CORPORATE INCOME TAX GAP (Top-down Approach)

2024 ATI Tax Gap Workshop

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ZAMBIA REVENUE AUTHORITY

Presentation Outline

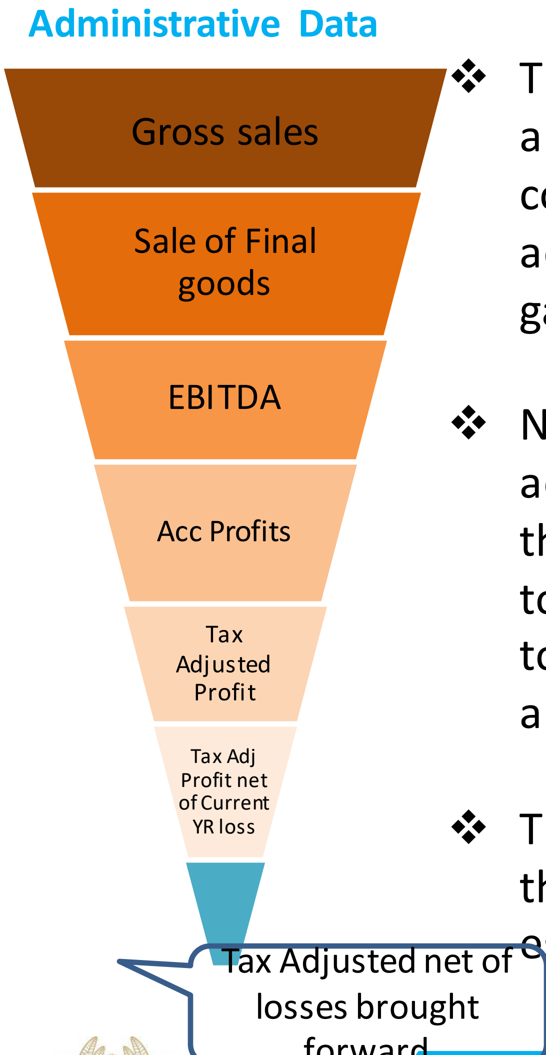
- Background information
- Study Methodology
- Key Results
- Challenges
- Key Interventions Following the Study

Background information

Year	2018	2019	2020	2021	2022	Average
Total Tax revenue (K' Mn)	48,176.7	52,681.4	57,665.1	83,572.5	90,345.9	
CIT (K' Mn)	5,973.5	7,741.3	9,512.6	19,491.4	21,002.4	
Share of Total Rev	12.4%	14.7%	16.5%	23.3%	23.2%	**18.0%**
Share of GDP	2.1%	2.6%	2.7%	4.4%	4.2%	**3.2%**

- The bottom-up study with UNU-WIDER was conducted earlier and provided very useful information.
- This study was a supplement to the findings from the earlier study, which was based on audit data.
- It aimed to also capture the potential that lies in the whole economy (with registered and non-registered taxpayers).

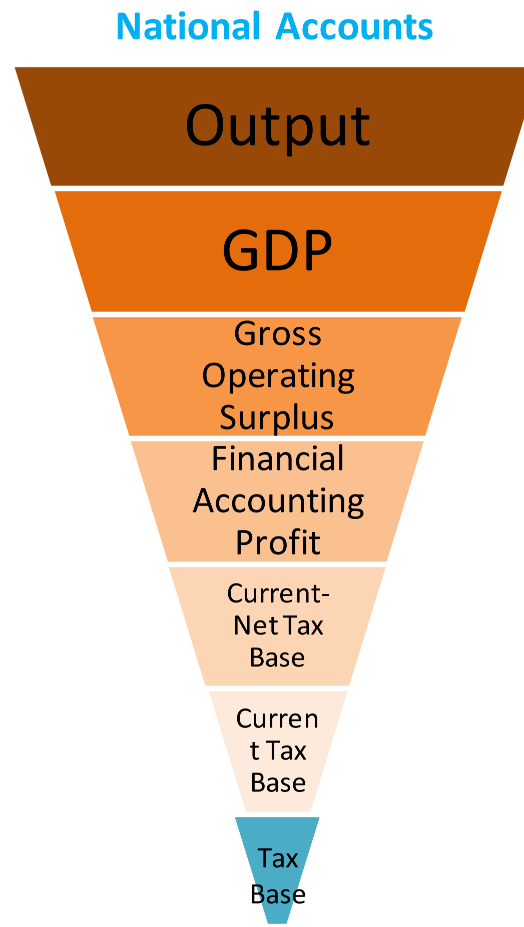
Study Methodology



- The methodology used a top-down approach by the IMF (Ueda, 2028) that combines national accounts and administrative data to measure the CIT gap.

- National accounts data is adjusted using administrative data to arrive at a theoretical tax base, then subjected it to appropriate sector specific tax rates to determine the collectable tax amount

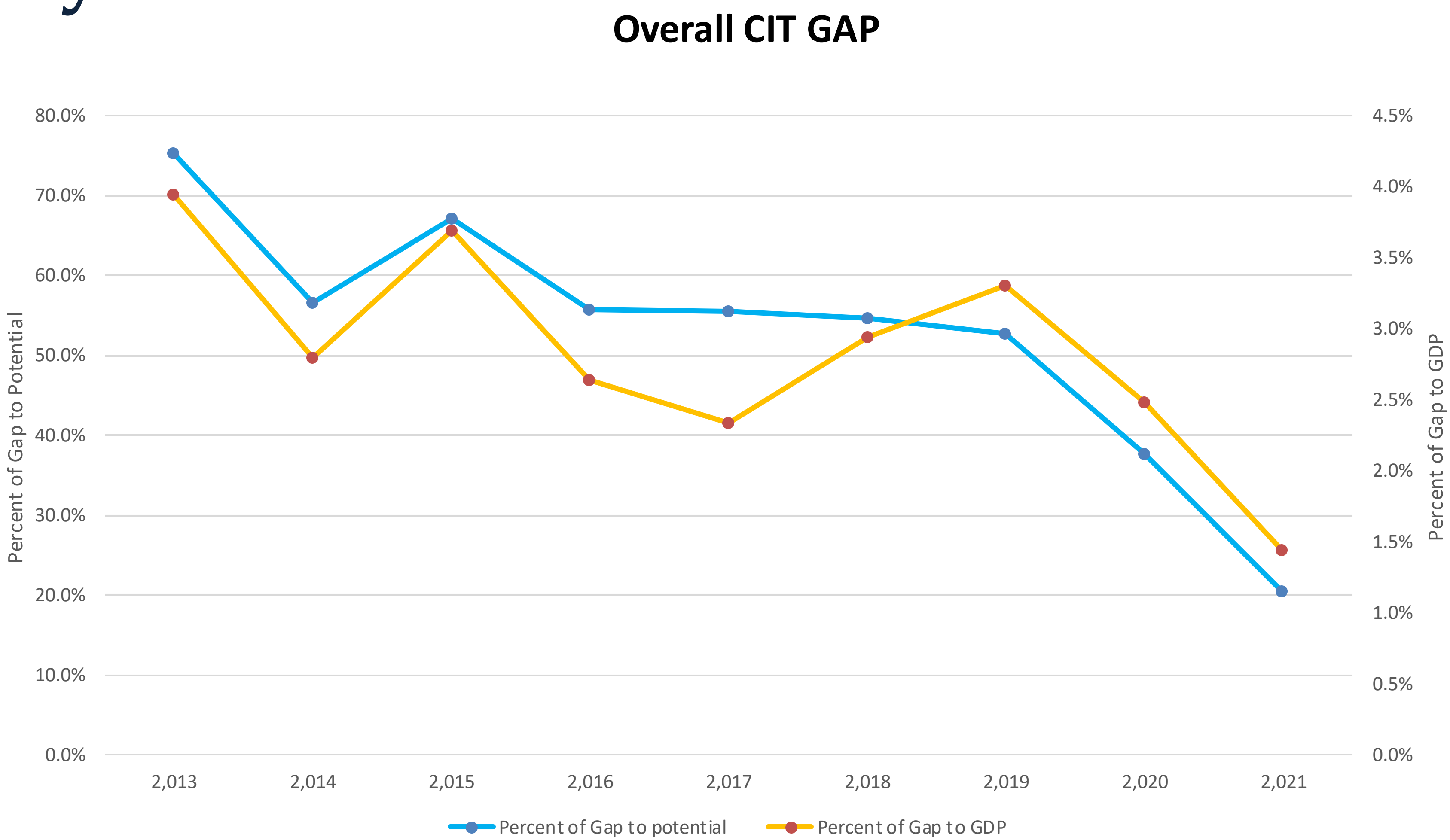
- The final amount is then compared to the actual collection for the year to establish the gap.



Study Methodology – Data Sources

	Source of Data
GDP (GVA)	ZamStats
GOS (GVA - wages and salaries- social contribution- other net taxes on production- mixed income)	ZamStats
GOS* (after dropping Govt, HHs, NPISH)	ZamStats
GOS (After adjusting for firms below the CIT threshold of K 800,000)	World Bank Enterprise Survey 2013, 2016, 2019, 2020
FAP	ZSA & ZRA
C-NTB	ZRA
C-TB	ZRA
TB	ZRA

Key Results



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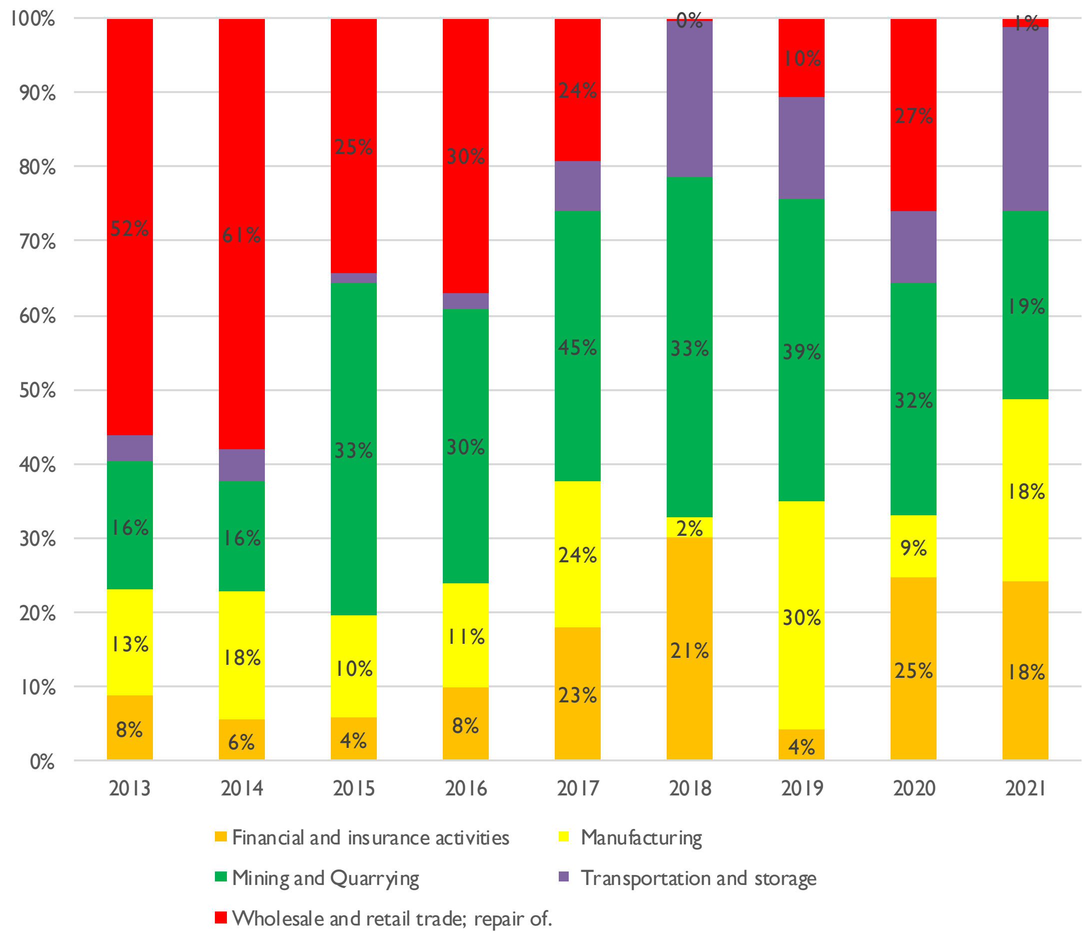
Sectoral breakdown of the Tax gap

No.	Sector	Potential Revenue	Actual revenue	Withholding Offsets	Tax gap	Tax Gap % of Potential revenue
1	Mining and Quarrying	16,600.0	15,300.0	45.1	1,254.9	7.6%
2	Financial and insurance activities	4,820.0	2,260.0	1,400.0	1,160.0	24.1%
3	Manufacturing	2,050.0	762.0	117.0	1,171.0	57.1%
4	Transportation and storage	1,340.0	144.0	2.1	1,193.9	89.1%
5	Wholesale and retail trade	1,300.0	1,200.0	42.6	57.4	4.4%
Total		***26,110.0***	***19,666.0***	***1,606.8***	***4,837.2***	***18.5%***
Share of total		***84.0%***	***86.1%***	***88.7%***	***75.0%***	

Sectoral breakdown of the Tax Gap – Cont'd



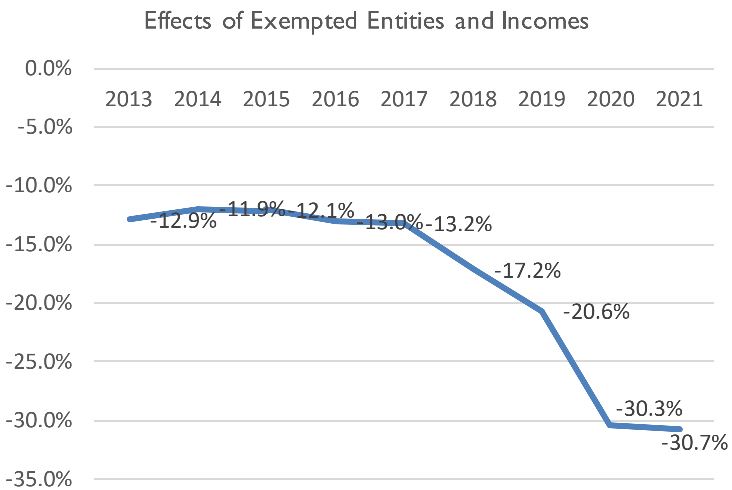
- The mining sector series of gaps seem to be consistently high.
- There is notable improvement in compliance for the wholesale and retail trade sector (although gap is still relatively significant).
- The gap in the transport and storage sector is steadily increasing. An indication that the growth of taxes from the sector is not commensurate to the growth of the sector.

Impact of Policy Measures on the CIT Base - K' Million

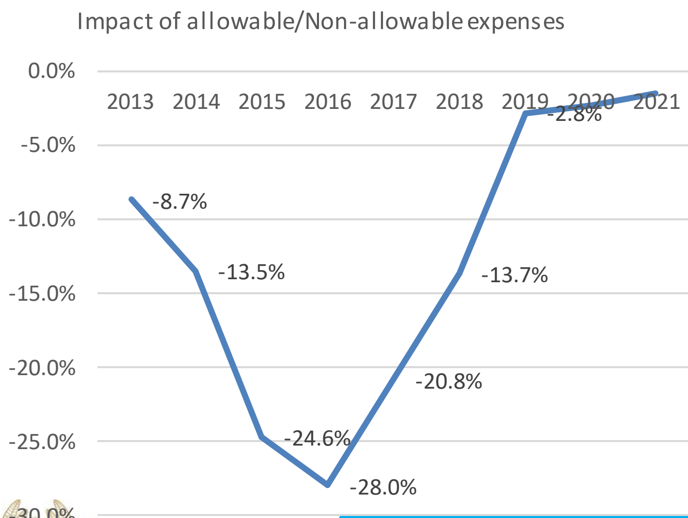
	Loss/Gain in base		
	Effects of exempted entities or incomes (NPISH, Small ent..)	Impact of allowable deductions and Disallowed expenses	Impact of Differentiated Tax Rates
2013	- 19,500	- 13,200	479
2014	- 19,900	- 22,500	319
2015	- 22,100	- 45,200	135
2016	- 28,100	- 60,410	608
2017	- 32,500	- 51,270	736
2018	- 47,200	- 37,610	849
2019	- 62,000	- 8,500	941
2020	- 100,800	- 7,900	492
2021	- 136,300	- 6,700	1,510

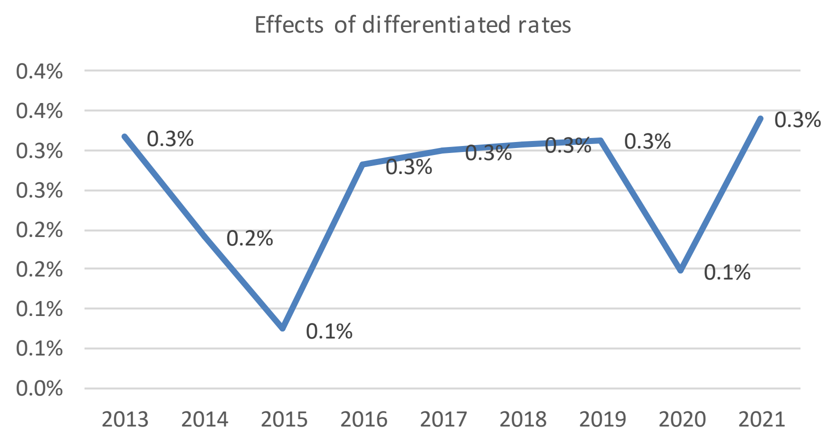
- The net effect of the allowable deductions and disallowed expenses on the tax base was consistently negative (allowable deductions > disallowed expenses)
- The effect of differentiated rates is positive indicating that sectors paying below the standard rate are compensated by those sectors paying above standard rate

CIT Policy Gaps % of GDP



- Generally the ratio of GVA of firms falling below the CIT threshold to GDP is increasing indicating the rise in informality over the years
- The net impact of allowable deductions and addbacks results in revenue loss
- The net effect of differentiated tax rates across the years has been around 0.3% of GDP





Summary of Key Results

- The study reveals that CIT gap as a percentage of GDP was 1.4 % in 2021.
- The gap as a percentage of potential revenue was 20.5% in 2021
- The mining sector was the largest source of compliance gap.
- The other sectors with notable potential revenue leakages were Manufacturing; Wholesale and retail trade; Financial and insurance activities; Electricity and gas; Human health and social work activities; and Construction.
- Policy gaps also contribute significantly to a reduced base notably through allowable deductions.

Challenges

- Data access from the National Statistics office.
  - Mitigated through a resource person being eventually co-opted to the team.

- Adapting the methodology, especially the legal framework.
  - Mitigated through regular team meetings, including with staff from the domestic taxes.

- Remote working with USAID consultant.
  - Mitigated through regular meetings and prompt feedback.

Key Interventions Following the Study

- The audit teams have incorporated the findings regarding allowable deductions in their audit strategy.

- ZRA, collaborating with various stakeholders, has advocated for a mining regulator. The Bill for the formulation of a regulator is now at an advanced stage.

- In 2024, ZRA has adopted a new operating model which amongst others has introduced departments focused on the mining sector and data analytics.

- Interfacing of internal, local, and international (Customs) systems to aid compliance improvement.

- Appointment of withholding agents for Mineral Royalty, Turnover Tax and Rental Income Tax.

THANK YOU

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