



**ZiCA**

Competence, Integrity and Virtue

**Zambia Institute of Chartered Accountants**

**Comments on the Mid  
Year Performance  
Report for 2024**

**ZICA**

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## 1.0 INTRODUCTION

- i. The Zambia Institute of Chartered Accountants (ZICA) is a professional membership body whose function, among others, is to advise Government on matters of national and economic development. The Institute is also mandated to develop, promote and enforce internationally comparable practice standards in Zambia as well as protect and assist the public in all matters relating to the practice of accountancy. With this mandate in mind, our comments on the Mid-year budget performance report for 2024 have been made with full cognizance of our obligations as promulgated in the Accountants Act as well as our professional resolve to act in the public interest.
  
- ii. We are privileged to be invited to make oral and written submissions to the Planning and Budgeting Committee on the consideration of the Mid-year budget performance report for 2024.

## 2.0 COMMENTS

In response to the request for comments on the Mid-Year Budget Performance Report for 2024, we have reviewed the report and provided detailed insights below:

- i. ***OVERVIEW OF THE PERFORMANCE AND EFFECTIVENESS OF STRATEGIES INCLUDING ELECTRONIC INVOICING TO ENHANCE TAX MOBILIZATION IN THE FIRST HALF OF THE YEAR***

The implementation of electronic invoicing has significantly enhanced tax mobilization efforts. Key outcomes include:

- **Enhanced Compliance:** Real-time invoicing will improve compliance rates, reducing the scope for tax evasion and under-reporting. This will be particularly effective in sectors previously prone to under-reporting.
- **Increased Transparency:** The electronic system ensures that all transactions are documented and traceable, leading to more accurate tax assessments and collections. This transparency will be instrumental in identifying and addressing discrepancies.
- **Higher Revenue Collection:** The strategy contributed to exceeding VAT collection targets, with K19.21 billion collected against a target of K17.01 billion, an 11.7% surplus. This overperformance is attributed to the comprehensive tracking and immediate invoicing capabilities of the system.
- **Streamlined Processes:** Automation will reduce administrative overhead and errors, facilitating more efficient tax collection and processing. This will free up resources to focus on enforcement and compliance activities.

## *ii. PERFORMANCE OF ALL TAX TYPES IN 2024*

The performance of various tax types in the first half of 2024 showed mixed results:

- **Income Tax:** Collected K28.38 billion, 14.4% below the target of K33.17 billion. The shortfall was due to lower company tax payments and higher operational costs in the mining sector. Additionally, some companies faced economic challenges, impacting their profitability and tax contributions.
- **Company Tax:** Collected K9.31 billion against a target of K15.26 billion, a 39.0% shortfall, primarily due to reduced profitability and increased costs in the mining sector. Economic downturns and operational inefficiencies further exacerbated the shortfall.
- **Mining Tax:** Collected K3.26 billion, 60.3% below the target of K8.20 billion, impacted by lower ore grades and higher operational expenses. Declining global commodity prices also contributed to reduced tax payments from the mining sector.
- **Non-Mining Tax:** Collected K6.05 billion, 14.2% below the target of K7.06 billion, due to lower compliance from major contributors. Some industries faced operational challenges, affecting their tax liabilities.
- **PAYE:** Collected K12.15 billion, exceeding the target of K11.31 billion by 1.8%, driven by timely payments and arrear settlements. Improved employment rates and better payroll management contributed to the positive variance.
- **Withholding Tax:** Collected K6.91 billion, 15.6% above the target of K5.98 billion, due to better compliance and enforcement efforts. Enhanced monitoring and audit activities led to higher collection rates.

*iii. CONTRIBUTION OF MINING TAX TO TOTAL TAX REVENUES DURING THE FIRST HALF OF 2024*

Mining tax contributed K3.26 billion to the total tax revenues in the first half of 2024. This represented a significant shortfall of 60.3% against the target of K8.20 billion, primarily due to:

- **Lower Ore Grades:** Declining quality of copper ore in some mines reduced revenue. The lower grade ores yielded less output, thereby decreasing taxable income.
- **Operational Costs:** Increased operational expenses due to energy supply issues impacted profitability and tax payments. Frequent power outages and higher fuel costs were major contributors.
- **Global Commodity Prices:** A decrease in global copper prices negatively impacted the profitability of mining companies, leading to lower tax payments.

*iv. CONTRIBUTION OF NON-MINING TAX TO TOTAL REVENUE DURING THE FIRST HALF OF 2024*

Non-mining tax collections amounted to K6.05 billion, 14.2% below the target. Despite the shortfall, non-mining taxes were crucial in the overall tax revenue. The shortfall was primarily due to:

- **Compliance Issues:** Lower compliance rates among significant contributors impacted overall collections. Efforts to improve compliance through audits and enforcement are ongoing.
- **Economic Challenges:** Some non-mining sectors faced economic challenges, reducing their taxable income and, consequently, tax payments.

*v. PERFORMANCE OF THE MINERAL ROYALTY IN THE FIRST HALF OF 2024*

Mineral royalty collections amounted to K5.21 billion, surpassing the target of K5.07 billion by 2.8%. This positive performance was driven by:

- **Improved Copper Prices:** Higher international copper prices increased royalty payments. This was due to favourable market conditions and increased demand.
- **Higher Declarations:** Selected mines reported higher production volumes than anticipated, leading to increased royalty collections. Enhanced monitoring and compliance measures also played a role.

*vi. IMPACT OF VAT REFUNDS ON TAX MOBILIZATION IN THE FIRST HALF OF 2024*

VAT refunds had a significant impact on tax mobilization, particularly in domestic VAT collections. Key points include:

- **Domestic VAT Under-Collection:** Collected K4.91 billion against a target of K6.02 billion, 18.3% below target, due to increased refund payments under VAT agreements with mining companies. This under-collection was partly offset by better-than-expected import VAT collections.
- **Import VAT Over-Collection:** Collected K14.30 billion against a target of K11.19 billion, exceeding the target by 27.8%, driven by higher import volumes of VAT-liable goods, such as petroleum products and machinery. The increase in imports was partly due to economic recovery and increased demand for industrial goods.

*vii. 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM*

In 2023, total revenues and grants amounted to K144.55 billion, with tax revenue at K114.83 billion. For 2024, projections indicate:

- **Slight Revenue Increase:** Expected growth in total revenues and grants, driven by improved compliance and leveraging technology. The focus will be on enhancing revenue collection through better enforcement and technological advancements.
- **Medium-Term Outlook:** Growth is forecasted at 3.2%, with efforts to mitigate risks such as global economic uncertainties and local challenges. Key focus areas include enhancing compliance, leveraging technology, and diversifying revenue sources. Additionally, efforts will be made to improve economic stability and attract foreign investments.

*viii. THE 2024 MID-YEAR PERFORMANCE OF THE FINANCIAL SECTOR INCLUDING CAPITAL ADEQUACY, GROWTH OF ASSETS, AND DEPOSITS*

The financial sector's performance in the first half of 2024 was robust:

- **Asset Growth:** Total assets increased by 18.6% to K247,933.3 million, driven by balances with the Bank of Zambia and net loans. The growth in assets was supported by increased deposits and better investment strategies.
- **Deposit Growth:** Deposit liabilities, accounting for 83.3% of total liabilities, grew by 14.9%, indicating strong depositor confidence. The

growth in deposits was fuelled by improved economic conditions and higher savings rates.

- **Capital Adequacy:** Both primary and total regulatory capital adequacy ratios remained well above regulatory minimums, indicating strong financial health. The capital adequacy ratios were supported by retained earnings and capital infusions.
- **Profitability:** The sector recorded a cumulative profit-before-tax of K4,801.9 million to end-May 2024, compared to K4,572.2 million in the same period in 2023. This was driven by increased interest income from loans and advances, as well as investments in government securities.

*ix. PERFORMANCE OF MAJOR TAX TYPES FOR THE 2024 MID-YEAR*

- **Income Tax:** Collected K28.38 billion, 14.4% below the target of K33.17 billion, due to lower company tax payments. Efforts are ongoing to improve compliance and enforcement in this area.
- **Company Tax:** Collected K9.31 billion, 39.0% below the target of K15.26 billion, impacted by reduced mining sector profitability. Measures are being taken to support companies facing economic challenges.
- **Mining Tax:** Collected K3.26 billion, 60.3% below the target of K8.20 billion, affected by lower ore grades and higher operational costs. The government is working on strategies to stabilize the mining sector.
- **Non-Mining Tax:** Collected K6.05 billion, 14.2% below the target of K7.06 billion, due to compliance issues. Enhanced compliance measures are being implemented to address this shortfall.
- **PAYE:** Collected K12.15 billion, 1.8% above the target of K11.31 billion, driven by timely payments and arrear settlements. The positive variance is due to better employment rates and improved payroll systems.
- **VAT:** Collected K19.21 billion, 11.7% above the target of K17.01 billion, due to higher import VAT collections. The increase in VAT collections is attributed to higher import volumes and improved compliance.

*x. THE EFFECTIVENESS OF THE ELECTRONIC EXPORT PROCEEDS TRACKING FRAMEWORK BEING IMPLEMENTED BY THE BANK OF ZAMBIA IN COLLABORATION WITH REVENUE COLLECTING INSTITUTIONS IN THE FIRST HALF OF THE YEAR*

The electronic export proceeds tracking framework has been effective in enhancing transparency and accountability in export transactions. Achievements include:

- **Improved Tracking:** Better monitoring of export proceeds has led to improved compliance and increased revenue from export duties. The tracking system has helped identify discrepancies and enforce compliance.
- **Increased Export Duties:** Collections were K82.96 million, 57.0% above the target, driven by improved exports of timber, manganese ores, and copper concentrates. The increase in export duties is due to higher export volumes and better enforcement.
- **Collaboration Success:** The collaboration between the Bank of Zambia and revenue collecting institutions has streamlined export transactions, contributing to better revenue collection and compliance. The collaborative efforts have resulted in more efficient tracking and enforcement of export proceeds.

### 3.0 CONCLUSION

The review of the the Mid-Year Budget Performance Report for 2024 demonstrates Government's commitment to enhance transparency and accountability in the management of Public Resources.