

**Comments on the
Medium-Term Budget
Plan and the 2025
Green Paper**

ZICA

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 medium-term budget plan and the 2025 green paper 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 medium-term budget plan and the 2025 green paper.

2.0 COMMENTS

In response to the request for comments on the medium-term budget plan and the 2025 green paper, we have reviewed the report and provided detailed insights below:

I. STRATEGIES TO ENHANCE TAX MOBILISATION IN 2025 AND THE MEDIUM-TERM

- a) **Implementation of Smart Invoicing System:** The Smart Invoicing System, launched on April 1, 2024, is designed to enhance the monitoring and verification of tax invoices issued by businesses. This system leverages technology to reduce tax evasion by ensuring that all sales transactions are recorded accurately. The system's rollout includes training for businesses on compliance and integration with existing accounting systems. Continued

refinement and expansion of this system will be crucial to its success, including regular updates and support services for users.

- b) **Indexing Excise Duties:** By indexing specific excise duties on goods such as alcohol, tobacco, and fuel, the government aims to ensure that the revenue generated from these duties maintains its real value over time. This approach prevents the erosion of excise duty revenue due to inflation and ensures a stable revenue stream. The implementation will include periodic reviews and adjustments based on economic conditions.
- c) **Review of VAT Registration Threshold:** The review of the VAT registration threshold aims to balance the need to bring more businesses into the VAT system while not overburdening small enterprises with compliance costs. Voluntary registration programs will be encouraged, and support mechanisms such as simplified filing processes and educational campaigns will be implemented to assist small businesses in meeting their tax obligations.
- d) **Tax Expenditure Framework:** Introducing a tax expenditure framework will allow the government to evaluate the effectiveness and efficiency of various tax incentives. This framework will ensure that tax incentives are aligned with policy objectives, such as encouraging investment in key sectors like agriculture and manufacturing. The evaluation will consider the economic impact of incentives and recommend adjustments or discontinuation of those that are not achieving desired outcomes.
- e) **Digital Economy Taxation:** The Two-Pillar Solution, developed under the auspices of the OECD/G20, addresses the tax challenges arising from the digitalisation of the economy. This approach includes reallocating some taxing rights to market jurisdictions and ensuring a minimum level of taxation on multinational enterprises. Implementing these measures will involve legislative changes and international cooperation to prevent base erosion and profit shifting.

II. IMPLICATIONS OF PROPOSED TAX MEASURES IN 2025 AND THE MEDIUM-TERM

- a) **Broadening the Tax Base:** Proposed measures aim to broaden the tax base by formalizing more economic activities and reducing the informal sector's size. This will increase overall tax revenues and promote a fairer tax system.

However, it requires significant outreach and education efforts to ensure compliance and mitigate resistance from newly taxed entities.

- b) **Increased Compliance Costs for Businesses:** Measures such as the Smart Invoicing System and changes to the VAT registration threshold will increase compliance costs for businesses, particularly SMEs. To mitigate this impact, the government will provide phased implementation, support services, and training programs to help businesses adapt to the new requirements.
- c) **Revenue Stability:** Indexing excise duties and refining tax incentives will provide more stable and predictable revenue streams, supporting long-term fiscal planning and reducing revenue volatility. This stability will help the government plan and execute public spending programs more effectively.

III. PERFORMANCE OF ALL TAX TYPES IN 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM

- a) **Income Taxes:** Income tax collections have been robust, driven by improved compliance and enforcement measures. Projections indicate steady growth, supported by economic recovery and targeted audits. Continued efforts to enhance compliance, such as taxpayer education and simplified filing processes, will be essential.
- b) **Value Added Tax (VAT):** VAT performance has been mixed, with underperformance in some sectors due to lower-than-expected economic activity. However, projections for 2024 and beyond are optimistic, contingent on economic recovery and improved compliance measures, such as the Smart Invoicing System and enhanced VAT audits.
- c) **Customs and Excise Duties:** These duties have shown resilience, with moderate growth expected. Continued investment in customs infrastructure, such as automated clearance systems and enhanced border controls, will be necessary to sustain and enhance revenue collection from this source.

IV. CONTRIBUTION OF MINING TAX TO TOTAL TAX REVENUES IN 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM

- a) **2023 Performance:** The mining sector has significantly contributed to total tax revenues, buoyed by favorable commodity prices and increased production. Measures such as improved regulatory frameworks and investment in mining infrastructure have supported this performance.

- b) **2024 and Beyond:** Projections indicate that mining tax revenues will continue to be substantial, supported by ongoing investments in mining infrastructure and regulatory reforms aimed at enhancing transparency and efficiency. Continued focus on sustainable mining practices and value addition will further boost revenues.

V. CONTRIBUTION OF NON-MINING TAX TO TOTAL REVENUE IN 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM

- a) **2023 Performance:** Non-mining tax revenues have shown steady growth, reflecting broader economic activities and improved tax administration. Sectors such as agriculture, manufacturing, and services have contributed significantly.
- b) **2024 and Beyond:** Projections suggest continued growth in non-mining tax revenues, driven by policies aimed at enhancing economic diversification and formalizing the informal sector. Efforts to support SMEs and promote value addition in agriculture and manufacturing will be key.

VI. PERFORMANCE OF THE MINERAL ROYALTY IN 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM

- c) **2023 Performance:** Mineral royalty collections have underperformed slightly due to lower-than-expected declarations by some mines. Improved copper prices have mitigated some of this impact, but challenges remain in ensuring accurate and timely royalty payments.
- d) **2024 and Beyond:** Projections indicate a more stable and potentially increasing trend in mineral royalty collections, assuming continued recovery in the mining sector and improved compliance. Measures such as enhanced monitoring and reporting systems and stricter enforcement of royalty payment regulations will support this trend.

VII. IMPACT OF VAT REFUNDS ON TAX MOBILISATION IN 2023 AND THE PROJECTION FOR 2024 AND THE MEDIUM-TERM

- a) **2023 Impact:** VAT refunds have posed challenges to tax mobilisation, with substantial amounts impacting net revenue collections. Delays in processing refunds have caused cash flow issues for businesses, particularly exporters.

- b) **2024 and Beyond:** Projections suggest that ongoing reforms to the VAT refund system, including streamlined processes and automation, will improve efficiency and reduce delays. These reforms will enhance overall tax mobilisation efforts by providing timely refunds to compliant businesses, thus improving their cash flow and encouraging compliance.

VIII. EFFECTIVENESS OF THE STRATEGIES THAT ZRA HAS BEEN IMPLEMENTING TO IMPROVE TAX ADMINISTRATION INCLUDING ELECTRONIC INVOICING

- c) **Electronic Invoicing:** The implementation of electronic invoicing has shown promise in improving tax compliance and administration. This system has reduced instances of tax evasion by ensuring that all transactions are recorded and reported accurately. Continued investment in technology, training for ZRA staff, and taxpayer education will be essential to maximize the benefits of electronic invoicing.
- d) **Enhanced Enforcement:** Strategies focusing on enhanced enforcement and audits have been effective in identifying and addressing tax evasion and fraud. Targeted audits based on risk assessment and data analytics have improved compliance and increased revenues. Expanding these efforts and integrating them with other tax administration systems will further enhance effectiveness.

IX. EFFECTIVENESS OF ELECTRONIC EXPORT PROCEEDS TRACKING FRAMEWORK BEING IMPLEMENTED BY THE BANK OF ZAMBIA IN COLLABORATION WITH REVENUE COLLECTING INSTITUTIONS

- e) **Tracking Framework:** The electronic export proceeds tracking framework has improved the transparency and accountability of export revenues. This system ensures that all export earnings are accurately reported and taxed, reducing instances of underreporting and tax evasion.
- f) **Collaboration with ZRA:** The collaboration between the Bank of Zambia and revenue collecting institutions, including ZRA, has been crucial in the success of this framework. Integrating systems and sharing data have improved the monitoring and enforcement of export proceeds. Continued coordination, investment in technology, and capacity building for staff will further enhance the framework's effectiveness.

X. OTHER NON-TAX COMMENTARY

a) Economic Growth Projections

The projected growth rates of 6.6% in 2025, 5.9% in 2026, and 5.6% in 2027 reflect a strong optimism about the economic recovery and development potential. The government plans to achieve this through various reforms, infrastructure projects, and enhancing productivity across key sectors. However, these projections might not fully account for potential external shocks, such as global economic downturns, commodity price fluctuations, or local issues like power shortages and adverse weather conditions. Historical data shows that such optimistic growth projections often face significant hurdles. The IMF and the World Bank have projected growth rates for Zambia in the range of 3-4% over the next few years which is lower than what the budget is projecting. This reflects a more cautious outlook considering potential external and domestic risks specifically citing the drought and high energy prices. Previous growth targets have often fallen short due to a combination of external and internal factors. For example, droughts have severely impacted agriculture, and power shortages have hampered industrial production. The plan should incorporate more conservative scenarios and include contingency plans for potential disruptions. This could involve creating financial buffers, diversifying export markets, and investing in climate-resilient infrastructure.

b) Private Sector Investment

The focus on agriculture, tourism, manufacturing, mining, and energy aims to diversify the economy and reduce dependency on copper exports. Incentives and reforms are planned to attract both local and foreign investors. While this strategy is sound in theory, the success heavily depends on the government's ability to create a conducive environment for investment. This includes ensuring political stability, reducing bureaucratic red tape, improving infrastructure, and addressing issues like land tenure security. Additionally, sectors like agriculture and tourism

are highly susceptible to climate variability, which requires robust risk management strategies. The business environment in Zambia faces several challenges, including high costs of doing business, limited access to finance, and regulatory unpredictability. Addressing these issues is crucial for attracting sustained investment. Each targeted sector needs tailored strategies. For agriculture, this might include improving irrigation infrastructure, enhancing access to markets, and promoting climate-smart agricultural practices. In tourism, the focus could be on developing infrastructure, marketing Zambia as a tourist destination, and ensuring sustainable tourism practices.

c) Human and Social Development

Prioritizing education, health, water, and sanitation reflects the government's commitment to improving human capital and quality of life. Enhancing social protection measures aims to mitigate the impacts of economic reforms on the most vulnerable populations. The effectiveness of these initiatives depends on adequate funding and efficient implementation. The plan lacks specifics on how these services will be funded sustainably. Past programs have sometimes suffered from misallocation of resources and inefficiencies in service delivery.

d) Debt Management

Emphasizing transparent debt management and completing the debt restructuring process is crucial for fiscal sustainability. The plan includes improving debt transparency and accountability mechanisms. While the commitment to transparency is commendable, the specifics of these accountability mechanisms are not well defined. Effective debt management will require strong institutions, regular audits, and public access to debt information. Moreover, the success of debt restructuring hinges on negotiations with creditors, which can be complex and protracted.

e) Digitalization and Public Sector Efficiency

Digitalization aims to streamline public services, reduce corruption, and improve efficiency. This includes investing in ICT infrastructure and enhancing digital skills among the workforces. The success of digitalization initiatives will depend on overcoming significant challenges, such as the current state of ICT infrastructure, internet penetration rates, and digital literacy. Ensuring equitable access to digital services is essential to avoid exacerbating existing inequalities. Moreover, there must be a clear strategy for protecting data privacy and cybersecurity.

f) Climate Change and Environmental Sustainability

The plan recognizes the need to address climate change impacts and includes measures to align resources for early recovery interventions and humanitarian needs. The document acknowledges climate change but lacks detailed action plans and timelines. Effective climate change policy requires specific measures, such as adopting renewable energy sources, enforcing environmental regulations, and investing in climate-resilient infrastructure. There is also a need for comprehensive risk assessments and adaptive strategies for vulnerable sectors.

3.0 CONCLUSION

The review of the the medium-term budget plan and the 2025 green paper demonstrates Government's commitment to enhance transparency and accountability in the management of Public Resources.