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RESEARCH REPORT

An Analysis of the Zambian Taxation System

JUNE, 2022.

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LIST OF ACRONYMS

AAZ	ActionAid Zambia
CIT	Corporate Income tax
CTPD	Centre for Trade Policy and Development
DRM	Domestic Resource Mobilization
DTA	Double Taxation Agreements
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IMF	International Monetary Fund
MOF	Ministry of Finance
PAYE	Pay as You Earn
PE	Permanent Establishment
SOE	State Owned Enterprises
VAT	Value Added Tax
WHT	Withholding Tax
ZMW	Zambian Kwacha
ZRA	Zambia Revenue Authority

EXECUTIVE SUMMARY

The Domestic Resource Mobilization (DRM) challenge has presented itself in Africa's appetite for debt and Zambia is not an exception. As a result, more concerted efforts are needed to contain high fiscal deficits and avoid reckless borrowing. The objectives of this study were to conduct an analysis of:

- the tax regime (gender responsiveness and progressivity) and identify the taxes that disadvantage women
- analyse the tax incidence for the major tax types and review the burden of tax
- conduct an analysis of government expenditure trends and the implications of inadequate domestic resource mobilization on productive and social sector spending
- assess how Zambia can implement a robust progressive wealth tax system
- provide an estimate of the forgone revenue in current tax system and the extent of revenue leakages
- identify some of the challenges in Zambia's tax system that are impeding domestic revenue mobilization.

The analysis adopted a descriptive short time series, cross-sectional design and to inform its analysis, the study used both quantitative and qualitative data. This report relied heavily on secondary data gathered through interactions with relevant stakeholders as well as a desk review of relevant documentation and published evidence. Key informant interviews with relevant stakeholders have been used to collect primary data. These methods enabled the collection of sufficient data to answer the study's objectives. Summary statistics and graphs has been used to analyse the quantitative data collected.

It is evident that where gender biases exist in a tax system, it is due to women's roles in the household and the economy. As a result, while tax systems that disadvantage women are uncommon, tax systems may contain explicit and implicit biases that benefit or disadvantage women. Explicit gender biases occur when tax legislation contains specific provisions that treat men and women differently. Implicit gender biases occurs when tax legislation intersects with gender relations, norms, and economic behaviour.

It is clear from the findings that Zambia requires a wider tax base to capture much of the citizens who either avoid or evade taxes. The tax incidence is currently skewed towards direct income taxes, rather than trade and domestic goods and services taxes. Specifically, under the direct income tax, PAYE is the largest of them all. Furthermore, the mining sector carries a much larger share of the tax budget, demonstrating historical dependence on copper mining in Zambia. Efforts should therefore be made to increase the tax base in order not to overburden the few taxpayers with raising the much-needed revenue.

The Zambian budget has over the years been running in deficit, having closed the year 2021 with a deficit of 10.4 percent of Gross Domestic Product (GDP). This shows the need for enhanced domestic resource mobilisation to reduce the budget deficit and ensure public service delivery. The analysis has revealed that social sector spending has been crowded out by the country's commitment to debt service in the past few years. This is perceived to lead to advancing poverty and inequality in the country. The timely attainment of macroeconomic stability will be heavily reliant on debt restructuring, fiscal consolidation efforts, and the availability of COVID-19 vaccines. A prolonged COVID-19 fallout could exacerbate fiscal and domestic liquidity challenges as well as lengthen the time it takes Zambia to implement key macroeconomic and structural reforms. The IMF program will help the country to attain the macroeconomic and structural reforms that Zambia needs to recover.

The tax system has a mix of progressive and regressive taxes, but overall, the system is progressive. However, caution must be exercised in developing a healthy mix of direct and indirect taxes to avoid making the tax system regressive, which would exacerbate the plight of the marginalised.

Further, just like any developing country, the Zambian tax system has revenue leakages and challenges that should be attended to in order to improve its performance. The challenges in the Zambian Tax system range from lack of information, weak monitoring techniques, inadequate funding towards tax collection efforts, political interference, to tax havens. Tax revenue in Zambia is lost due to evasion, avoidance, contestation, non-payment, the hidden economy, and other means such as the failure to tax the digital economy.

Nalucha Nganga Ziba
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BACKGROUND

The burden of raising resources for public service delivery and other public expenditures falls on the government in every modern society, including Zambia. These resources can be raised primarily through DRM through taxes, fees and fines, concessional and commercial debt as well as grants from cooperating partners. Because of the current global economic conditions, domestic resources now play a critical role in financing public service delivery, given the diminishing role of grants as a source of financing, and because the developed countries that are sources of grants also have tight fiscal spaces.

According to the Ministry of Finance's 2020 Annual Economic Report, grants contributed only 2.54percent of the 2020 budget revenue envelope, representing a 44.8 percent deviation from the set target due to non-disbursement of funds by the financing partners (Zambia, MOF, 2021). Furthermore, debt financing is currently not a very viable option given Zambia's eroded credit rating due to the country's high debt burden, with a debt to GDP ratio estimated to be above 100 percent.

The ratio of the tax revenue to Gross Domestic Product (GDP) is an indicator of a country's revenue performance and therefore a measure of the resources available for expenditure. A high tax-to-GDP ratio indicates that the government is collecting more revenue and, theoretically, has more resources to spend on public service delivery.

According to the IMF, countries collecting more than 12 percent of their GDP in tax revenue are poised to grow their economies. In the last five (5) years, Zambia has averaged a tax-to-GDP ratio of 16.4 percent; however, due to expenditure patterns outlined in annual national budgets, much of this revenue was spent on public service remuneration and, more recently, debt service. This tightens the fiscal space leaving very little resources available for public service delivery and development. Given the limited room for adjustment on the expenditure side, increased DRM is required to improve productive and social sector spending.

Since 2016, the Zambian government has sought assistance from the International Monetary Fund (IMF) to stimulate the economy, and by the end of 2021, the country had reached a staff level agreement with the Fund under an Extended Credit Facility. This agreement is still in the works, with the onus on Zambia to obtain sufficient financing assurances from creditors and subsequent approval by the IMF Executive Board. However, it is also worth noting that the coming of the facility is highly likely and most creditors have agreed to the common framework. This $1.4 billion in assistance is expected to help restore macroeconomic stability, fiscal and debt sustainability, and allow for social sector spending. However, it is unclear what the arrival of the IMF program means for DRM and social sector spending, among other public finance issues. On a broader context, the prevailing Russia-Ukraine war has had a negative effect on Zambia, especially through increasing global fuel prices.

According to the IMF, the ideal tax system in developing countries should raise necessary revenue while avoiding excessive government borrowing and without discouraging economic activity. (IMF, March 2001). This implies that the collection of revenue through taxes, particularly those aimed at individuals, should be limited to avoid eroding citizens' purchasing power thus making them poorer. As a result, in the social context of taxation, considerations of where the tax incidence is, the gender responsiveness of the tax system, as well as ways to improve social sector spending and tax justice are important.

INTELLECTUAL CONTEXT, OBJECTIVES & METHODOLOGY

INTELLECTUAL CONTEXT

In the last ten years, Zambia has faced significant number of fiscal challenges that have further accelerated the contraction of debt. Subsequently, servicing this debt has continued to crowd out the expenditure to key social sectors such as education, health, environmental and social protection. The current situation is that Zambia needs to restructure its public debt and provide the much-needed cash flows to widen its fiscal space.

The concern around this public finance issue is how the country can turn its economic misfortunes using its available domestic resources. In this context, it is critical to examine the current tax system to determine aspects such as progressivity, gender considerations, and, most importantly, ways to improve the tax system and tax justice while also raising much-needed revenue for public service delivery. DRM efforts are expected to consider the IMF discussions on social spending, subsidy treatment, debt service obligations, austerity measures and sustainability.

The evidence generated through this study will allow civil society organisations to engage in evidence-based dialogue to influence policy decisions for progressive and sustainable public-sector financing. This research report will be useful for tax justice and education advocates in changing the tax landscape.

OBJECTIVES

3.1 General Objective

To provide an analysis of the taxation system by generating evidence on taxation and financing for public service delivery.

3.2 Specific Objectives

i. To conduct an analysis of the tax regime (gender responsiveness and progressivity) in Zambia and identify the taxes that disadvantage women.
ii. To analyse the tax incidence for the major tax types and review the burden of tax.
iii. To conduct an analysis of government expenditure trends and the implications of inadequate domestic resources on productive and social sector spending.
iv. To assess how Zambia can implement a robust progressive wealth tax system.
v. Provide an estimate of the forgone revenue in current tax system and extent of revenue leakages.
vi. To identify some of the challenges in Zambia's tax system that are impeding domestic revenue mobilization.

METHODOLOGY

The study applied a descriptive research design whilst combining some short time series and cross-sectional data sets. The study has been based on both quantitative and qualitative data. This analysis primarily used secondary data obtained through engagements with relevant stakeholders, desk review of relevant documentation and published evidence. Some primary data was also collected through key informant interviews with relevant stakeholders. The quantitative data collected was analysed using summary statistics and graphs. These methods allowed for the collection of sufficient data to answer the objectives of the study.

PRESENTATION OF RESULTS

5.1 Comprehensive Analysis of the Tax Regime

The Zambian Ministry of Finance and National Planning formulates Zambia's tax policy which is implemented by the Zambia Revenue Authority (ZRA). The legal framework guiding tax regulation and administration in Zambia is provided for in the Incomes Tax Act cap 323 of the Laws of Zambia, as amended[1]. The ZRA registers tax accounts and Taxpayer Identification Numbers (TPINs) for both individual and non-individual taxpayers including corporates.

Zambia primarily employs a source-based income taxation system. Income deemed to be derived from Zambia is generally subject to Zambian income tax. However, a person's or entity's residence in Zambia broadens the scope of taxation to include foreign interest and dividend income. As a result, Zambian residents will be taxed on interest and dividends received from sources other than Zambia.

A non-Zambian resident enterprise with a Permanent Establishment (PE) in Zambia must pay Corporate Income Tax (CIT) on its Zambian-sourced income. If there is no PE, the non-Zambian resident's Zambian-source income may still be subject to Withholding Tax (WHT), which is generally deducted at source.

The standard CIT rate on taxable income of corporate entities (other than individuals) is 30% (2022 National Budget). Small businesses that are unable to keep adequate records for effective tax assessments are subject to base tax, which is levied at ZMW 365 per year. Small traders in markets are typically affected by this.

A progressive tax system implies that higher tax rates are applied on those with high income and lower tax rates on those who earn less. A progressive tax is usually segmented into tax brackets that progresses to successively higher rates as the income increases. In this way the advantage of a progressive tax regime is proper distribution of the tax burden. Progressive taxation has direct effect on decreasing income inequality as it improves the purchasing power of the poor hence stimulating the economy. This is especially true if the progressively collected tax income is used to fund progressive government spending such as social sector investments.

An example of a progressive tax is PAYE which has different tax bands for different income categories and a minimum tax-free threshold. For instance, in the charge year 2020 individuals earning less than ZMW 4,000 were not liable to PAYE. In the charge year 2022 however, the government has proposed to raise the tax-free exempt to ZMW4,500 in order to increase people's disposable incomes amidst rising inflation.

[1] https://www.parliament.gov.zm/node/1292

On the other hand, the Zambian tax regime currently also has some regressive taxes. Examples of these are consumptive indirect taxes mostly levied on goods and services such as VAT and excise duties. These taxes mostly apply a single tax rate, regardless of the income of the taxpayer, which results in them having varying effects on people of different income levels and spending habits. For instance, a person who has ZMW 1, 000 to spend is taxed at the same rate as someone who has ZMW 10, 000. Thus, the tax system puts a higher burden on low-income earners compared to high-income earners, as most essential goods are taxable with only a few being tax exempt and zero-rated. The disadvantage of regressive taxation is potential negative impact on both inequality and poverty levels through the direct effect of decreasing the ability of low-income earners to afford a decent standard of living.

Progressivity can be applied to individual taxes or to a tax system. Generally, indirect taxes are less progressive than direct taxes because low-income households spend a larger share of their income to fulfil basic needs. Therefore, a tax system that relies more on indirect consumption taxes rather than direct income taxes is perceived regressive. Looking at the Zambian tax system holistically, it is seemingly progressive as on average 54 percent of the tax revenue is raised through direct income taxes which are well graduated with thresholds. There is, however, room to enhance the progressivity of the system through reduction of the VAT and exempting or zero-rating most basic products such as essential commodities.

It is necessary to raise domestic resources through taxation, but it is also important for countries to be able to generate sufficient public resources in a way that does not place undue burdens on the poor and marginalised people of society. It is therefore important to use tax systems to promote gender equality because if men and women face different socioeconomic realities, tax systems will affect them in different ways. Some of the socioeconomic differences between men and women include gender differences in paid employment, women's work in the unpaid care economy; gender differences in consumption expenditure and gender differences in property rights and assets (Grown & Valodia, 2010). These inherent differences imply that the same tax system will have different effects on men and women.

Biases on women in the tax system are due to the position of women in the household and the economy (Joshi, 2017). Thus, although tax systems that disadvantage women are rare, inherent in some tax systems are explicit and implicit biases that advantage or disadvantage women. Explicit gender biases occurs when tax legislation contains specific provisions that treat men and women differently. Implicit gender biases occur where tax legislation intersects with gender relations, norms, and economic behaviour (UNDP, 2010). According to key informants from ZRA and according to the current tax policy, the Zambian tax system is generally fair for men and women as tax laws are the same regardless of gender.

However, there are two areas in the tax system in which there are implicit gender biases. These are in terms of direct income and consumption taxes. Women's participation in formal employment,

which bears the burden of income taxes through the PAYE, for instance is low and therefore women are unlikely to bear a huge burden of income taxes. A higher proportion of women are in informal employment, which is not currently taxed as personal income. According to the 2019 Labour Force Survey, 42.9 percent of women are informally employed while only 30.1% are in formal employment (ZSA, 2020). In this regard, the tax system remains unintentionally progressive and does not disadvantage women.

Another implicit gender bias is in line with indirect consumptive taxes such as VAT. Although disaggregated data on consumption is not readily available, women and men have systematically different consumption patterns and are therefore affected differently by consumption taxes. Women generally spend more on food and other basic needs, therefore, a tax system that taxes consumption of basic goods and services may indirectly place a heavier tax burden on women.

In the Zambian tax system, most products are VAT standard rated while a few are VAT exempt and zero-rated and due to different spending patterns women may bear a heavier burden of this tax in comparison to men. This argument, however, may be argued against on the basis that most spending is done at household level and therefore it may be difficult to ascertain consumption patterns (Joshi, 2017). Nevertheless, although it may not be clear who bears the burden of VAT between men and women, reducing the VAT tax rate, which currently stands at 16 percent, and exempting more basic-need products would reduce the tax incidence on both men and women.

Tax policy adjustments that reducing CIT mostly benefit men who own most of these corporations while shifting the burden of taxation to regressive consumptive taxes. Tax administration inadequacies resulting in tax avoidance and evasion by multinational corporations also contribute to reducing tax revenue and therefore resources available for service delivery such as education and health, which disproportionately affects women.

Therefore, to make the tax system gender responsive and reduce the tax incidence on women while at the same time increasing DRM, there is need to reconfigure the tax policy. The tax policies should work towards improving tax administration to reduce revenue leakages, minimise tax breaks given to corporations as well as improving collection of taxes such as property taxes, which mainly increase the incidence on men. Generally, looking at the tax system without disaggregated tax payment data, none of the taxes are absolutely disadvantaging women.

As a proxy for tax payment data, a summary of tax registrations for individuals by tax type, gender and year, shows that generally more men are on average registered as taxpayers by ZRA than women.

Table 1: Tax Account Registrations by Tax Type and Gender, 2016-2020

Tax Type	2016		2017		2018		2019		2020	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Employment Tax (PAYE)	695	6,892	1,197	6,245	597	3,773	116	630	291	613
Domestic Excise	-	-	-	1		-	-	1	4	19
Withholding Tax	267	414	329	552	1,393	2,185	675	1,154	232	432
Presumptive Tax	78	443	96	519	124	663	141	627	27	133
Total	**4,058**	**14,461**	**5,729**	**15,721**	**6,680**	**14,857**	**13,058**	**15,527**	**1,995**	**4,398**

Source: Zambia Revenue Authority

In most countries where data is available, women out-number men in non-agricultural informal employment[2]. In Sub-Saharan Africa, 74% of women's (non-agricultural) employment is informal, compared to 61% of men[3]. "Comparatively informality has a gender bias in South Asia." Women are slightly more likely than men to be involved in the informal economy and significantly more likely than men to work as informal workers in the formal sector[4]." Therefore, any advances in taxing of the informal sector may lead to a heavier tax burden on women.

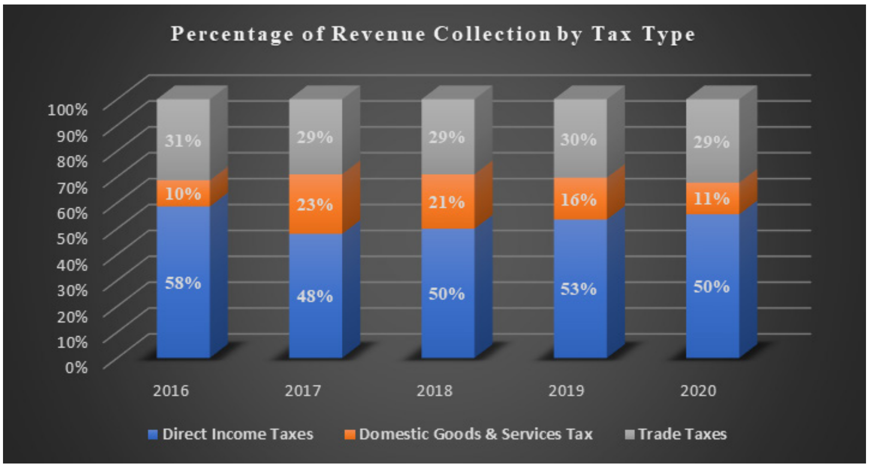
5.2 Tax Incidence Analysis for the Major Tax Types

The taxes, through which the government of Zambia is currently collecting revenue, include direct and indirect taxes. These taxes are usually adjusted each budget year and this analysis is based primarily on the taxes as levied in the 2016 -2020 budget years. Direct taxes include personal income tax, company income tax, PAYE, and turnover tax. Indirect taxes include VAT, presumptive tax and withholding tax. In order to understand the tax incidence, the paper analysed the tax collection data for the major tax types over a 5-year period (2016-2020).

5.2.1 Tax Revenue by Type

Tax revenues are divided in three broader categories in Zambia, and these are Direct Income Tax (Company Income Tax, Pay as You Earn, Withholding Tax, and Extraction Royalty), Domestic Goods and Services Tax (Excise Duties, Domestic Value Added Tax, and Insurance Premium Levy) and Trade Taxes (VAT on Imports, Import Tariffs and Export Duty). Figure 1 below gives the tax revenue according to the three categories for the period 2016-2020.

Figure 1: Tax Revenue by Tax Type, 2016 – 2020 (Percentage)



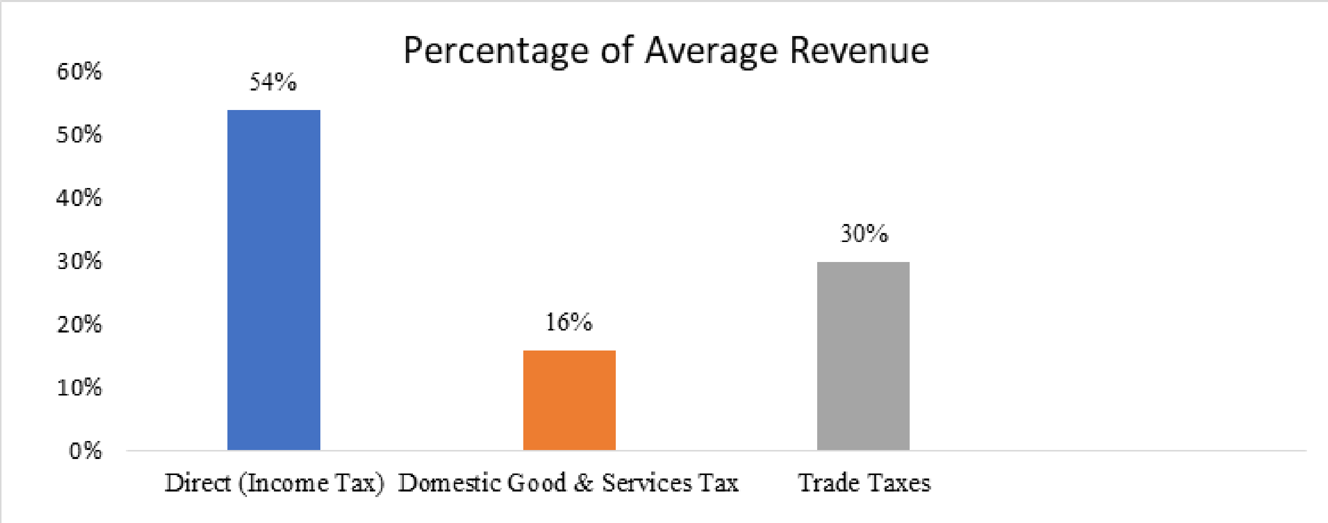
Source: Source: Author's own computation from ZRA Tax Statistics in Zambia 2020

[2] http://www.oecd.org/gender/data/womenandinformality.htm
[3] http://www.ilo.org/addisababa/whats-new/WCMS_377286/lang--en/index.
[4] https://www.ilo.org/newdelhi/areasofwork/informal-economy/lang--en/index.htm

5.2.1.1 Direct Income Taxes

It is clear from Figure 1 that direct income taxes account for the larger share of the annual tax revenue. The second largest contributor to tax revenue is trade taxes with the least being domestic goods and services taxes.

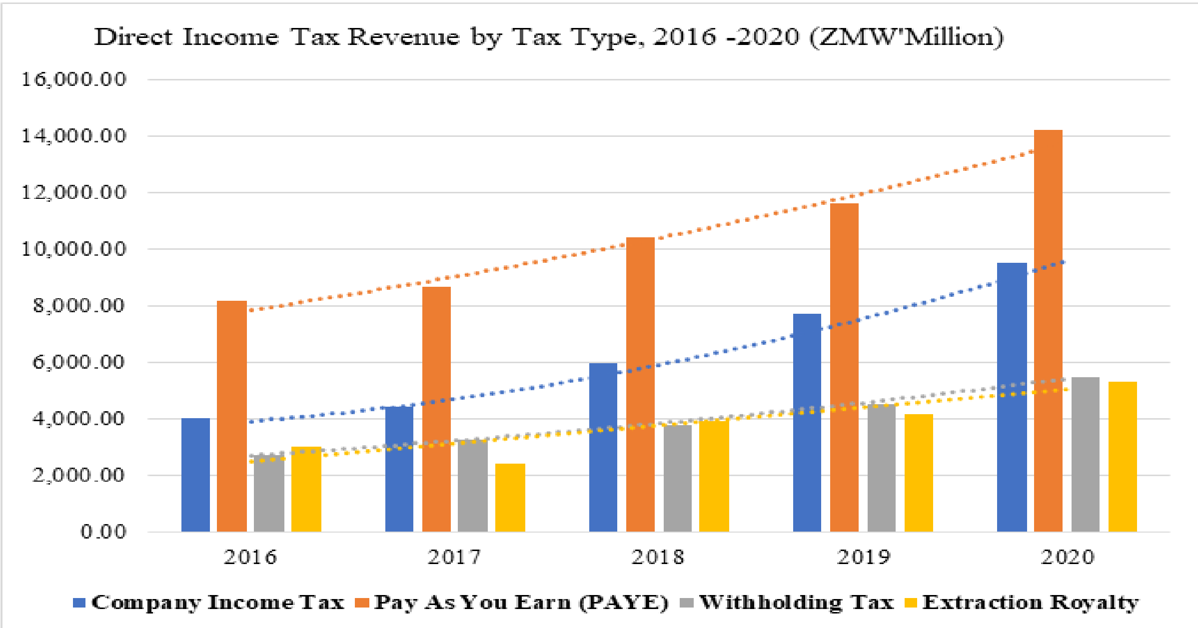
Figure 2: Percentage of Average Taxes by Tax Type, 2016-2020



Source: Author's Own Analysis of Data from ZRA Tax Statistics in Zambia 2020

As shown in Figure 2, the major tax category by average annual collection is direct income taxes, contributing to on average 54 percent of the tax revenue. This is followed by trade taxes, which account for 30% of average annual tax revenue and lastly domestic goods and services tax contributes 16% to the annual total revenue collected.

Figure 3: Direct Income Tax Revenue by Tax Type, 2016 – 2020 (ZMW' Million)

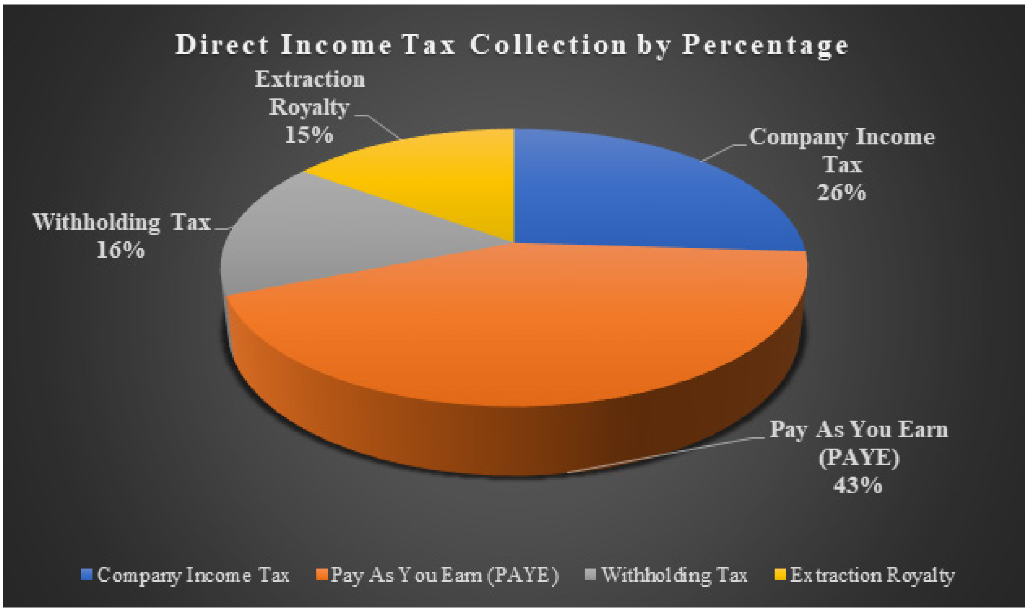


Source: Author's Own Analysis of Data from ZRA Tax Statistics in Zambia 2020

All direct income taxes increased from 2016 to 2020, partly due to pressure to meet revenue targets and close the country's fiscal deficit. PAYE was the largest contributor to direct income taxes, followed by corporate taxes, withholding taxes, and lastly, extractive royalty in fourth place.
As far as income taxes are concerned the burden of taxation lies on households, especially those formally

employed who bear the burden of PAYE. Most of these PAYE taxpayers are in the lowest tax band. However, those who are self-employed as well as those employed in the informal economy are benefiting, albeit unintentionally, from the low formalisation of the large Zambian informal sector as well as the weak enforcement by the ZRA to require all citizens to file income tax returns.

Figure 4: Average Direct Income Taxes by Percentage



Source: Author's Own Analysis of Data from ZRA Tax Statistics in Zambia 2020

Figure 4 depicts the average five-year period for direct income tax. PAYE accounted for 43 percent of direct income tax revenue, with Company Income Tax accounting for 26 percent. Withholding Tax and Extraction Royalty are the two smallest contributors, accounting for 16 percent and 15 percent of annual direct income tax revenue, respectively.

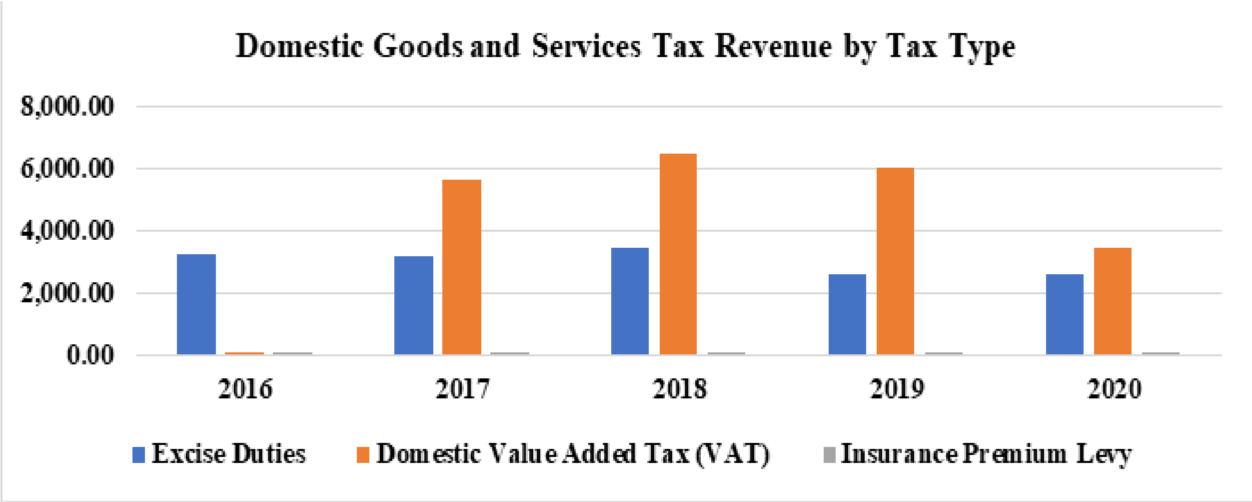
The company income tax with a 26 percent average contribution is the second largest contributor to the income tax revenue. However, due to the lowering of the company income tax rate from 35 percent to 30 percent for the 2022 charge year the burden of tax on corporates will reduce slightly. Further, for mining companies, the reintroduced deductibility of mineral royalty taxes is posed to reduce the effective company income rate (PwC, 2021).

While these company income tax incentives are aimed at stimulating productivity, investment and economic growth, on the negative side they translate into revenue forgone thus transferring the burden of taxation from firms to households. This leaves members of the public worse off because when the government offers tax breaks to firms, in order to maintain the domestic resource envelope, the government will need to increase some taxes, fines and fees.

5.2.1.2 Domestic Goods and Services Tax Revenue

This section focuses on three key taxes that fall under the Goods and Services Tax Revenue category: excise duties, domestic value added tax, and insurance premium levy.

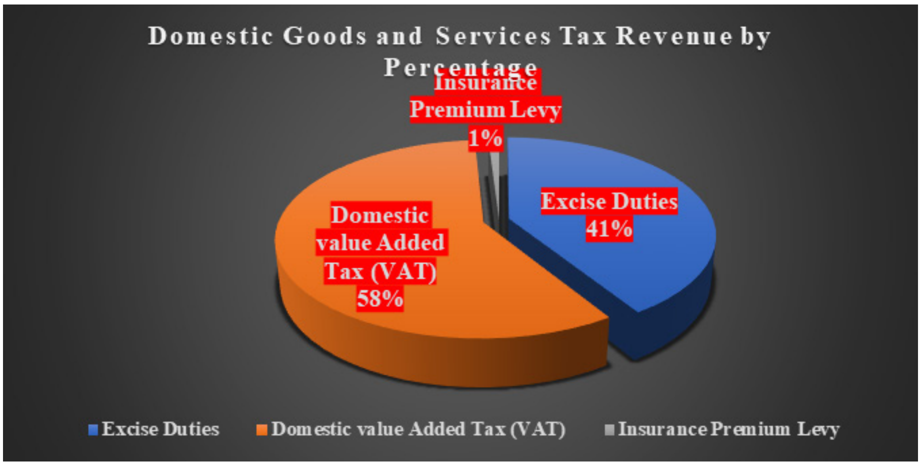
Figure 5: Domestic Goods and Services Tax Revenue by Tax Type, 2016 – 2020 (ZMW' Million)



Source: Author's own analysis of data from ZRA Tax Statistics in Zambia 2020

According to Figure 5, excise duty has been generally decreasing over the five-year period, while domestic value added increased sharply between 2016 and 2018. The insurance premium levy has also increased, with the highest recorded in 2018 over a five-year period, but it has generally been fluctuating.

Figure 6: Average Domestic Goods and Services Taxes by Percentage



Source: Author's own Analysis of Data from ZRA Tax Statistics in Zambia 2020

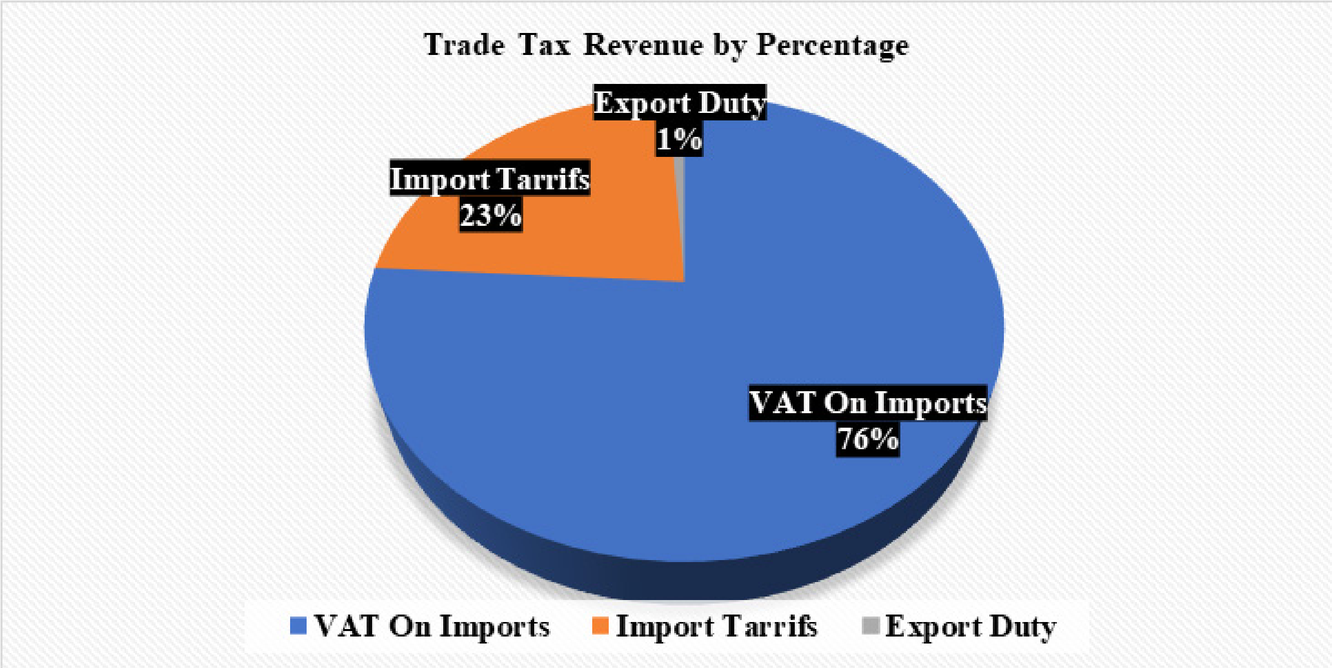
Figure 6 shows that on average, Domestic Value Added Tax (VAT) is the largest contributor to domestic goods and services tax revenue, accounting for 58 percent annually. Excise duties are the second largest contributor, accounting for 41 percent annually. The Insurance Premium Levy is the smallest contributor, accounting for 1 percent of the annual domestic goods and services tax collected.

In terms of domestic goods and services taxes and trade taxes, domestic VAT and import VAT are the major contributors to tax revenue. Given the fact that the ultimate payers of value added taxes are the consumers of these goods and services, the burden falls on consumers - the general citizenry. The larger share of VAT in annual tax revenue implies that the tax incidence, where VAT is concerned, lies with individuals, which lowers their purchasing power and thereby standard of living.

5.2.1.3 Trade Taxes Revenue

This section focuses on three key taxes that fall under the category of Trade Tax Revenue: VAT on Imports, Import Tariffs, and Export Duty.

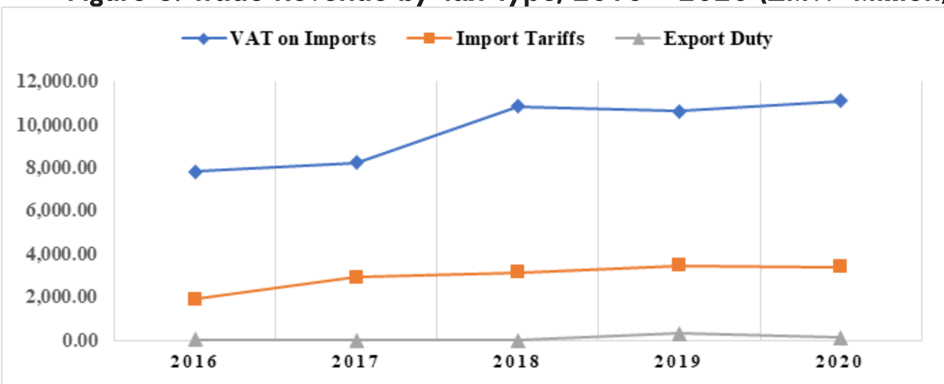
Figure 7: Average Trade Taxes by Percentage



Source: Author's own analysis of data from ZRA Tax Statistics in Zambia 2020

Figure 7 depicts the five-year average of trade revenues. Among the trade taxes, VAT on imports contributed the most to tax revenue. Import VAT accounts for 76 percent of total revenue collected. This followed by Import Tariffs, which contributed 23 percent, and Export Duty, which contributed 1 percent on average per year. An improvement in the country's exports has potential to increase the country's revenue base by increasing the share of export taxes in trade taxes.

Figure 8: Trade Revenue by Tax Type, 2016 – 2020 (ZMW' Million)



Source: Author's Own Analysis of Data from ZRA Tax Statistics in Zambia 2020

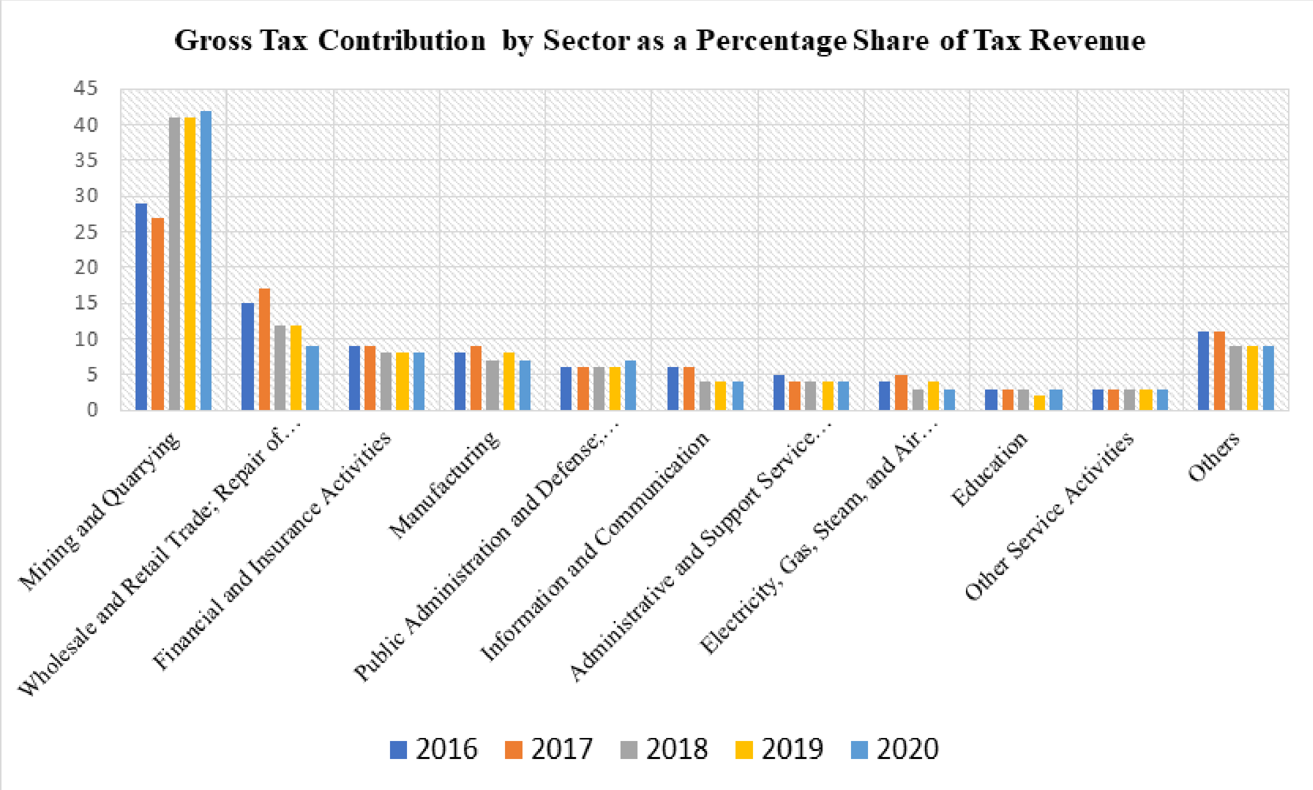
5.2.1.4 Tax Revenue Contributions by Sector

Figure 9 below shows the Gross Tax Revenue Contributions by Sector2016-2020. There are ten identified sectors with the rest combined as "others" in the analysis. The mining and quarrying sector is the largest contributor to the tax revenues. Hereafter wholesale and retail trade, followed by "others", financial and insurance activities, manufacturing, and publication administration in sixth position.

However, it must be mentioned that some sectors such as the mining sectors are entitled to tax refunds, such as the refund of input VAT[5] . Although VAT is not the biggest tax paid by mines, this has an effect of reducing their effective tax rate, which lowers the total contribution of the sector to the domestic revenue. It is interesting to note that even as the nation was grappling with debt, in 2020 Zambia paid out ZMW 8.5 billion as part of settling the 2020 VAT refunds owed to the mines[6].

[5] https://media.africaportal.org/documents/a_guide_to_mining_taxation_in_zambia.pdf
[6] https://www.reuters.com/article/uk-zambia-debt-idUSKBN29I1BT

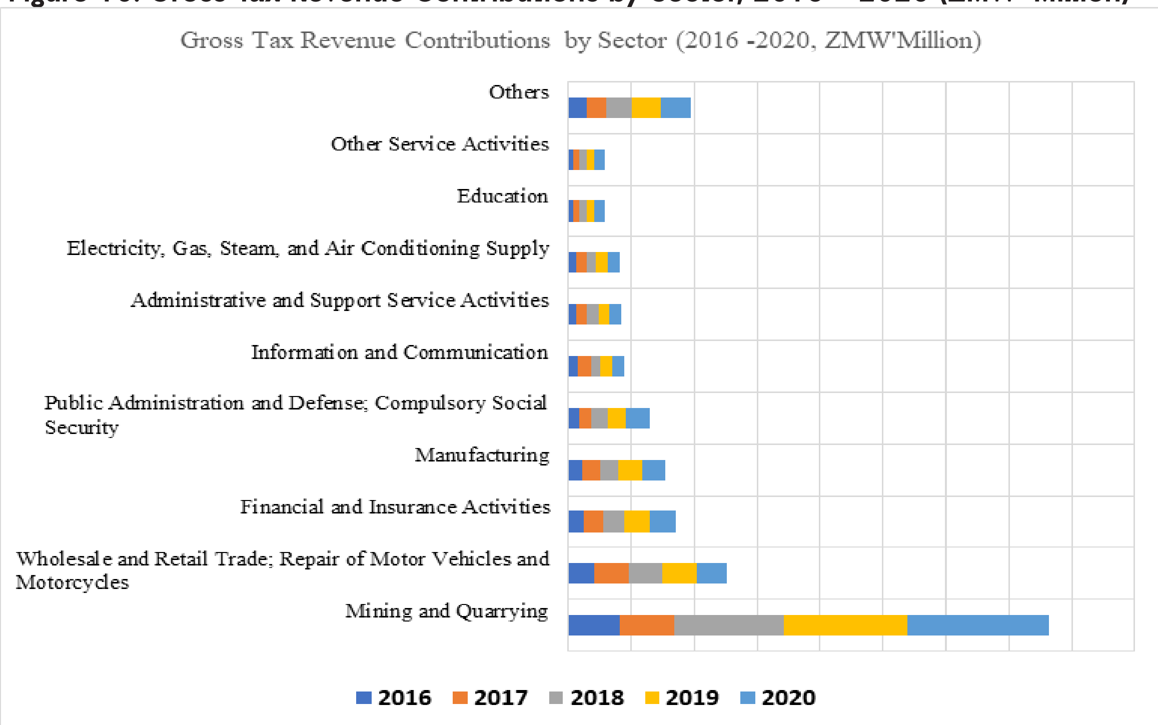
Figure 9: Gross Tax Revenue Contributions by Sector, 2016 – 2020 (ZMW' Million)



Source: Source: Author's own computation from ZRA Tax Statistics in Zambia 2020

It is very clear from the results that there is room to exploit the other sectors with lower contribution such as Information and Communications Technology, Administrative and Support services, Electricity, Gas, Steam and air-conditioning, education, and other service activities.

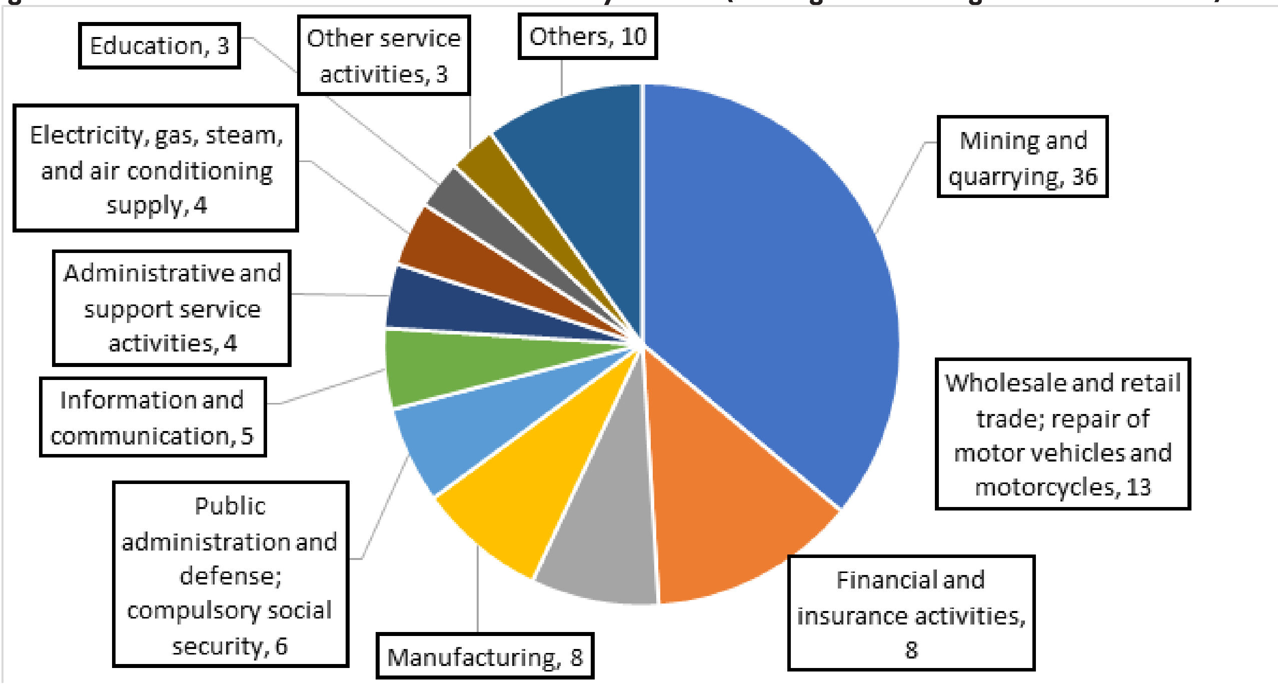
Figure 10: Gross Tax Revenue Contributions by Sector, 2016 – 2020 (ZMW' Million)



Source: Source: Author's own computation from ZRA Tax Statistics in Zambia 2020

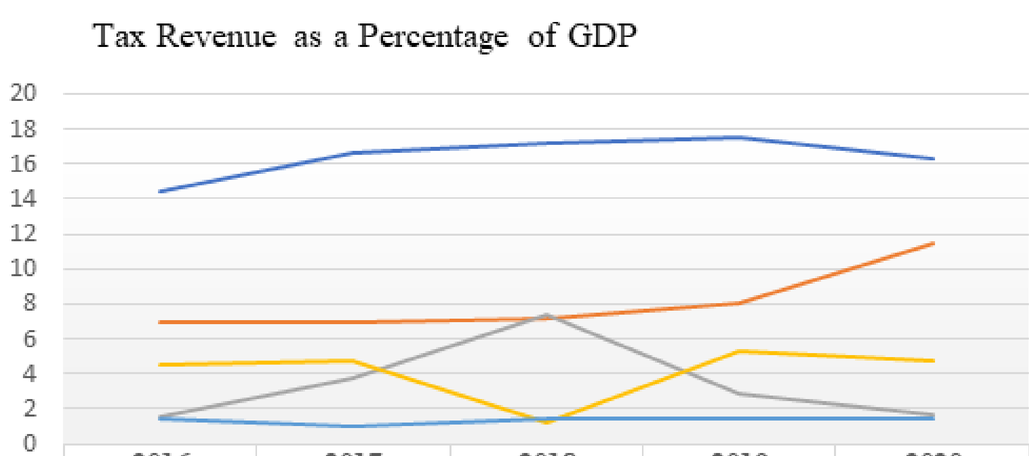
According to figure 11, in terms of gross annual total revenue collected, mining and quarrying is the largest tax contributor accounting for on average 36 percent of annual gross tax collection. Following wholesale and retail trade; repair of motor vehicles and motorcycles, and an aggregate of other sectors contributing on average 13 percent and 10 percent respectively to the total annual tax revenue.

Figure 11: Gross Tax Revenue Contributions by Sector (Average Percentage of Tax Revenue)[7]



Source: Source: Author's Own Computation from ZRA Tax Statistics in Zambia 2020

Figure 12: Tax Revenue as a Percentage of GDP



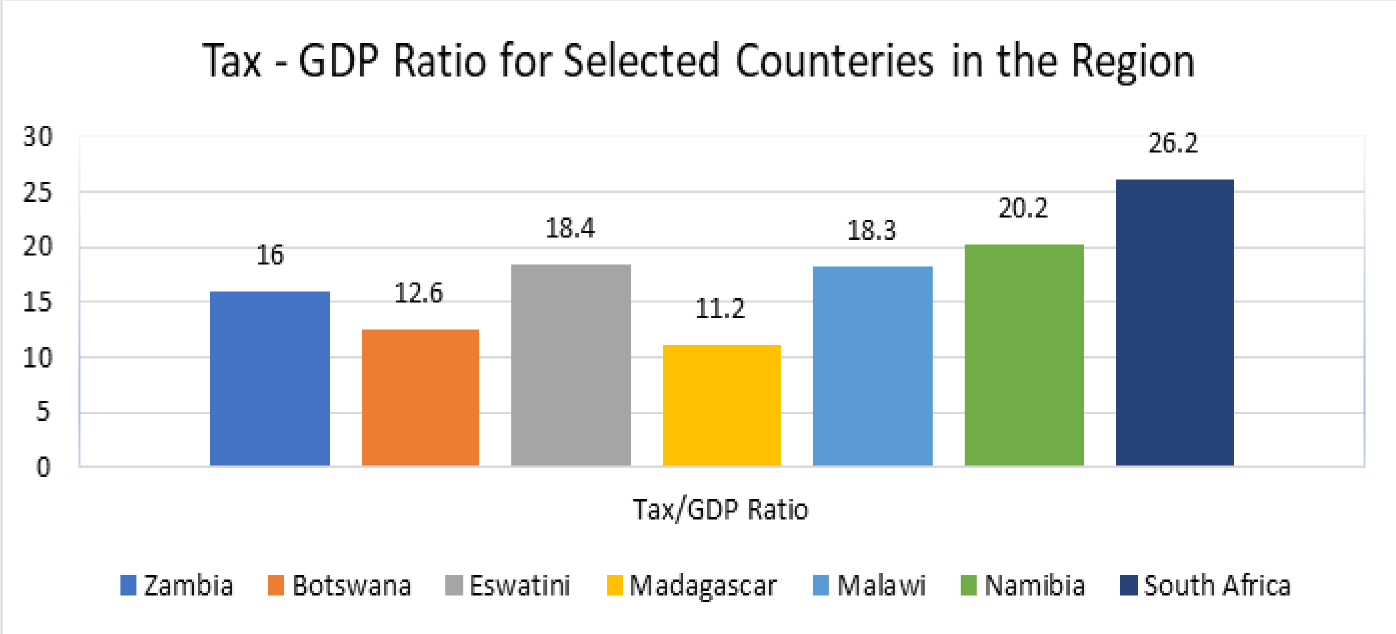
	2016	2017	2018	2019	2020
Total Revenue	14.4	16.6	17.2	17.5	16.3
Direct Taxes	6.9	7	7.2	8	11.5
Indirect Taxes	1.6	3.8	7.4	2.9	1.7
Trade Taxes	4.5	4.8	1.2	5.3	4.8
Extraction Royalties	1.4	1	1.4	1.5	1.5

Source: Source: Author's Own Computation from ZRA Tax Statistics in Zambia 2020

From 2016 to 2020, the tax-to-GDP ratio increased from 14.4 percent in 2016 to 17.7 percent of GDP in 2020.

[7] Wholesale and retail trade; repair of motor vehicles and motorcycles

Figure 13: 2019 Tax – GDP Ratio Comparison for Selected Countries in the Region



Source: Author's Extraction from 2020 ZRA Tax Statistics[8] and Revenue Statistics in Africa 2021[9]

When the share of extraction royalty is deducted from the 2019 ZRA Tax-GDP ratio in order to make comparison with other countries, it is clear that Zambia's Tax-GDP ratio falls below those of most of the countries in the SADC region as is indicated in figure 13 above which points to the fact there is need for improvement. A sign of the capacity for improvement in terms of DRM is clear in the Ministry of Finance's budgetary target to increase domestic revenue to not less than 21 percent of GDP in 2022[10].

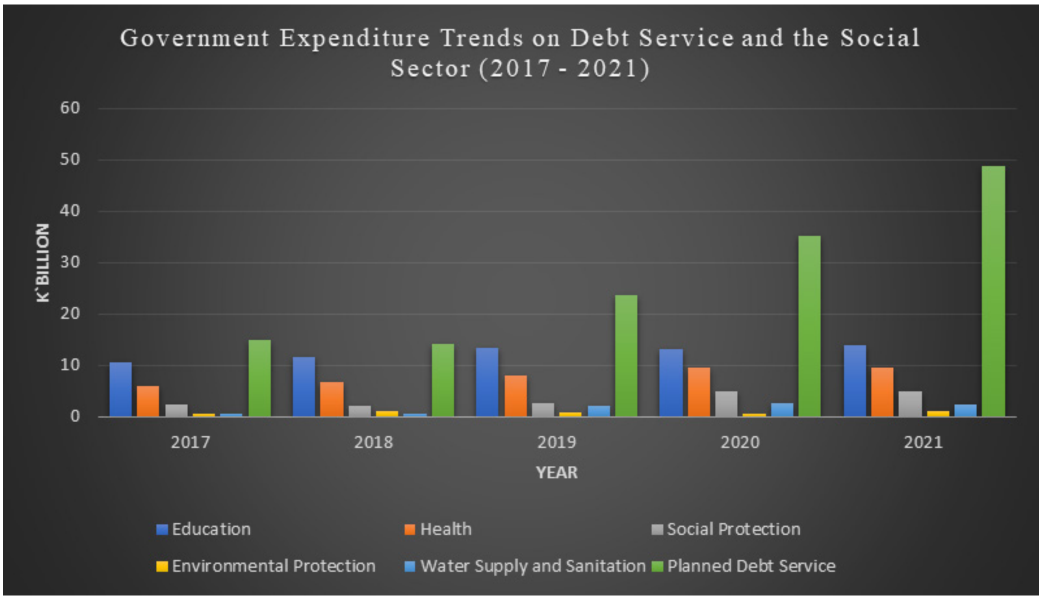
5.3 Government Expenditure Trends and Implications of Domestic Resource Mobilization

There has generally been a gradual increase in funds allocated to the social sector over the past few years. For instance, in 2011, Government planned to spend ZMW3.8 billion, ZMW1.7 billion and ZMW550 million on education, health and social protection respectively. Over the years, these allocations have increased significantly. By 2020, Government allocations to education, health and social protection had increased to ZMW13.1 billion, ZMW9.7 billion and ZMW4.8 billion respectively.

According to figure 14, the hierarchy in social sector spending suggests that between 2017 and 2020, the highest allocation to the social sector has been towards education and then followed by health, social protection, and environmental protection respectively. Over the same period, expenditure on water supply and sanitation has been very small, standing below ZMW3 billion annually. However, in the recent past, spending on debt servicing has also been on the rise. This is largely attributed to the huge debt that Zambia has accumulated over the years. Amongst others, Zambia issued a US$750 million Eurobond in 2012 followed by US$1 billion and US$1.25 billion Eurobonds in 2014 and 2015 respectively (Centre for Trade Policy and Development, 2019). This has led to a sharp rise in debt servicing costs above social sector spending especially after 2015.

[8] https://www.zra.org.zm/wp-content/uploads/2021/07/Tax-Statistics-2020.pdf
[9] https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf
[10] https://www.ilo.org/newdelhi/areasofwork/informal-economy/lang--en/index.htm

Figure 14: Government Expenditure Trends on Debt service and the Social Sector (2017 – 2021)

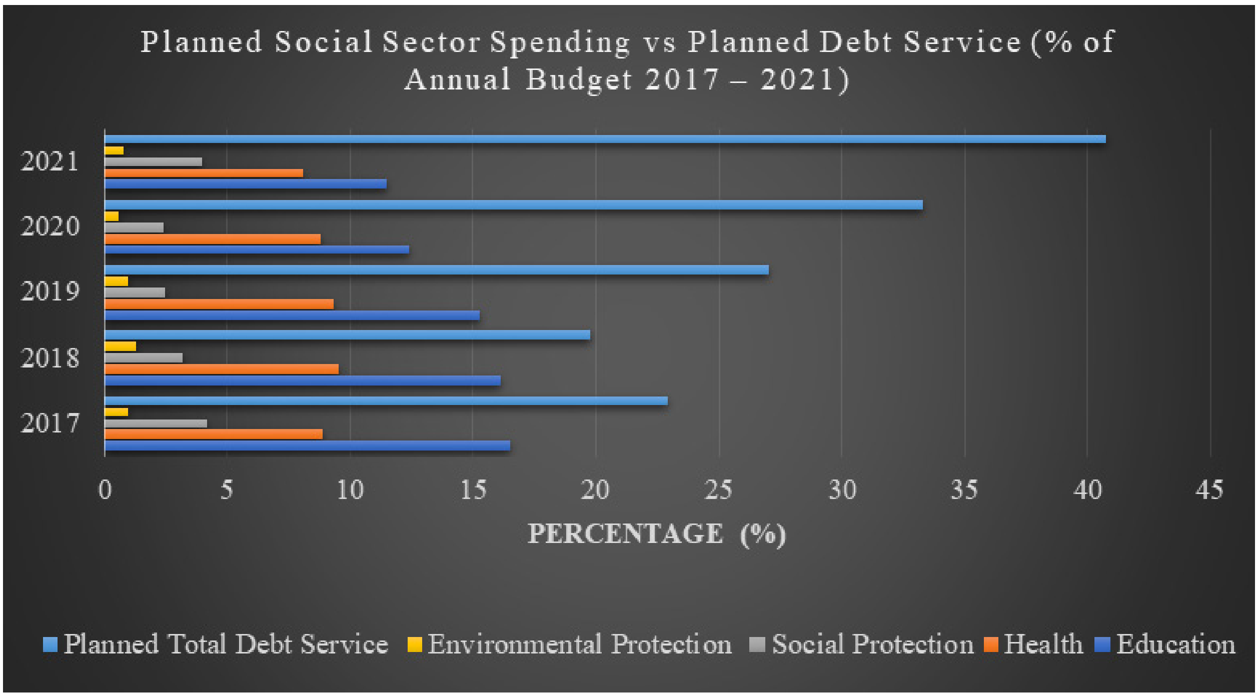


Source: Author's Own Analysis of Data from 2017 – 2021 National Budgets

Public spending as a percentage of the annual budget, especially to the social sector, has been viewed as a useful indicator of Governments commitment to public welfare. Moreover, Government is a signatory to several regional and international treaties such as the Abuja declaration on health and the Incheon Declaration on education which recommend a minimum budgetary allocation of 15 percent and 20 percent respectively.

However, as shown in figure 15, despite the increase in planned social sector spending overtime, planned social sector spending as a percentage of the annual budget has been on a declining trend. On the other hand, debt service as a percentage of the annual budget shows an increasing trend between 2017 and 2021 with a sharp increase around 2018.

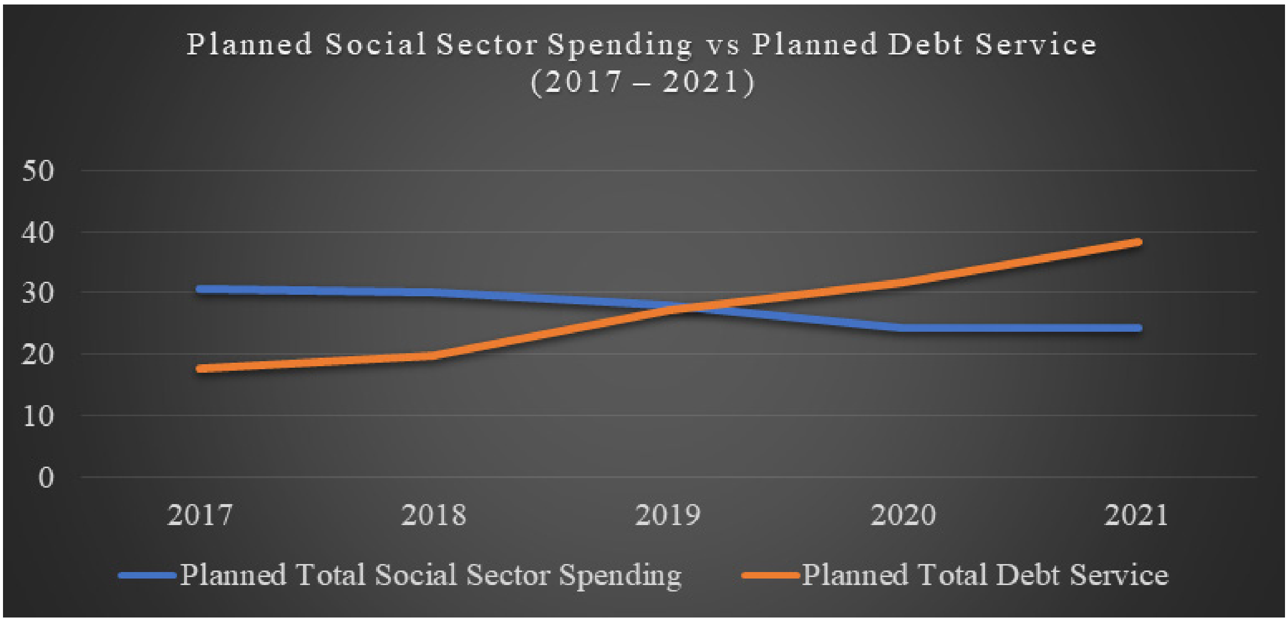
Figure 15: Planned Social Sector Spending vs Planned Debt Service (2017 – 2021)



Source: Author's Own Analysis of Data from Previous Annual Budgets

Despite the decline in social sector spending and a corresponding increase in spending on debt service, data obtained from the annual budgets as shown in figure 16 below shows that between 2017 and 2019, planned total social sector spending was above planned total spending on debt service.
However, after 2019, planned total spending on debt service rose above planned total social sector spending. This shows a drift of Government commitment from the social sector to servicing debt. Consequently, Zambia has underperformed in meeting the regional spending benchmarks in the health and education sectors.

Figure 16: Planned Total Social Sector vs Planned Total Debt Service 2017 – 2021 (ZMW' Billions)



Source: Author's Own Analysis of Data from Previous Annual Budgets

This implies that without a corresponding rise in Government revenue, social sector spending gets negatively affected. When spending on the social sector is compromised, the provision of social services such as health and education are compromised. It also means that the Government's coverage of social protection programs including the disbursement of social protection amenities is compromised.

5.3.1 The IMF Extended Credit Facility for Zambia

Towards the end of 2021, the Zambian Government reached a staff-level agreement with the International Monetary Fund[11] pending the finalisation of an Extended Credit Facility Program. Prior to this, Zambia had committed to an ambitious economic reform program aimed at addressing the severe economic and social challenges facing the country. Some of the highlights of this program are to re-establish fiscal sustainability by tightening expenditure and restructuring debt.

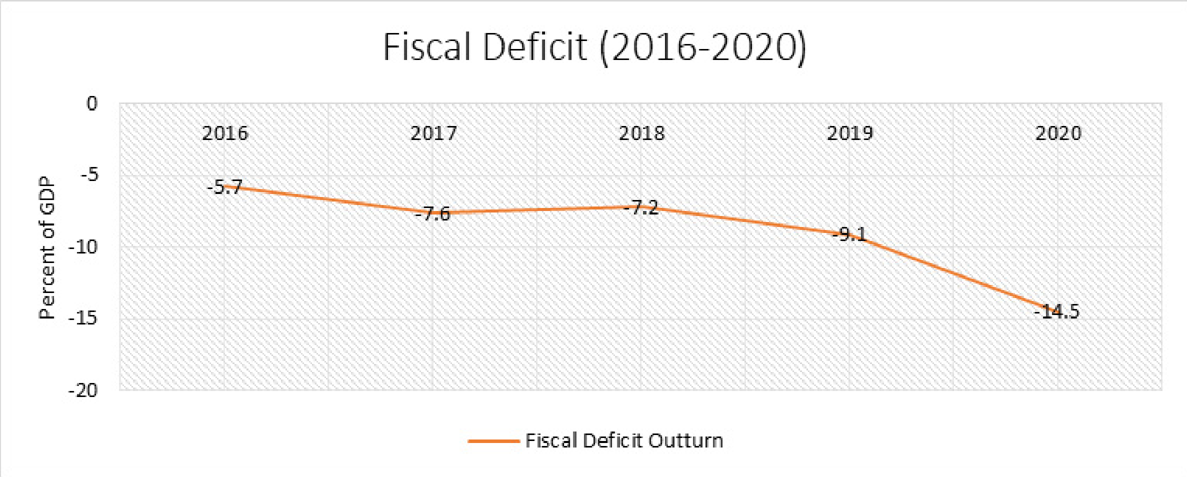
Zambia's fuel subsidy is approximately US$67 million per month, or US$800 million per year and its electricity subsidy is approximately US$40 million per month, or US$500 million per year. This equates to the Treasury spending approximately US$107 million per month, or US$1.3 billion per year, on fuel and electricity subsidies[12] . Earlier this year however, the Ministry of Finance announced the removal of subsidies on fuel, and this is estimated to save the country US$800 million annually (MOF, 2021). Amongst other factors, with the monthly fuel price reviews this has led to an increase in fuel prices, the petrol pump prices for instance has increased from ZMW 17.62 per litre in December to ZMW 26.50 per litre by the end of April. An absolute increase of ZMW 8.88 per litre.

The removal of subsidies was mainly driven by the agenda to enhance spending on social sectors such as greater investment in health and education and the delivery of more social benefits. Government has since scaled up the allocation to social protection programs, education, and health in its ZMW 173 billion 2022 national budget[13]. However, this budget still goes beyond the available domestic resources.

[11] https://www.aa.com.tr/en/africa/zambia-to-scrap-fuel-electricity-subsidies-as-part-of-imf-program/2442103
[12] https://www.lusakatimes.com/2021/12/06/zambia-is-spending-annually-1-3-billion-on-fuel-and-electricity-subsidies/#:~:text=Zambia's%20subsidy%20on%20fuel%20is,on%20fuel%20and%20electricity%20subsidies.
[13] https://www.parliament.gov.zm/sites/default/files/images/publication_docs/BUDGET%20SPEECH%20_%202022.pdf

DRM in Zambia is mainly collected through taxes, fees, and levies. The importance of efficiently conducting DRM cannot be over emphasised as domestic financing can be used to fund development. In the recent past, DRM in Zambia has been hampered by several inefficiencies such that Government expenditure has outpaced DRM leading to a fiscal deficit. When a country records a budget deficit, it usually turns to borrowing either from the domestic or international markets to finance the deficit.

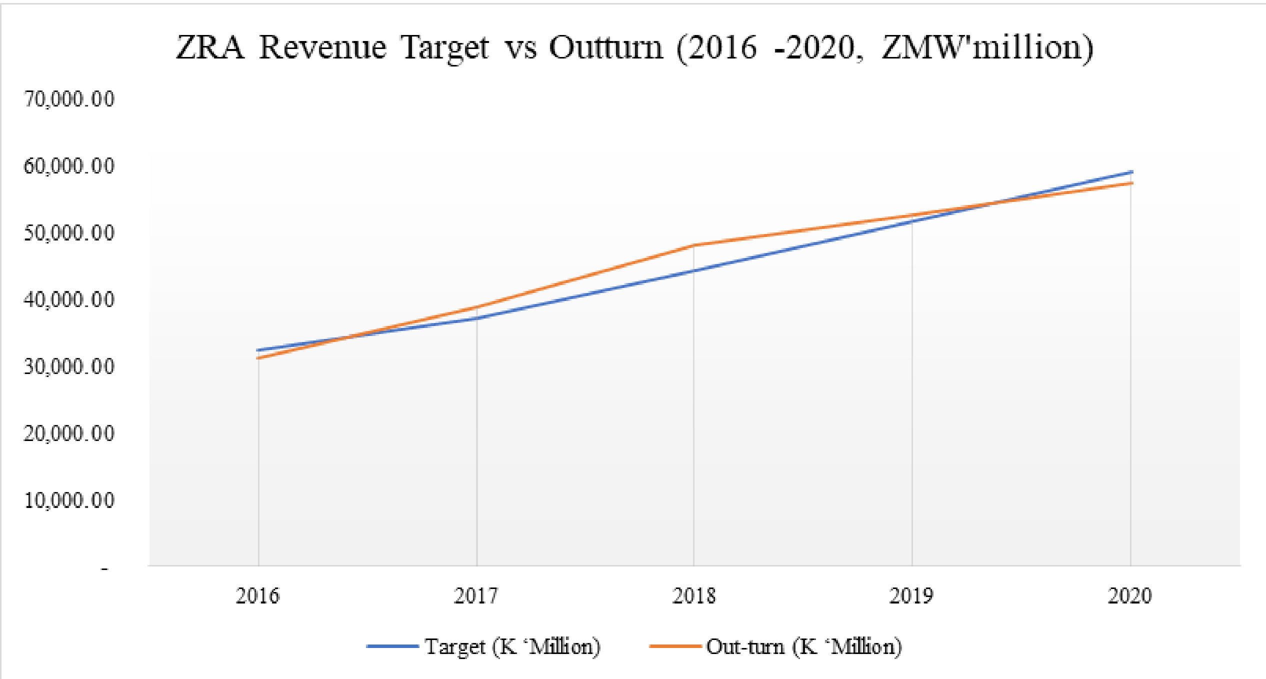
Figure 17: Fiscal Deficit, 2016-2020 (% of GDP)



Source: Author's Own Analysis of Data from the Annual Economic Reports

As shown in figure 17, between 2016 and 2020, Zambia's fiscal deficit has been increasing as can be seen by the downward trend from 5.7 percent of GDP in 2016 to 14.5 percent of GDP in 2020.

Figure 18: ZRA Revenue Targets vs Out-turn



Source: Author's Own Analysis of Data from ZRA Statistics (2020)

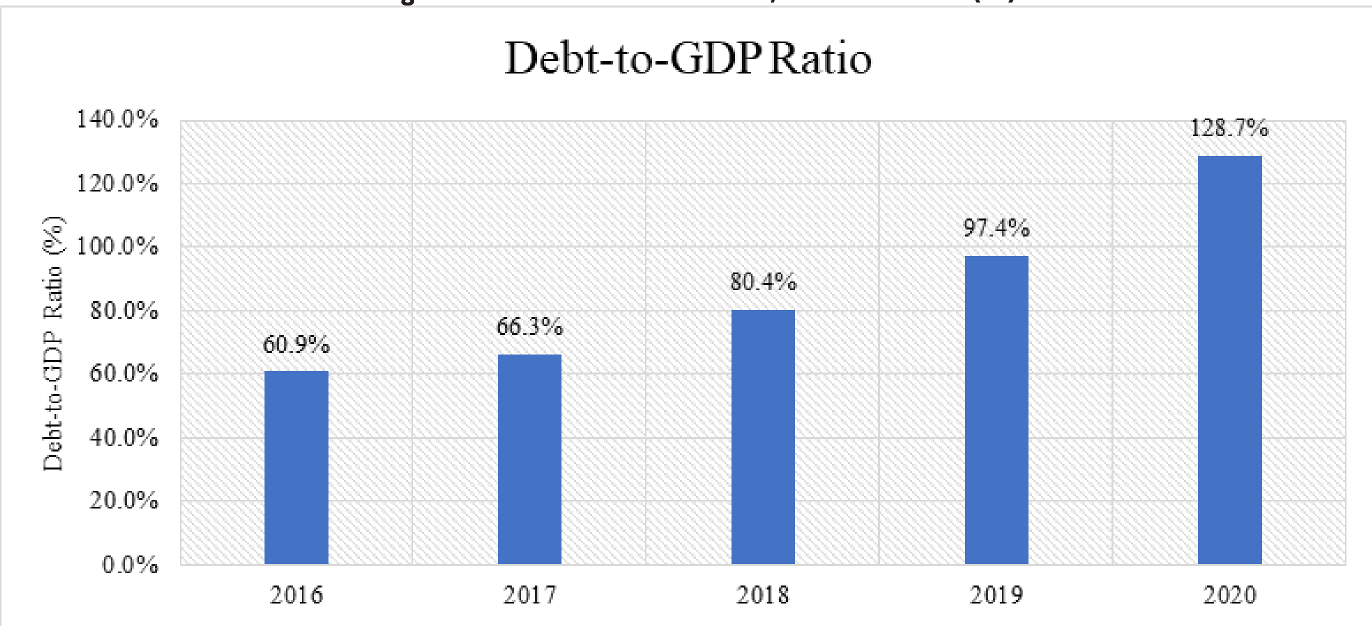
Although the ZRA meets it annual revenue collection targets[14] , something that the 2020 Tax Statistics in Zambia report captures, the country still falls short of collecting sufficient domestic resources. According to figure 18 above, the budget performance has recorded a deficit between 2016 and 2020. Furthermore, in the 2022 budget speech, the Minister of finance announced that by the end of 2021, the fiscal deficit had been projected to be 10.4 percent of GDP against the target of 9.3 percent. It is evident that although ZRA has mostly met its revenue collection targets in the recent past, the budget performance has remained poor.

[14] https://www.zra.org.zm/wp-content/uploads/2021/07/Tax-Statistics-2020.pdf

In the case of Zambia, borrowing to finance the deficit has led to a bulging debt stock to unsustainably high levels that are way beyond the recommended debt thresholds. Zambia's total public debt was US$ equivalent 26.44 billion excluding interest arrears as of end-June 2021, and US$ equivalent 26.96 billion including interest arrears. The external stock of Central Government debt, guaranteed SOEs loans, and non-guaranteed SOEs loans at the end of June 2021, excluding interest arrears, was US$12.91 billion, US$1.57 billion, and US$195.7 million, respectively[15]. Zambia has already defaulted on two Euro bonds indicating that servicing these interest and principal payments together with the other outstanding debt will be a challenge.

According to Reinhart and Rogoff (2010), Public debt is categorised into four arbitrary debt regimes: low public debt (below 30 percent in ratio of GDP), medium-low public debt (between 30 percent and 60 percent), medium high public debt (between 60 percent and 90 percent) and high public debt (above 90 percent). As shown in figure 19 below, Zambia's debt to GDP ratio has been on the rise from 2016, and currently the country is in high public debt - with a debt to GDP ratio above 100 percent.

Figure 19: Debt-to-GDP Ratio, 2016 – 2020 (%)



Source: Author's Own Analysis of Data from IMF

5.4 Implementing a Robust Progressive Wealth Tax System in Zambia

A progressive wealth tax is an annual tax levied on the net wealth that a household (or an individual) owns above an exemption threshold (Saez & Zuchman, 2019). In societies where there is great economic inequality, progressive wealth taxation can be used to distribute the tax burden more fairly as well as raise the needed resources.

In the Zambian context, according to the World Inequality Lab (Robilliard, 2020), 60 – 65 percent of the national income is controlled by the top 10 percent of households. Furthermore, according to World Bank data[16] , in 2015, Zambia had a Gini coefficient of 57.1 compared to 59.1 and 53.3 in Botswana in Namibia respectively. South Africa remains the country with the highest level of income inequality in the world, with a Gini coefficient of 63.0 when last measured in 2014[14] . These statistics indicate high levels of income and by inference wealth inequality.

Wealth in the context of wealth taxation refers to financial and non-financial assets valued at their prevailing market prices. In this broad category of assets, cash and other financial assets are easier to value and therefore an easy target for wealth tax and fixed property, however, it is often subject to valuation and maybe difficult to tax.

[15] https://www.mof.gov.zm/?wpfb_dl=378
[16] https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZG
[17] Gini Coefficient by Country 2022 (worldpopulationreview.com)

The IMF highlights that although a wealth tax can contribute towards raising government revenue, evidence from the few countries that have enforced some form of the tax shows that its contribution towards national revenue is low, estimated to be between 1 - 2.6 percent of the total annual revenue collection. Further, the tax is faced with administration and enforcement challenges, which are not typically entailed in income taxes hence, making it difficult to implement.

These challenges include the difficulty of determining a fair market value of assets, uncertainty about valuation and tracing property owners and illiquid asset owners, who may not have ready cash to pay their wealth tax. These challenges are even greater in developing countries given the already inadequate tax administration capacity. Some of the taxes that may be seen to be wealth taxes include property taxes, withholding taxes on dividends, as well as the income collected in the top income tax brackets. Currently, Zambia does not tax property ownership, but only charges tax on property transfer as well as on rental income.

However, in as much as it is necessary to collect sufficient revenue using this tax, it is also important that it does not bring any distortions in the economy or target the most disadvantaged people. In terms of who is liable for the tax, in most countries where they at some point have had wealth taxes, the tax has been levied on individuals, unincorporated businesses and partnerships rather than corporations. Revenue authorities avoid double taxation by not applying the wealth tax on corporations, because company owners will pay wealth tax on the company shares. Like income taxes, the net wealth tax can be levied on both residents and non-residents with residents being taxed on all property at home and abroad, while non-residents are only taxed on property located in the taxing country.

Some of the ways to ensure only wealthy individuals are liable for wealth tax include setting a high threshold below which no tax is payable. Besides allowing for proper targeting, having a higher exemption limit helps make administration of the wealth tax easier, as it reduces the amount of taxpayers. It is also necessary to avoid taxing retirement funds due to possible distortionary pressures on savings, which may have a negative effect on investments and people's welfare in the economy. Furthermore, personal assets such as luxury vehicles, art and jewelry should be excluded when assessing an individual or entity's wealth for net wealth tax purposes due to valuation difficulties[18].

A study assessing the feasibility of introducing wealth taxation in South Africa estimates that after assessing the taxpayer base, a 30 percent evasion rate will need to be factored to have a good estimate of how much can be collected[19] . They attribute this to factors such as wealth held by potential wealth taxpayers in tax havens, wealth held in a country by foreigners and wealth held by citizens in foreign countries. Furthermore, it is important to keep the rate schedule low enough for the tax to be payable out of income, as some of the wealth that maybe be liable for the tax may be unproductive. When using progressive rates, the wealth tax rates can be as low as 1 percent and go as high as 10 percent depending on the level of wealth.

[18] The value of an asset under wealth taxes should reflect the price it would fetch by means of an open market valuation. However, open market valuation may rely heavily on assumptions. Therefore, where there is no active market, few transactions and/or where parties are not at arm's length, open market value will be difficult to determine.
[19] Available at: https://wid.world/document/a-wealth-tax-for-south-africa-world-inequality-lab-wp-2021-02/

In the Zambian Context, according to the information captured from key informants including the ZRA, "wealth somehow is already taxed through taxes such as those on capital gains and shares. However, the biggest asset is land, which still remains largely informal and unregistered" Other stakeholders felt that a progressive wealth tax system cannot be implemented in Zambia because

I. "Identifying the tax base (wealth) and changes in it would be a challenge".

II. "It would be difficult to accurately determine the fair market value of assets that lack publicly available comparable prices".

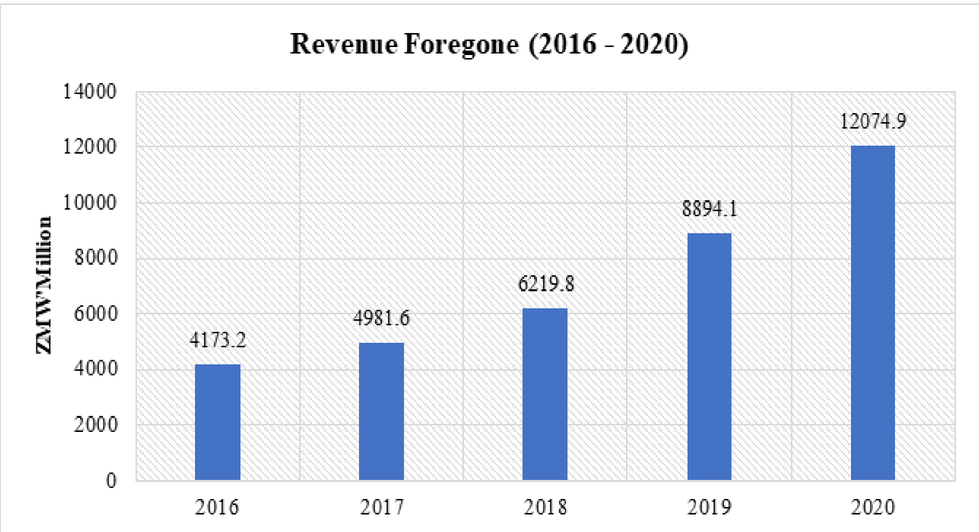
III. "Owners of high value illiquid assets may lack income to pay their wealth tax liability. For example, a retired employee who earns little income but owns a high value property may not have sufficient money to pay the tax due".

It is clear that the background for coming up with a robust and progressive wealth tax system is collecting data, which can reveal what people own and the value of their assets. This can serve the dual purpose of assessing the net wealth tax base and enhancing the integrity of the income tax system, by allowing the revenue authority to compare people's income and wealth. Coming up with a net wealth tax will also require ZRA, in conjunction with other agencies, to make it mandatory for individuals, and the bodies liable for the tax, to declare their wealth. Carrying out this information collection will help build transparency, show the size of the net wealth tax base, and allow for smooth implementation of a progressive net wealth tax.

5.5 Forgone Revenue in Current Tax System and Extent of Revenue Leakages

Zambia, like any other developing country, is faced with problems in its tax systems due to weak administrative and legal frameworks as well as lack of resources for monitoring economic activity. There are currently revenue leakages in the Zambian tax system due to inefficiencies in tax administration and the large informal sector (Nalishebo & Halwampa, 2014). These conditions create an environment conducive for tax evasion, tax avoidance and inability to tax certain economic actors hence, loosing revenue. Revenue foregone over the past few years is an increasing trend. ZRA highlights that Zambia foregoes revenue on account of trade related concessions and other concessions. Trade related concessions are attributable to SADC and COMESA trade protocols as well as discretionary tax policy measures implemented on account of various considerations by Government. Figure 20 shows the revenue foregone due to trade related concessions for the period 2016 to 2020.

Figure 20: Revenue Foregone due to Trade Related Concessions, 2016 -2020



Source: Zambia Revenue Authority Annual Reports (2016 – 2020)

The large number of business owners and employees in the informal sector contributes to income tax revenue leakages, because of the law's laxity in requiring citizens to file personal income taxes. This means that income tax from this category of income earners goes untaxed as they are not captured by PAYE. Other revenue leakages at individual level include the fact that individuals can evade tax on incomes such as interests, dividends and capital gains earned abroad by not disclosing it to the ZRA. Further, the non-formalization of businesses means that many businesses, especially SME's do not pay income taxes such as the turnover tax which they may be liable for.

Another source of revenue leakage is illicit financial flows. Most of the illicit financial flows in Zambia occur in the mining sector through trade mis-invoicing and transfer pricing in transactions between related legal entities within the same multinational enterprise (CUTS International, 2021). These transactions have the effect of transferring the earnings of companies to jurisdictions where they will attract less tax hence depriving the countries owning these resources of the much-needed revenue. Through these techniques and others, such as thin capitalization, multinational corporations can reduce their income tax liability by shifting profits from high tax rate countries to low-income tax countries. This has the effect of reducing their reported annual profits and therefore their tax bill, leading to ZRA losing out on this revenue. For instance, it is estimated that the Zambian government has been losing as much as US$2 billion annually as a result of tax avoidance and profit shifting by multinationals[20].

International double taxation has also contributed to revenue losses[21] in Zambia hence, compromising efforts to enhance DRM. The predicament of international double taxation may adversely affect the international flow and mobility of human, financial and investment resources, thus the international community has devised a mechanism to mitigate the incidence of double taxation[22]. Therefore, in order to provide tax certainty and minimize the incidence of double taxation, many countries including Zambia have resolved to sign tax treaties with other countries such as Double Taxation Agreements (DTAs) and Zambia has signed 22 DTAs[23] with various countries. However, Zambia's DTAs are signing away taxing rights and decreasing the sovereign policy space in Zambia[24], which hampers the possibilities of enhancing DRM.

[20] Microsoft Word - Glencore Mopani Tax Research - version post-signoff_2021.12.16 clean - errors edited clean (oxfamamerica.org)
[21] Under double taxation, revenue losses largely occur through foregone withholding taxes. Withholding taxes are particularly important to developing countries like Zambia which are net FDI recipients as they are easier to collect and also play an important role in curbing tax avoidance and evasion.
[22] Microsoft Word - Tax Systems (zambia.or.jp)
[23] ZAMBIA DTA WHT TAX RATES FOR 201929082019110729 (2) (1).pdf
[24] Consumer Unity & Trust Society: The Zambia Fair Tax Monitor (FTM) Gender Analysis Report, 2022.

Smuggling at points of entry has been another source of revenue leakages in Zambia. When goods are smuggled, the potential revenue that would have been raised by means of taxes and duties is lost. ZRA has since strengthened its capacity to minimize smuggling by making use of enforcement operations and sealing smuggling points and intercepting smuggled goods. This has led to a decline in the number of interceptions. Table 2 shows the number of interceptions from enforcement operations, value of goods, assessed taxes and revenue collected. For instance, table 2 shows that in 2018 without the interceptions, Government would have lost ZMW46 million.

Table 2: Interceptions, Value, Assessed and Collected Revenue, 2018-2020

Year	No. of Interceptions	Value (ZMW')	Assessed (ZMW')	Collected (ZMW')
2018	6,241	2.0 billion	49.3 million	46.0 million
2019	4,008	1.4 billion	107.5 million	82.5 million
2020	3,398	1.6 billion	53.4 million	36.3 million

Source: Zambia Revenue Authority Annual Reports (2018 – 2020)

The Tax Justice Network estimates that Zambia loses about US$635.3 million each year (equivalent to 18 percent of tax revenue) to global tax abuse. If 20 percent of these forgone revenues were allocated to education, as per international recommendations, this would equate to approximately $127.1 million. If this revenue was to be allocated to education, it would cover the annual cost of school places for the approximately half a million children left out of primary school. This money is also sufficient to pay the salaries of 4,000 primary school teachers for a year (which would also fill the estimated current gap in primary school teachers).

5.6 Challenges that Inhibit Domestic Revenue Mobilization in the Zambian Tax System

Like any other developing country's tax system, the Zambian tax system faces challenges that hinder domestic resource mobilization. Many of these taxation challenges are because of the structure of the Zambian economy.

One of the challenges inhibiting DRM is the large informal economy which makes broadening of the tax base, especially for direct income taxes, difficult. According to the 2019 Labour Force Survey, about 43 percent of the employed labour force belong to the informal sector. The actors in this segment of the economy are rarely paid a fixed wage, their payment is irregular and mostly in cash. Most of the businesses in this sector are not formally registered and as a result not tax registered. This means that the individuals and businesses in this sector are not liable for income taxes, such as PAYE and turnover taxes. Given the important role of income taxes in Zambia's revenue basket, the hard to tax informal sector greatly diminishes the amount of revenue that can be collected.

Further, when combined with limited financial resources, the large informal sector makes it difficult for statistical and revenue agencies to generate reliable data and statistics about different aspects of the economy (Tanzi & Zee, 2001). The lack of data may make it difficult to assess the potential effects of major tax changes on different economic agents which may prevent revenue authorities including ZRA from making major amendments to the tax system therefore perpetuating inefficient tax systems. The lack of data, therefore constraints DRM.

According to CUTS International Lusaka, the numerous tax incentives that are offered to corporations in the effort to stimulate economic activity is another hindrance to domestic resource collection (CUTS International, 2021). Some of these incentives include lowered corporate tax rates, tax holidays among others. Although these incentives may free up companies' resources for investment, they reduce public revenue for service delivery and development while not guaranteeing investment into the country. This is because apart from the tax system, there are other important considerations about the business environment that may have a higher impact on attracting investment into the country.

CONCLUSION

If there are gender biases in the tax system, it is due to women's roles in the household and the economy. As a result, while tax systems that disadvantage women are uncommon, some tax systems contain explicit and implicit biases that benefit or disadvantage women. Explicit gender bias occurs when tax legislation contains specific provisions that treat men and women differently. Implicit gender bias occurs when tax legislation intersects with gender relations, norms, and economic behavior.

It is clear from the findings that Zambia requires a wider tax base to capture much of the citizens who either avoid or evade taxes. The tax incidence is mainly skewed towards direct income tax than trade and domestic goods and services taxes. Specifically, under the direct income tax, PAYE is the largest of them all. Furthermore, the mining sector carries a much larger share of the tax budget, demonstrating a historical dependence on copper mining in Zambia. Efforts should be made to increase the tax base in order not to overburden the few taxpayers with raising the much-needed revenue.

The Zambian budget has over the years been running in deficits having closed the year 2021 on 10.4 percent of GDP. This shows the need for enhanced domestic resource mobilization to reduce the budget deficit and ensure public service delivery. The analysis has revealed that social sector spending has been crowded out by the country's commitment to debt service in the past few years. This case is seen to be advancing poverty and inequality.

The timely attainment of macroeconomic stability will be heavily reliant on debt restructuring, fiscal consolidation efforts, and the availability of COVID-19 vaccines. A prolonged COVID-19 fallout could exacerbate fiscal and domestic liquidity challenges, as well as lengthen the time it takes Zambia to implement key macroeconomic and structural reforms. The IMF program will help the country to attain the macroeconomic and structural reforms that Zambia needs for recovery.

The tax system when looked at as a whole has a mix of progressive and regressive taxes, but overall, the system is progressive. However, caution must be exercised in developing a healthy mix of direct and indirect taxes to avoid making the tax system regressive, which would exacerbate the plight of the marginalized.

Just like any developing country, the Zambian tax system has revenue leakages and challenges that should be attended to in order to improve its performance. The challenges in the Zambian Tax system range from lack of information, weak monitoring techniques, inadequate funding towards tax collection efforts, political interference, to tax havens. Tax revenue in Zambia is lost due to evasion, avoidance, contestation, non-payment, the hidden economy, and other means such as the failure to tax the digital economy.

RECOMMENDATIONS

The following are the recommendations that the study puts forward to promote tax equity, progressivity, and long-term domestic resource mobilization:

i. The informal sector should be formalized to broaden the tax base for income taxes. To avoid disadvantaging marginalized members of society, such as women, this should be done with clear exemption thresholds and the exclusion of certain businesses. Formalization of businesses has the potential to impose additional taxes and user fees on the businesses, potentially leaving informal business behind.

ii. Improve tax compliance by simplifying tax laws and increasing taxpayer capacity on various taxes.

iii. Enforcement of requirements for self-employed people and others employed in the informal sector to file their income tax returns

iv. Improving tax laws and closing loopholes to reduce multinational corporations' tax evasion and avoidance.

v. There is need of significant investment in ZRA to improve their capacity to monitor the transactions of companies, particularly those in the mining sector.

vi. There is need for ZRA to gather disaggregated data on taxation in order to assess the burden of taxation on each gender particularly women.

vii. Reduce and, in some cases, streamline the tax breaks given to corporations to increase revenue from corporate income taxes. Other interventions, however, must be made to make the business environment more appealing to investors, which has the potential to attract more investors than tax breaks.

viii. Increase revenue from wealth taxation by improving enforcement of taxation on property ownership, capital gains, dividends, and other assets. Instead of imposing a net wealth tax, reexamining these taxes may be preferable. Implementing asset taxes, on the other hand, will necessitate relevant legislation and policy changes in terms of rate, exemption, and who the tax base is, among other things.

ix. Increase the severity of penalties for noncompliance with various taxes to improve compliance with the various taxes.

x. Ensure the ZRA is independent of political interference and its operations are transparent

xi. Stimulate private sector growth to broaden the tax base.

xii. ZRA working with other government agencies should develop an asset register as a step towards property and wealth taxes.

xiii. CSOs should enhance their efforts towards building capacity on taxes amongst the citizenry as well as monitor fair taxation and use of tax revenue.

ABOUT TaxEd Alliance

The TaxEd alliance brings together in partnership global tax justice and education actors to make a transformative breakthrough in the domestic financing of public education. ActionAid, the Global Alliance on Tax Justice (and regional Tax Justice Network Africa and Tax and Fiscal Justice Asia), the Tax Justice Network, Education International and the wider Global Campaign for Education movement is creating a strong civil society alliance at national, regional and global levels to advocate for and bring about commitments to increase the domestic financing of public education systems in a sustainable and progressive way, so that lower income governments can achieve the Sustainable Development Goal for Education (SDG4).

Lower income countries, even those that spend a significant share of their national budgets on education are unable to fulfil their SDG4 commitments, because there is insufficient revenue to fund quality, public education. Thus, countries need to broaden their tax base in progressive and sustainable ways. Due to the managing of the COVID-19 pandemic, education systems face a devastating crisis in public financing, and uncertainty over the quality of learning available when children can return to education. It is estimated that between 10 and 30 million girls who previously attended school will not return and will be at risk from early marriage, early pregnancy and HIV&AIDS. Solutions for education financing and tax reform must respond to this challenge. The TaxEd Alliance networks CSO stakeholders working on tax issues with those working on education to create an effective transnational CSO response, integrating the voices of poor and marginalized communities with national level CSOs such as teacher unions and tax justice alliances, and coordinating their responses across national, sub-regional, regional and global agendas and arenas.

With a national focus on Nepal, Senegal and Zambia, the project builds core alliance members' capacities to undertake collaborative research, budget tracking and advocacy on gender-responsive public education. It strengthens alliances at national, regional and global levels for learning, information exchange and advocacy. Improved mechanisms for cross-sector dialogue between civil society working on education and tax, with finance and education ministries, revenue authorities, local Education Groups and international organizations are backed by an extensive programme of research that tracks global, regional and national commitments related to education financing and provides evidence and solutions for progressive taxes to fund education. At the global level, the Alliance uses its extensive network and links with government and international stakeholders to follow up on and develop cross-sectoral recommendations for international education actors including the GPE to strengthen and expand their work and sustain pressure on governments for commitments to reform domestic tax policy or practice, and increase sustainable revenues to fund education. It creates a sustained and high-profile presence in global fora, facilitating connections between civil society actors, the GPE and international organizations such as the IMF, World Bank, around the role of tax in financing SDG4.

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