard-to-tax groups such as small-scale traders, farmers, small manufacturers, craftsmen, individuals and many small-scale businesses. The informal sector is defined as a market-based production of goods and services that is legal and illegal, that escapes the uncontrolled structure of the Government; non-registration with the Patents and Companies Registration Agency (PACRA), National Provident Fund Authority (NAPFA) and Zambia Revenue Authority (ZRA), as well as escapes the government 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/small 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 this income Tax Act, which is meant to deal with reciprocal taxation arrangements on multinationals and foreign residents, there is legal provisions that 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

1. 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.
2. Continued support, both financial and materially, is needed to enable ZRA keep pace with the complexities associated with modern taxation. This will increase its capacity to administer the mining tax regime.
3. The tax system must move towards a tax structure that relies more on consumption taxes and less on income and trade taxes so as to have prove to be viable and may cause inefficiency and inequity.
4. There should be improvement in the VAT refund administration. The mining sector receives 80% of the high tax refunds and this has dictated the performance of VAT.
5. There should be greater investment in VAT administration processes using Information Communication Technology (ICT) options.
6. 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 heaviest burden of taxation.
7. Despite the ZRA having in place the taxpayers Education and Advisory Services programme and Taxpayers Charter, many Zambians remain tax avoiders. ZRA needs to develop training and dissemination activities in order to increase tax literacy, for example, putting videos (both in English and the common native languages) that explain issues and the taxation on the ZRA websites, 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.
8. ZRA must consider restructuring the collection of some taxes to formal institutions, such as local councils, that has some degree of legitimacy and can exercise control and sanctions in case of non-compliance.
9. Simplifying the tax laws 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.