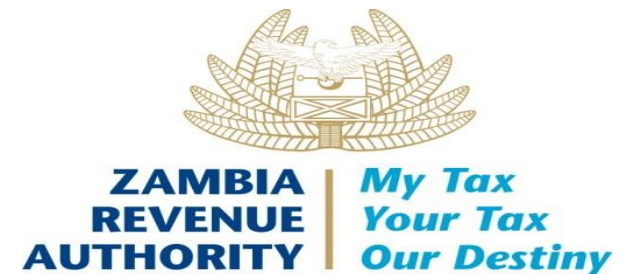


# Zambia Revenue Authority presentation on Tax Expenditures

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**GOVERNANCE OF TAX EXPENDITURES IN  
ZAMBIA**

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**OVERVIEW OF TAX EXPENDITURES IN  
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# **PRESENTATION OUTLINE**

# GOVERNANCE OF TAX EXPENDITURES IN ZAMBIA

- In Zambia, TEs are governed by a number of laws and regulations with the primary legislation being the Income Tax Act.
- Apart from setting out the general rules for the calculation and payment of income tax, the Act also contains a number of provisions that allow for TEs, such as deductions for capital expenditure, charitable donations, and research and development.
- Other laws that contain provisions for TEs include the Value Added Tax Act, the Customs and Excise Act, and the Investment Act

# GOVERNANCE OF TAX EXPENDITURES IN ZAMBIA

- The government of Zambia uses TEs to achieve a variety of policy goals, such as promoting investment, economic growth, and social welfare.
- There is currently no framework to analyse the cost and benefits of granting a TE.
- However some TEs do have some conditions attached to them such as those in the Special Economic Zones.
- Plans are underway by Government to establish a TE model and a Cost & Benefit analysis framework to ensure that TEs are reported and an analysis is conducted before granting an incentive.

# OVERVIEW OF TAX EXPENDITURES IN ZAMBIA

- ZRA has been consistently reporting on TEs from Customs taxes as they are embedded and configured on the ASYCUDA system via additional procedure codes and hence easier to report on them.
- These are reported in the monthly revenue performance and annual reports as well as on ad hoc basis.
- Previously some TEs on domestic taxes were also reported on.
- The methodology used in the estimation of TEs is the “foregone revenue-approach”
  - ✓ This is a calculation of the static revenue loss incurred by introducing a tax incentive, ceteris paribus.

# OVERVIEW OF TAX EXPENDITURES IN ZAMBIA

- ZRA was involved in a pilot study by UNECA and ATAF to report on CIT(2020) and VAT(2021) for one fiscal year.
  - ✓ consultants from ten countries were trained and provided with a template to collect data on TEs in 2022.
- Currently ATAF is also carrying out a research project on TEs in its member countries.
  - ✓ member countries are required to provide data on TEs from 2012 to 2021 on CIT, VAT, PIT and others including Customs taxes.
  - ✓ The Data compilation exercise on TEs is still underway.
- A recent study conducted by the ZRA in collaboration with UNECA found that while institutions affirmed that tax incentives strictly adhere to legal frameworks, expert opinions expressed concerns about potential non-compliance, transparency issues, and varying perceptions, highlighting diversity of beliefs about lawful administration of tax incentive in Zambia

# STAKEHOLDERS IN THE GOVERNANCE OF TAX EXPENDITURES IN ZAMBIA

- Some of the institutions involved in the governance of TEs include:
  - ✓ The Ministry of Finance and National Planning
  - ✓ National Economic Advisory Council
  - ✓ Zambia Development Agency
  - ✓ Zambia Revenue Authority
  - ✓ GIZ

## THE TE STUDY REVEALED THE FOLLOWING GAPS

- **Lack of transparency and accountability:** The provision mechanism lacks citizen involvement and transparency. The decision-making process lacks openness and accountability.
- **Lack of awareness:** A dearth of public disclosure and scattered information about tax incentives hinder clarity and dissemination.
- **Capacity and collaboration:** effective oversight and enforcement requires stronger capacity.
- **Inconsistent application of Tax Incentives:** Inconsistency in application of tax incentives, driven by political interests, and excessive focus on foreign investors pose challenges.
- **Industry specific issues:** Unequal distribution of tax incentives across sectors leads to marginalization in certain industries. sectors such as manufacturing and mining enjoying higher incentives compared to others like banking, tourism, and agriculture
- **Legislative and Policy Issue:** Outdated legal frameworks and misalignment with economic development goals create governance issues.
- **Instability of Fiscal Regimes:** Frequent changes to incentives create an unstable investment climate and deter investor confidence, especially in sectors like mining.
- **Lack of evaluation mechanism:** Absence of structured processes for monitoring and evaluating tax incentives results in governance and administration gaps.



# CHALLENGES

- **Unavailability of Data and Education:** Lack of data from incentive beneficiaries' hampers reporting, exacerbated by a lack of feedback mechanisms.
- **Complexity and Monitoring Challenges:** The complexity of Zambia's tax regime creates confusion for taxpayers and businesses, affecting compliance.
- **Administrative and Political Factors:** Bureaucratic processes and political considerations may interfere with regular reporting. Political expediency can sometimes override the need for transparency and reporting
- **Limited institutional capacity** hinders monitoring and reporting, creating data gaps.
- Comprehensive information about tax incentives is lacking, making regular reporting and impact assessment challenging.
- Existing legal systems lack stipulated regulation to enforce conditions requiring monitoring and reporting.

## CONCLUSION

- The Government heavily incentivizes economic activity so as to promote investments and growth.
- Tax expenditures are not only pivotal in shaping economic priorities, equity, and accountability but also play a crucial role in government resource allocation.
- The governance of tax expenditures in Zambia faces multifaceted challenges that must be addressed to foster fairness, efficiency, and sustainability.
- Regular reporting of tax incentives, another crucial aspect, encounters obstacles such as data unavailability, complexity, and administrative and political factors. These challenges hinder the ability to assess the true impact and outcomes of these incentives.
- Government has undertaken studies in the past 5 years aimed at reviewing and assessing the tax incentive regime so as to reform the regime to meet development challenges and align with best practice.
- Tax expenditure reporting has been done but not made public from the studies undertaken.

*THANK YOU*

