ANNUAL REPORT 2020

ZAMBIA REVENUE AUTHORITY

My Tax
Your Tax
Our Destiny

Letter of Transmittal

CHAIRMAN OF THE ZAMBIA REVENUE AUTHORITY GOVERNING BOARD

14th April, 2021.

Honourable Dr. Bwalya K. E. Ng'andu, MP
Minister of Finance
Ministry of Finance
P.O. Box 50062
LUSAKA

Honourable Minister,

I have the honour of presenting to you, on behalf of the Governing Board, the 26th Annual Report of the Zambia Revenue Authority, covering the Financial Year 1st January 2020 to 31st December 2020.

This report has been prepared in accordance with the requirements of the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia and the Public Finance Management Act No 1 of 2018.

Yours faithfully,

Amb. Bwalya S. K. Chiti
Chairman of the Governing Board

OUR VISION

"To be a world class model of excellence in revenue administration and trade facilitation."

OUR MISSION STATEMENT

"To optimise and sustain revenue collection and administration for a prosperous Zambia."

OUR MANDATE

ZRA is charged with the responsibility of collecting revenue on behalf of the Government of the Republic of Zambia under the supervision of the Minister of Finance.

OUR VALUES

Our commitment to serving all stakeholders is embedded in our Corporate Values:

Taxpayer Focus	WE believe in delivering excellent services and value our taxpayers. We provide timely, responsive and proactive service. We take time to understand taxpayers' needs and always strive to surpass their expectations;
Integrity	WE do what we say we will do. We will up-hold professional and ethical business practices. The company's interactions with stakeholders will be done transparently for mutual benefits. We will ensure honesty, integrity and respect to all;
Professionalism	WE uphold high quality standards and etiquette in our dealings to enhance professional competence by providing the highest level of service;
Innovation	WE are creative, bold and believe in continuous learning and improvement. We believe these will sustain total quality consciousness in the organization;
Networking	WE collaborate inside and outside ZRA to maximise our shared knowledge and bring greater value to one another and most importantly, to our customers. We work together as one ZRA family, in partnership with other organizations, and always embrace diversity and inclusiveness.

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ABBREVIATIONS

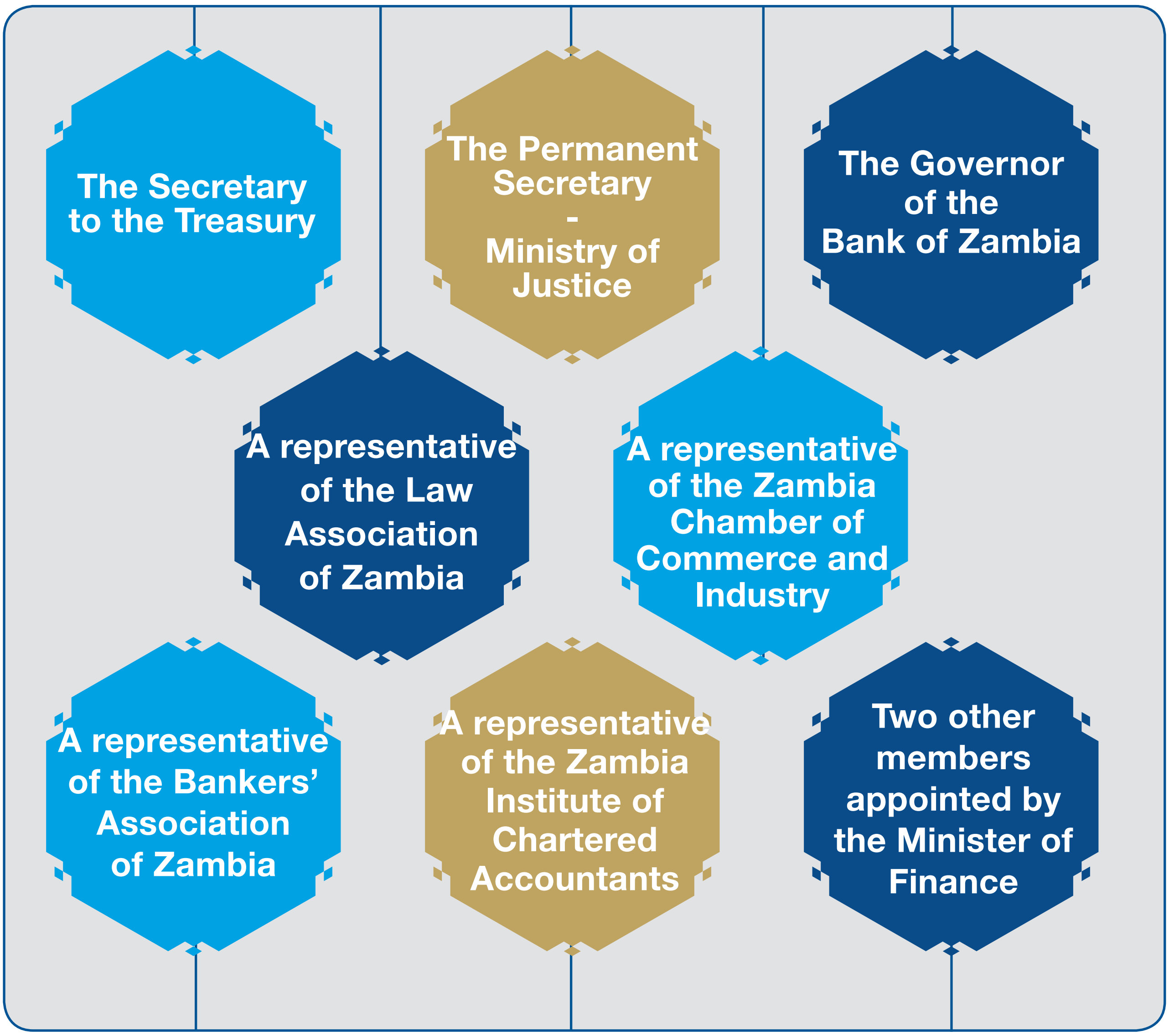
ASYCUDA	Automated System for Customs Data
BMS	Block Management System
CSP	Corporate Strategic Plan
EFD	Electronic Fiscal Device
ESD	Electronic Signature Device
FCR	Fiscal Cash Register
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ICE	Inspectorate and Customs Enforcement
ICT	Information and Communication Technology
IMF	International Monetary Fund
KPI	Key Performance Indicator
KRA	Key Result Area
PACRA	Patents and Companies Registration Agency
PAYE	Pay As You Earn
PMDC	Performance Management and Development Contract
TIMS	Tax Invoice Management System
TPIN	Tax Payer Identification Number
USAID	United States Agency for International Development
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
VDP	Value for Duty Purpose
ZRA	Zambia Revenue Authority

Corporate Profile

The Zambia Revenue Authority (ZRA) was established on 1st April 1994 as a corporate body, under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia enacted in 1993. Pursuant to this Act, ZRA is charged with the responsibility of collecting revenue on behalf of the Government of the Republic of Zambia under the supervision of the Minister of Finance.

The operations of ZRA are overseen by the Governing Board as provided for in the Act. The Board is guided by the Code of Corporate Governance as well as the Board Charter which provide a framework for the direction and control of the Authority. The Governing Board provides strategic direction to management and ensures that there is accountability and good stewardship in the operations of ZRA. In addition, the Board has put in place various governance policies such as the Board Evaluation Policy, Whistle-Blower Policy and Conflict of Interest Policy which all work to enhance Corporate Governance in the Authority.

The Governing Board, as provided for in the ZRA act, comprises:



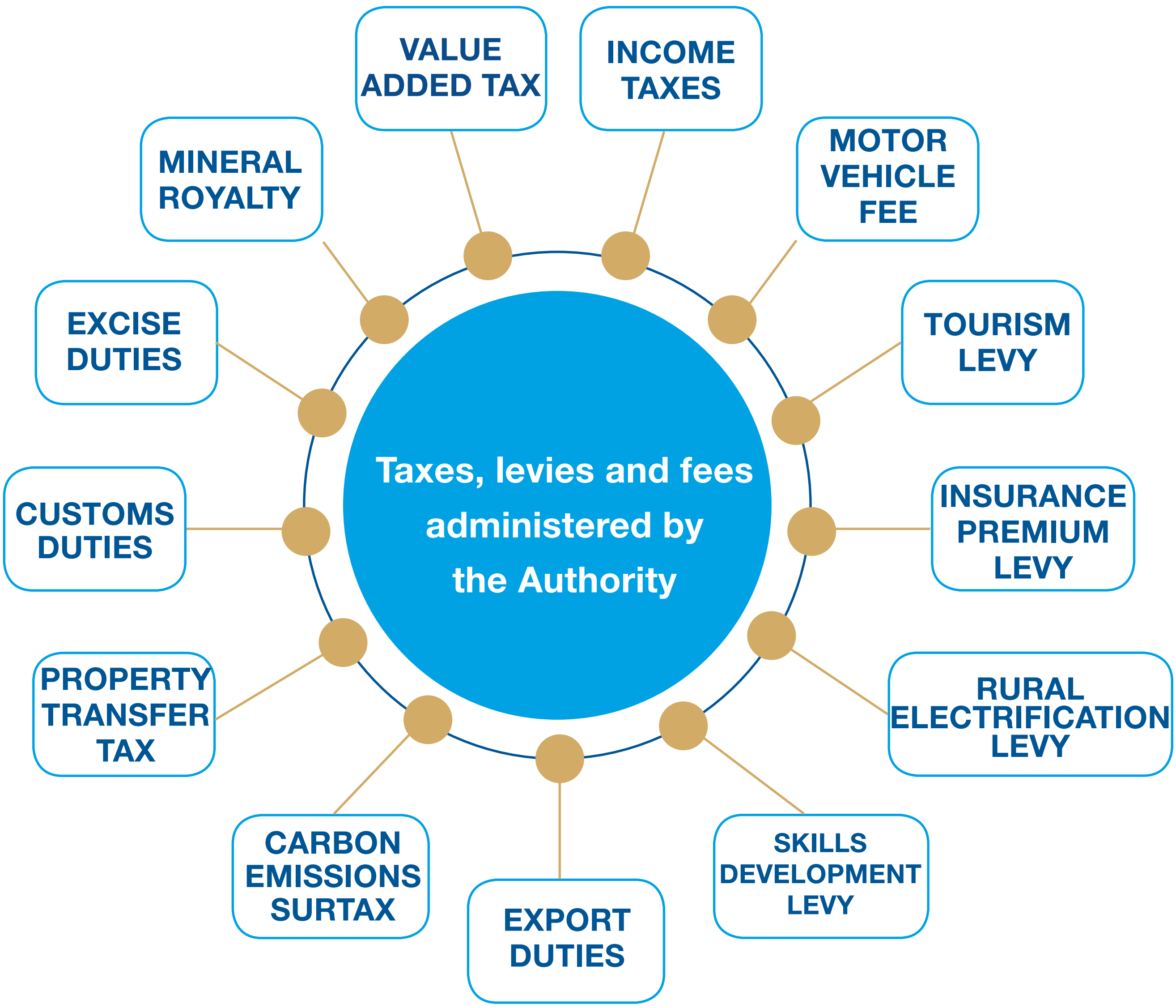
The members of the Board elect the Chairman and the Vice-Chairman from amongst themselves.

The Chief Executive Officer of ZRA is the Commissioner General who is appointed by the President of the Republic of Zambia and is an ex-officio member of the Governing Board

RESPONSIBILITIES

The functions of ZRA are to:

- properly assess and collect taxes, duties, levies and fees at the right time;
- ensure that all monies collected are properly accounted for and banked;
- properly enforce all relevant legislation and administrative provisions;
- provide revenue and trade statistics to the Government;
- give advice on tax policy to Government; and
- facilitate international trade.



STAKEHOLDERS

The stakeholders[1] in the operations of ZRA include:

- The Government of the Republic of Zambia
- Tourists, travellers & traders crossing Zambia's borders
- The taxpayers, the business community and their interest groups, together with their professional advisors
- Non-Governmental Organisations and other interest groups
- Reserach and academic institutions
- The Media
- The people of Zambia
- Members of regional and other multilateral groupings
- Cooperating Partners
- The Governing Board, Management and Staff of ZRA
- The defence and security wings

[1] See Annex for a comprehensive list of stakeholders that collaborated with ZRA in 2020

PERFORMANCE HIGHLIGHTS - 2020

ZRA net collections increased to K57 billion in 2020 from K53 billion in 2019

The electronic filing rate increased to 98.1 percent in 2020 from 97.5 percent in 2019

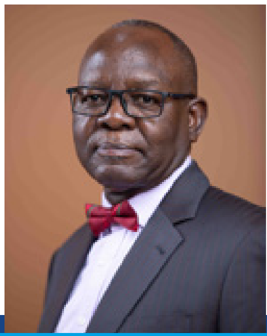
Revenues from the Block Management System increased to K42.0 million from K14.0 million in 2019

The share of female staff increased to 38.1 percent in 2020 from 36.6 percent in 2019

Revenues from detentions and seizures totalled K26 million

The Supreme court upheld a tax assessment of K486 million in a landmark transfer pricing case.

MEMBERS OF THE ZRA GOVERNING BOARD AS AT 31ST DECEMBER 2020



Amb. Bwalya S. K. Chiti

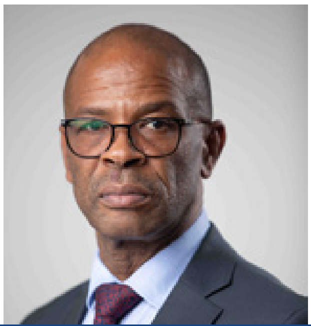
Chairman

Mr. Fredson K. Yamba

Member and Chairman of the Finance Committee

Mrs. Cecilia B. Zimba

Vice Chairman and Chairman for the Innovation and Project Management Committee



Mr. Christopher M.Mvunga

Member

Mr. Andrew Nkunika

Member and Chairman of the Legal Staff and Disciplinary Committee

Mr. James Koni

Member and Chairman of the Audit and Risk Committee

Mrs. Lydia M. Sibanda

Member

Mrs. Grace T. Bwanali

Member

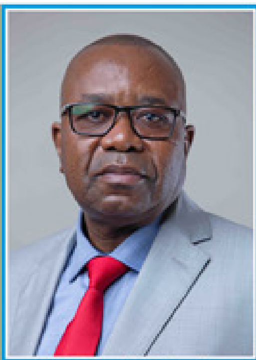
LAZ REPRESENTATIVE

VACANT

MEMBERS OF THE ZRA SENIOR MANAGEMENT AS AT 31ST DECEMBER, 2020

Mr. Sydney Chibbabuka
Commissioner Customs Services

Mr. Moses Shuko
Commissioner Indirect Taxes & Excise



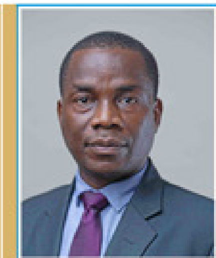
Mr. Kingsley Chanda
Commissioner General

Mrs. Brigitte N. Muyenga
Commissioner Finance

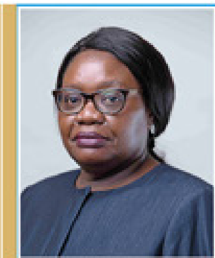
Mr. Peter Phiri
Acting Commissioner Direct Taxes

Mr. Kwegyer Msimuko
Deputy Commissioner Support (Customs Services)

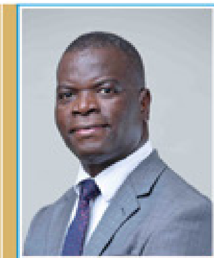
Mrs. Patricia B. Lungu
Deputy Commissioner Operations (Customs Services)



Mr. Ezekiel Phiri
Director Research & Corporate Strategy

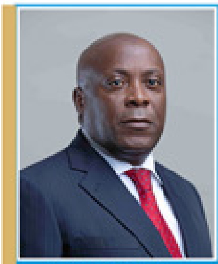


Mrs. Suzyo M. Ng'andu
Board Secretary



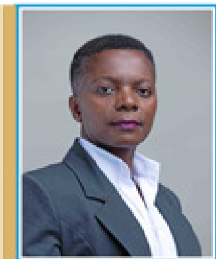
Mr. Timothy Milambo
Director Treasury Management

Mr. Benjamin Simpungwe
Director Finance

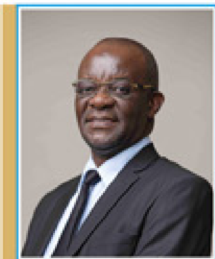


Mr. Ronald Chalwe
Director Informal Sector & Medium Taxpayer Office

Mr. George Mwale
Director Design Monitoring & International Relations (Indirect Taxes & Excise)

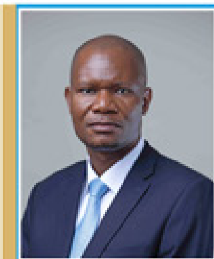


Ms. Catherine Chilambe
Director Investigations



Mr. Monday M. Katongo
Director Information & Communication Technology

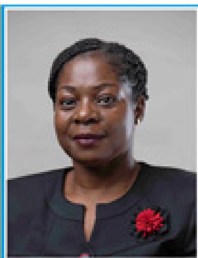
Mr. Moffat Nyirenda
Director Human Resource



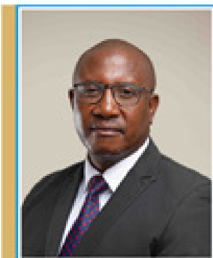
Mr. Morgan Mukwasa
Director Legal services

Mr. Moonga Mumba
Director Internal Audit & Risk

Mr. Wagner Chilembo
Director Excise (Indirect Taxes & Excise)



Mrs. Mirriam Sabi
Director VAT Operations (South)



Mr. Callistus Kaoma
Director Adiministation

Mr. Chimambo Chibale
Director Innovations and Project Management

Mr. Ignatius Mvula
Acting Director Large & Specialised Taxpayer Office (Direct Taxes)

Mr. Richard Kapasa
Acting Director Design Monitoring & International Relations (Direct Taxes)

Mr. Shadreck Kachusha
Acting Director VAT Operations (North)

CHAIRMAN'S STATEMENT

I am pleased to present the 26th Annual Report of the Zambia Revenue Authority for the Financial Year 1st January 2020 to 31st December 2020.

While the year began like any other, the unfolding events occasioned by the outbreak of COVID-19 endangered the fabric of our mandate, which is revenue collection. On 17th March 2020 Zambia recorded the first confirmed case of COVID-19 in the country. Prior to that date, Zambia had only witnessed from a distance, the rapid spread of a deadly novel disease that would come to disrupt humanity. No one could have imagined the scale of disruption to everyday life and the unfettered economic upheaval that the plague has brought. By the middle of the year, the disease had spread to the rest of the world, nations were in lockdown and many people had died. The world came to a standstill.

In the months that followed, the Government of the Republic of Zambia, through the Minister of Finance announced a raft of measures to help the country stem the COVID-19 storm. The partial lockdown shut all schools, churches and most social amenities but the most essential. Families were compelled to stay and work from the confines for their homes. But this could not go on for long as people's livelihoods were being eroded and with them, the taxing ability of the Zambia Revenue Authority (ZRA). The economy had to reopen, cautiously although under the new normal. However, this was not before copper prices had plunged by 16 percent and consumption contracted dragging down with it the performance of the tax system.

In a true display of tenacity, the ZRA responded deftly with several measures to protect both staff and taxpayers across the country while keeping its focus on tax revenue. Our coordinated response included the provision of personal protective equipment, temperature screening and hand sanitisation stations at all our touch points. We promptly completed the re-structuring of the Domestic Taxes division into Indirect Taxes and Excise and Direct Taxes divisions while the Customs services division optimised its operations for self-assessment. The launch of the customs electronic data exchange system between the General Directorate of Customs and Excise of the Democratic Republic of Congo and the Zambia Revenue Authority in November completed this optimisation process.

Building on the successful launch of the second generation TaxOnline at the start of the year, we hastened to launch TaxOnApp, the mobile version of TaxOnline to meet the needs of many taxpayers confined to their homes, unable to fulfil their normal tax obligations for fear of COVID-19. TaxOnApp grants access to basic ZRA functionalities such as registration, verification, return filling, passenger clearance and payment through WhatsApp. It was therefore pleasing to witness the remarkable recovery in the third quarter, month after month. By the end of year, ZRA had delivered a net tax outturn of K57.6 billion missing its annual target by only K1.4 billion, against the projected deficit of K6.9 billion.

On behalf of the Board, I would like to thank the former Governing Board under the Chairmanship of Ms. Chileshe Kapwepwe for its invaluable contribution to this strategic institution. Having taken over the leadership of the Board on 27th February 2020, I hope to build on her distinguished corporate governance practices and provide able stewardship to the Board.

I would also like to thank the Minister of Finance, Honourable Bwalya K. E. Ng'andu MP, and his officials for guiding the Board as we navigated through the COVID-19 storm. I want to thank my colleagues on the Board for their commitment in providing oversight over the affairs of the Authority. I further wish to thank management and staff for their endurance in ensuring that the Authority delivered the revenue to the Treasury even in the midst of economic and other COVID-19 induced constraints.

Finally, as I present this Report, I do so with renewed gratitude and hope for a brighter future.

Amb. Bwalya S. K. Chiti
Chairman of the Governing Board

COMMISSIONER GENERAL'S REPORT

It is my honour to present the Report on the operational and financial performance of the Zambia Revenue Authority in 2020. The year under review presented many new and unexpected challenges, which entailed a rethink of how we operate.

Despite the Authority opening the year on an optimistic note, our operations were significantly undermined by the unfavourable economic conditions and the outbreak of the COVID-19 pandemic. The Authority collected net revenue of K57.6 billion which was K1.4 billion or 2.3 percent below the Parliament target of K59.0 billion. This outturn was 16.3 percent of GDP compared to 17.5 percent of GDP attained in 2019.

The Authority, during the year, paid out K12.9 billion in tax refunds compared to K10.5 billion paid in 2019, representing a 12.3 percent growth. Out of this amount, K12.6 billion was VAT refunds of which K8.5 billion was paid to the mining sector. The balance was paid to customs and direct taxes refunds.

During the year, the Authority undertook structural reforms to improve operational efficiency by completing the splitting of the Domestic Taxes Division into two separate divisions namely Direct Taxes, and Indirect Taxes and Excise. To streamline the management of VAT, a new VAT directorate was established in Ndola to manage the northern region. Furthermore, a new department called the Innovation and Project Management was created to foster innovation and technology in order to ensure that the Authority is future ready.

The key strategic focus area in 2020 was innovation in all our business operations, processes and systems. In this regard, the Authority went live with the first home-grown tax administration system called TaxOnline II. The Authority also upgraded TaxOnphone, SAP, Teammate, Human Resource business processes, and the website, among others. Further, the Authority developed and implemented mobile solutions such as TaxOnApp and the customs validation system. In our effort to stabilise core tax administration systems, the Authority invested in excess of K40 million in high-end and sophisticated servers for ASYCUDAWorld and TaxOnline systems. Further, to improve service delivery at our customer service centres, queue management systems were installed at Livingstone, Chipata and Solwezi stations. This was in addition to the systems already in place at the Head office in Lusaka and Kitwe.

Through extensive use of remote working capabilities in the Authority, up to 600 members of staff were enabled to work from home during the peak of the corona virus pandemic as most internal business processes are now automated. These innovations and systems developments have revolutionised our service delivery as most taxpayers can now transact online without the need to physically visit our offices.

The Authority also rolled out the Integrated Border Declaration Form, which allows people entering Zambia to declare on a single document at customs, immigration and other border agencies. This is part of our commitment to transform trade facilitation and enhance customer experience for travelers crossing our borders.

During the year, our enforcement activities were greatly disrupted by the COVID-19 pandemic as our frontline officers could not engage the public and taxpayers in the traditional manner. However, the Authority quickly adapted and employed a combination of strategies and tools resulting in over K44.8 million collection under domestic taxes. The Authority intensified intelligence and surveillance operations to disrupt smuggling activities and intercepted 3,398 consignments resulting in revenue collection of K36.3 million. The Authority has risk-profiled all sectors to ensure that offenders are detected and penalized.

During the year, the Authority continued to engage with its stakeholders to build mutual relationships. In this regard, the Authority signed memoranda of understanding (MoUs) with the Ministry of Local Government and Housing to help with collection of taxes from the informal sector; the Copperbelt University for systems developments; the Drug Enforcement Commission for Anti-money Laundering and tax related frauds, and the National Institute of Public Administration for training of customs agents. Other MoUs were signed with some academic institutions in various areas of interest.

The Authority continued to invest in its human resources in order to equip its officers with modern skills and keep pace with the changing business techniques. This was achieved through collaboration and support of various international agencies to build capacity in tackling base erosion and profit shifting in the mining sector, bulk intelligence data analytics, compliance improvement, risk management and intelligence, and customs management.

I am happy to report that the ZRA was on 4th November 2020, elected as Council member of African Tax Administration Forum for the next two years. Zambia was also at the 12th Ordinary meeting of the African Union Sub-committee of Directors General of Customs of the Continental Free Trade Area held on 27th November 2020, elected as the Chair of the sub-committee for a period of one year. The international recognition of ZRA's leadership deserves commendation.

In line with our Corporate Social Responsibility Policy, we donated to various deserving institutions across the country, ceased items and other items procured from our operational funds, as well as money voluntarily contributed by staff. This is borne out of our conviction that the Authority is part of the community and must therefore participate in philanthropic activities. The Authority also partnered with other organizations bought advertising or promotion rights on the Nkana Football Club kit for the 2020/2021 season.

As I conclude, I would like to take this opportunity to thank Government through the Minister of Finance and his officials for their support in all the core areas of our operations and the ZRA Governing Board for providing strategic leadership and demonstrating extraordinary level of commitment and service to our organisation in what had been an extremely challenging year.

Finally, I want to thank Management, staff and our taxpayers with whom we have managed to achieve great results and I look forward to achieving more in 2021.

Kingsley Chanda
Commissioner General

OVERVIEW OF THE AUTHORITY

Overview of the Performance of the Authority

The Zambia Revenue Authority is charged with the responsibility of collecting revenue on behalf of the Government of the Republic of Zambia under the policy direction of the Minister of Finance. The operations of the Authority are overseen by the Governing Board, while the Commissioner General who is appointed by the Republican President, is the Chief Executive Officer.

The Governing Board

The ZRA Act provides for the establishment of a Governing Board comprising nine members drawn from both public and private sectors. The Governing Board and its Committees oversee the operations of the Authority.

Audit and Risk Committee

The Audit and Risk Committee considers reports on the effectiveness of internal controls in the Authority, achievement of strategic objectives, the integrity of financial statements, and compliance with relevant regulatory requirements.

Finance Committee

The Finance Committee ensures accountability in the utilisation of operational funds and assets as well as effectiveness in collection and remittance of revenue.

Legal, Staff and Disciplinary Committee

The Legal, Staff and Disciplinary Committee reviews management decisions on all legal and human resource related matters.

Innovation and Project Management Committee

The Innovation and Project Management Committee provides guidance on the formulation and execution of the Authority's Corporate Strategic Plan, Information and Communication Technology policies as well as the governance, management and delivery of innovations and projects.

Divisions and Departments

During the year under review, the Authority made significant changes to its structure. The Domestic Taxes Division was split to create two operating divisions namely Direct Taxes and Indirect Taxes and Excise. At the same time, the Modernisation and Corporate Strategy Division was dissolved out of which three departments were established namely the Innovation and Project Management, Information and Communication Technology and Administration Departments. The corporate strategy function reverted to the redesignated Research and Corporate Strategy Department. As at end-December 2020, there were four Divisions and nine Departments reporting directly to the Commissioner General.
Research and Policy Department

Customs Services Division

The Customs Services Division is responsible for administering trade taxes, fees and charges as mandated under the Customs and Excise Act, Chapter 322 of the Laws of Zambia. The Division also protects society through enforcement of regulatory controls on imports, exports and goods in transit as well as by contributing to the security and control of international supply chains. The Division is also responsible for supporting industrial growth by facilitating legitimate international trade.

Direct Taxes Division

The Direct Taxes Division is mandated to administer and collect income taxes as provided for under the Income Tax Act, Chapter 323 of the Laws of Zambia; and the Property Transfer Tax Act, Chapter 340 of the Laws of Zambia. The Division also administers Mineral Royalty, as provided for under the Mines and Minerals Development Act No. 11 of 2015, Tourism Levy pursuant to the Tourism and Hospitality Act No. 13 of 2015 and Skills Development Levy pursuant to the Skills Development Levy Act No. 46 of 2016.

Indirect Taxes and Excise Division

The Division is responsible for administering inland consumption taxes as provided for under the Value Added Tax Act, Chapter 331 of the Laws of Zambia; the Insurance Premium Levy Act No. 21 of 2015; and the Customs and Excise Act Chapter 322 of the Laws of Zambia to administer Local Excise.

Finance Division

The Finance Division is responsible for accounting of both operational funds for the Authority and tax revenue collected on behalf of the Government.

Investigations Department

The Investigation Department is responsible for investigating suspected cases of tax offences under the various laws administered by the Authority.

Research and Corporate Strategy Department

The Research and Corporate Strategy Department provides executive support to the Office of the Commissioner General. Its mandate extends to undertaking tax policy research and coordination, statistical analysis, data management and bulk data analytics, including corporate planning and business process improvement.

The department also coordinates all activities relating to the development and implementation of the Authority's Corporate Strategic Plan and Annual Output Plans. Further, the department coordinates the implementation of the organisation-wide business process improvement activities through KAIZEN[2].

Information and Communication Technology Department

The Information and Communication Technology Department enables and supports revenue collection and administration by providing reliable and efficient ICT systems and services. The department provides the day-to-day ICT support to all users in the Authority and is also responsible for the acquisition, operation, maintenance and security of all ICT equipment and systems in the Authority.

Administration Department

The Administration Department carries out several support functions within the Authority, which include acquisition, development and maintenance of physical assets. The department is also responsible for Occupational Health and Safety, physical security, transport, purchasing and supplies management.

Internal Audit and Risk Department

The Internal Audit and Risk Department provides objective assurance and consultancy whose primary purpose is to enhance and protect the Authority's value by facilitating, reviewing and providing advice on the Authority's risk management, control, and governance processes. The department reports functionally to the Audit and Risk Committee of the ZRA Governing Board, and administratively to the Commissioner General.

Human Resource Department

The Human Resource Department is responsible for all aspects of human resource management and development in ZRA, which include recruitment, implementation of staff development, compensation, and staff welfare all aimed at maximising the value and productivity of the human capital.

Legal Services Department

The Legal Services Department provides legal services to the Authority and reviews appeals and objections from taxpayers aggrieved by the Authority's decisions on tax matters. The department is also responsible for representing the Authority in all matters in the courts of law including prosecuting tax offenders.

Office of the Board Secretary

The Office of the Board Secretary provides day to day secretarial and other services to the Governing Board. The Office is also responsible for investigating cases of impropriety by officers of the Authority.

Innovation and Project Management Department

The Innovation and Project Management Department is the innovation centre for the Authority where innovative and customer centric solutions are conceptualised and actualised. The department provides a research and development environment to ensure the Authority is up to date in the adoption and use of technology to eliminate inefficiencies in tax administration. The department is also responsible for delivering holistic customer experience in the Authority.

Units under Commissioner General's Office

i. Intelligence and Information Unit

The Intelligence and Information Unit is responsible for gathering, processing and dissemination of strategic, tactical and operational tax related intelligence in the Authority. The unit provides customs and domestic taxes intelligence aimed at facilitating investigations, prosecutions and enforcement activities.

ii. Integrated Data Cleaning Unit

The Integrated Data Cleaning Unit is responsible for the institutional data quality initiatives and the reconciliation of both Inland and Customs tax accounts to improve the integrity and quality of data used in debt and compliance management and enforcement activities.

iii. Inspectorate and Customs Enforcement Unit

The Inspectorate and Customs Enforcement Unit is responsible for conducting enforcement activities on non-compliant taxpayers. These include domestic taxes and customs enforcement activities to curtail all forms of evasion such as falsification of documents, collusion and smuggling to minimise the leakage of Government revenue and facilitate legitimate trade. This unit has since transitioned to Enforcement Unit with the added responsibility of debt recovery.

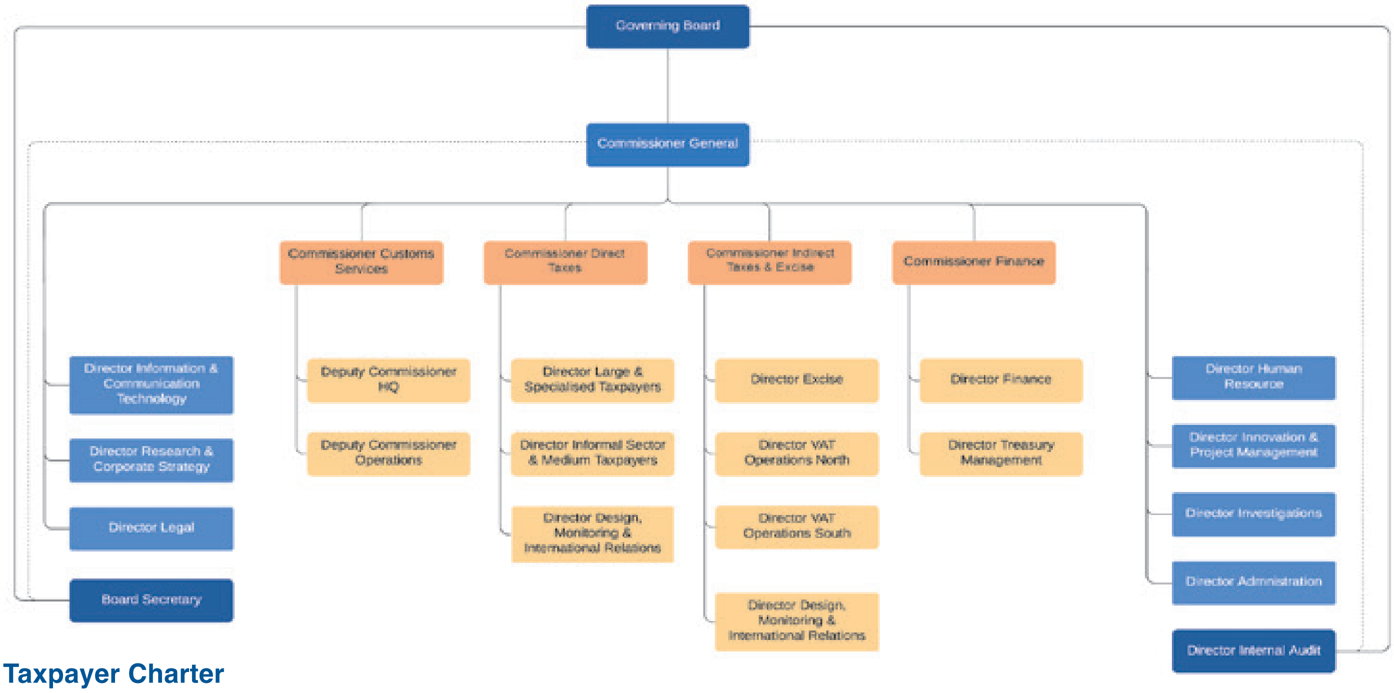
iv. Corporate Communications Unit

The Corporate Communications Unit is responsible for coordinating the Authority's corporate communications, advertising, public relations and branding activities. The unit also facilitates stakeholder engagements aimed at enhancing taxpayer education and the corporate image of the Authority.

The governance structure of the Authority as at 31st December 2020 is depicted in Figure 1.

[2] Framework for implementing continous improvements

Figure 1: ZRA Organisation Structure for Senior Management



Taxpayer Charter

The Taxpayer Charter sets out the minimum standards of service that clients should expect from ZRA as it performs its mandate. In order to keep pace with the set standards, the Authority continued to monitor its performance to ensure continuous improvement in service delivery. The service standards outlined in the Charter are broadly divided into three categories:

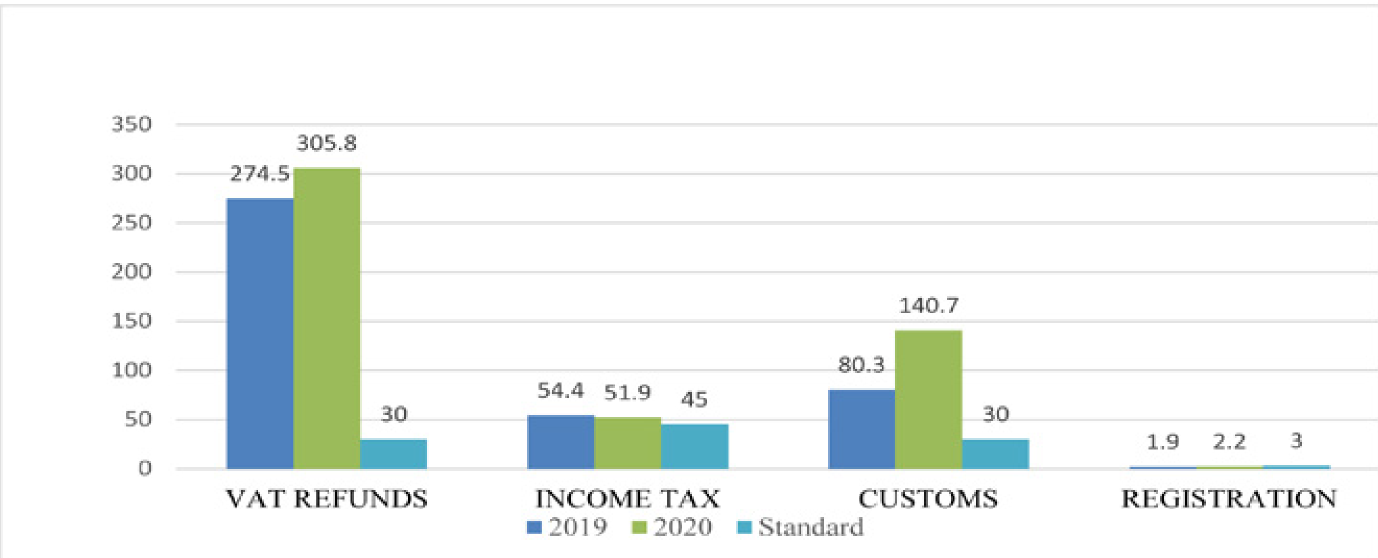
a) Standards related to the processing efficiency;
b) Standards related to taxpayer advisory services; and
c) Standards related to service efficiency.

The processing efficiency refers to the turnaround time for completing a business process. The processing efficiency is analysed in terms of refunds, taxpayer registrations and customs declarations.

The performance of the Charter concerning refunds processing time for income tax, customs and VAT refunds were all unfavourable against the Charter standards. While the processing time for income tax refunds showed an improvement to 51.9 days in 2020 from 54.4 days in 2019, this is still above than the set standard of 45 days. The customs refunds processing performance in 2020 indicate an increase in average processing time to 140.7 days from 80.3 days in 2019 against the Charter standard of 30 days. The VAT refunds processing time averaged 305.8 days in 2020 from 274.5 days recorded in 2019 against the Charter standard of 30 days. The poor performance of refunds was mainly due to inadequate resources to pay the backlog as well as the current refund claims on time.

With regard to registrations, the average processing time was 2.2 days in 2020 which was within the Charter standard of 3 days. However, this was above the 1.9 days achieved in 2019 due to transition challenges on the new TaxOnline system (see Figure 2).

Figure 2: Processing Efficiency of Refunds and Registrations (average number of days) in 2020 and 2019

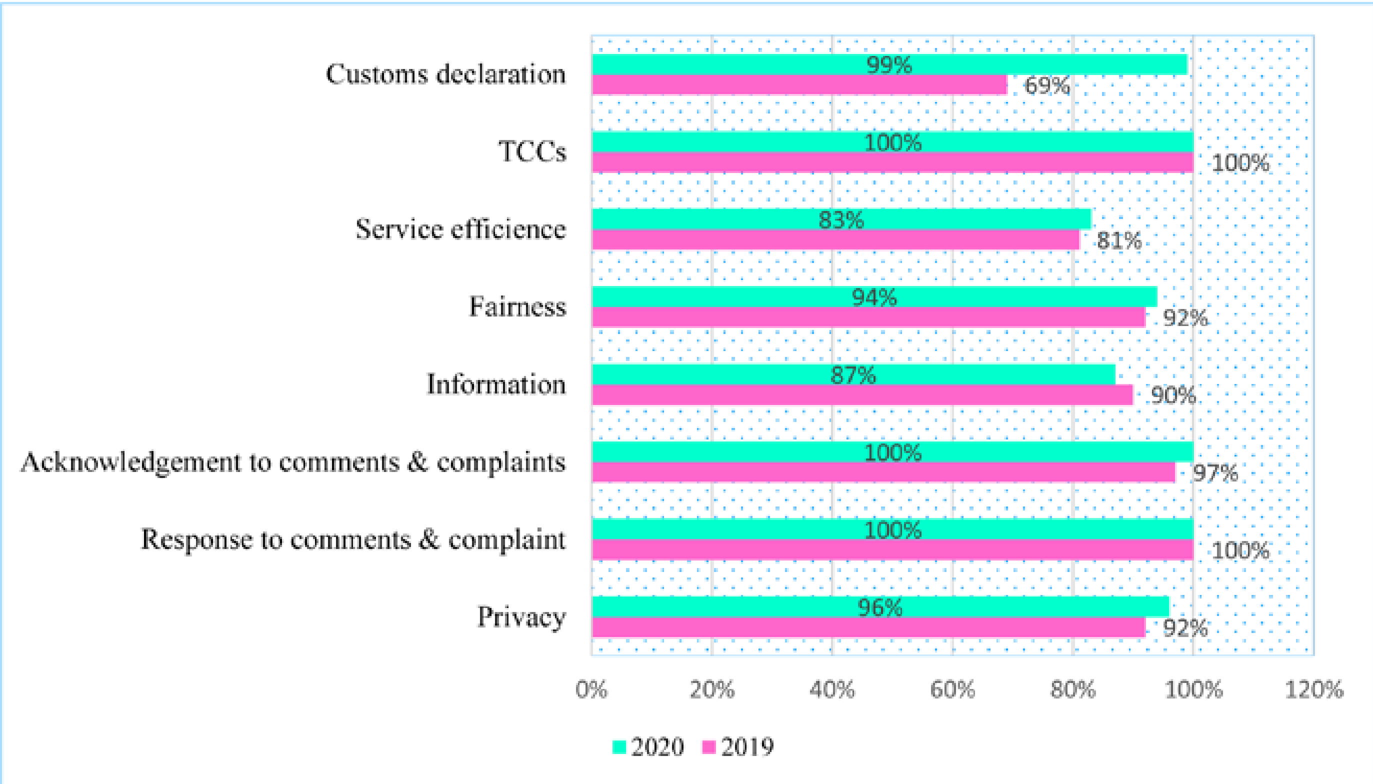


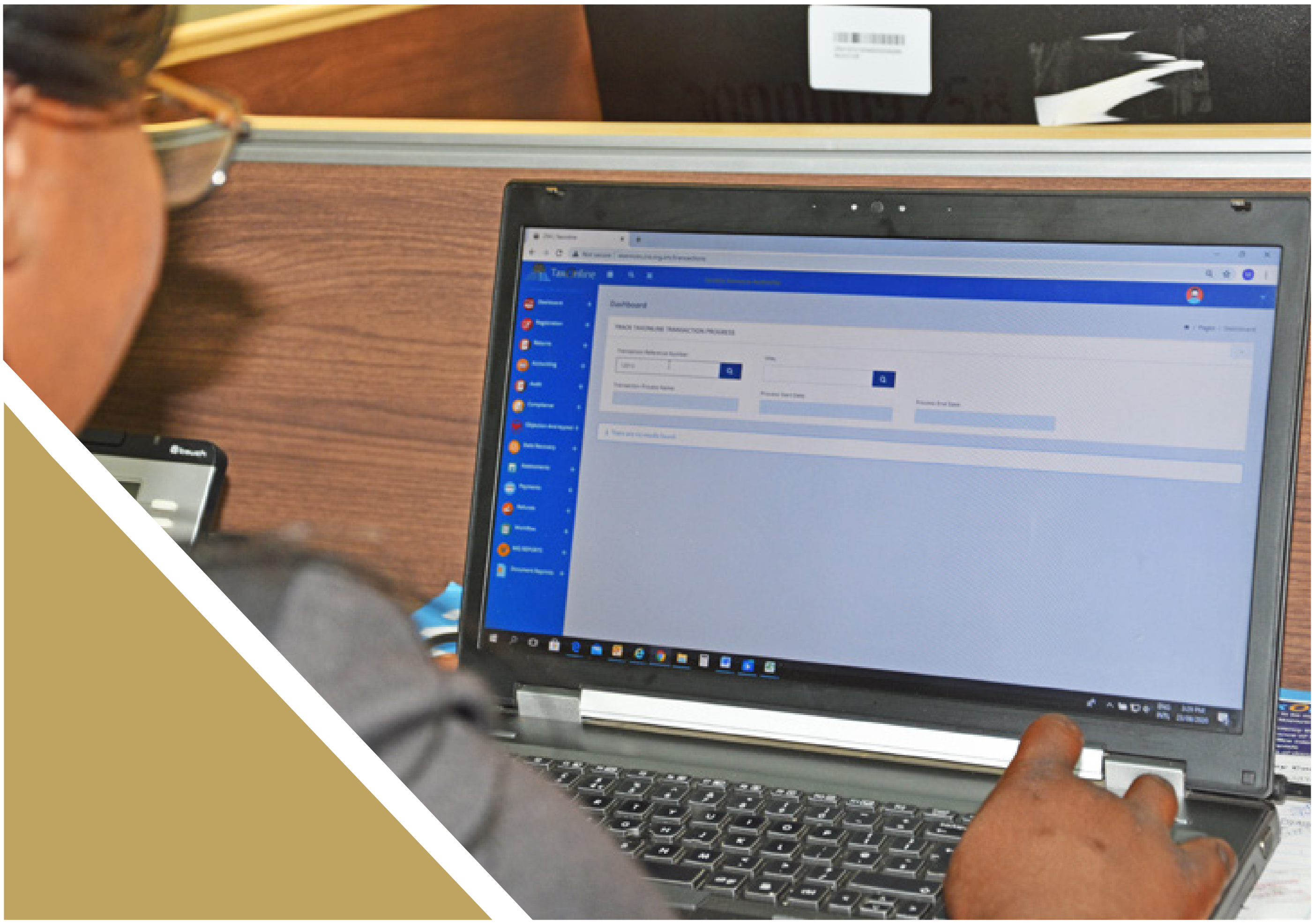
Similarly, customs declarations processed within 1.5 days of registration of the entry, increased to 99 percent in 2020 from 69 percent in 2019. This improvement is attributable to the continued roll-out of the self-clearance modules and the stabilisation of the pre-clearance module on ASYCUDAWorld coupled with the recruitment of more customs officers.

With respect to service efficiency, the time taken to serve taxpayers within 20 minutes of their arrival improved to 83 percent in 2020 from 81 percent in 2019.

Furthermore, the 2020 Taxpayer Charter monitoring survey results showed that 96 percent of the taxpayers were satisfied with the Authority's performance with respect to the service standards on confidentiality and privacy policy, compared to the rating of 92 percent in 2019. However, there was a drop in the number of clients who revealed that the tax information they received from ZRA was adequate compared to 87 percent from 90 percent recorded in 2019. The reduction was attributed to the reduced physical interaction between ZRA and the public as a result of the COVID-19 pandemic. Overall, taxpayers showed satisfaction with the performance of the Authority concerning acknowledgment and response to comments and complaints as these were provided well within the Charter standards (See Figure 3).

Figure 3: Efficiency of Customs Declaration and Advisory Services in 2020 and 2019





PRIORITIES FOR THE YEAR

Priorities For The Year

While the Authority set out its sight on strengthening the performance of consumption taxes in 2020, the priorities for the year shifted to mitigating the threats of COVID-19 pandemic on revenue mobilisation activities. The Authority's resolve to invest in technology barely a year prior to the COVID-19 pandemic proved to be the single most important factor that sustained it. The Authority's Business Continuity Plans (BCP) proved its effectiveness as it provided resilience against the COVID-19 storm.

In the year under review, the Authority implemented a new TaxOnline system that eliminated several manual processes. This automation was timely as it enabled ZRA officers to work remotely during the pandemic. Additionally, the automation enabled taxpayers to process their registrations, filing and payments online. Among the most notable automated and simplified processes was the automatic generation of TPIN for businesses upon registering with PACRA. The system is configurable which makes it easy to make any changes in a very uncertain environment, as the COVID-19 pandemic has demonstrated.

Building on this success, the Authority launched several complimentary electronic platforms to serve taxpayers virtually which proved timely during the COVID-19 pandemic. ZRA focused mainly on providing solutions tailored to taxpayer segments. Alive to the fact that some parts of the country have erratic or no internet at all, the Authority provided launched TaxOnPhone which is a USSD solution that can work on a feature phone, targeting small and medium taxpayers who are unregistered but operate small businesses, taxpayers who may not have access to computers, individual taxpayers who run small businesses and the unbanked.

The Authority also launched TaxOnApp, which is an internet based mobile application designed for small and medium taxpayers. This solution aims to improve compliance for both customs and domestic taxes. It includes features such as simplified registration process, taxpayer liability display upon log in, easy to use return and payment processes which includes third-party payment options, integrated border declaration form and preclearance which enables a taxpayer to declare before arrival at the border thereby improving efficiency as well as the customs assessment status check. In addition, the Authority was able to introduce the payment of taxes via WhatsApp.

Widening the Tax Net

Activities of ZRA Tax Agents

The ZRA 2019-2021 Corporate Strategic Plan identifies the appointment of tax agents as part of the compliance improvement strategy in the informal, small and medium taxpayer segment. To this end, the Authority in September 2020 signed a memorandum of understanding with the Ministry of Local Government and Housing and the Ministry of Finance to appoint Local Authorities as agents for the collection of taxes in the informal sector.

The appointment of Local Authorities as tax agents followed the expiry of the appointment of the Zambia National Marketeers Credit Association as agents for the collection of base tax and Sherwood Greene Properties Limited for the collection of withholding tax on rental income in July 2020.

Mobile Compliance Enforcement Activities

In 2020, the Authority continued to enhance its enforcement activities through the Inspectorate and Customs Enforcement Unit. The enforcement operations resulted in 3,398 interceptions with a value of K1.6 billion, out of which 1,471 interceptions valued at K345.5 million were recommended for investigation.

Taxation of Small and Medium Taxpayers

During the year under review, the Authority continued to leverage on technology to deliver various services to taxpayers. In this regard, small and medium taxpayers continued to utilise the TaxOnPhone mobile based application to access ZRA e-services such as tax registration, return filing and verification of tax compliance status on mobile phones and similar devices without using the internet.

During the year, TaxOnPhone was enhanced following the successful integration of features which enable taxpayers to verify their tax account status and apply for a tax clearance certificate. As at end-year, there were 154,406 TPINs and 52 tax type registrations on TaxOnPhone. A total of 20,488 returns were filed on the platform in 2020 compared to 34,979 returns in 2019. The number of non-nil returns filed declined to 2,206 in 2020 from 6,574 in 2019 and the accompanying declared liabilities reduced to K0.6 million in 2020 compared to K1.7 million in 2019. The reduction in returns filed was due to system downtime experienced during the integration with the second generation TaxOnline system (see Table 1).

Table 1: Number of returns filed on Tax*On*Phone in 2020 and 2019

Tax Type	2020	2019
Nil Returns		
Turnover Tax	18,160	28,254
Income Tax	15	69
Value Added Tax	103	42
Local Excise (Opaque Beer)	3	0
Insurance Premium Levy	1	40
Non-nil Returns		
Turnover Tax	2,206	6,574
Total Returns	**20,488**	**34,979**

As part of our on-going modernisation reforms, the Authority successfully rolled out the innovative TaxOnApp application in November 2020. This internet based mobile TaxOnApp application automates a wider range of services than TaxOnPhone. TaxOnApp enables taxpayers to access various ZRA e-services including TPIN and tax type registration or deregistration, return filing, tax payments, tax education and search for a Customs bill of entry. The internet-based application therefore augmented the Authority's efforts to further simplify tax compliance procedures, reduce taxpayers' compliance costs and improve efficiency in the processing of taxpayer information.

Enhancing revenue collection using the Block Management System

During the year, the Authority's operations under the Block Management System (BMS) adapted to ensure adherence to health protocols amidst the COVID-19 pandemic. The BMS leveraged on innovative remote management solutions and our reliable ICT solutions such as TaxOnline, TaxOnPhone and TaxOnApp to manage 72 blocks in 2020, an increase from 30 managed in 2019. Similarly, the revenues attributed to the BMS activities increased three-fold to K42 million from K14.0 million in 2019. However, total registrations recorded under BMS marginally reduced to 861 in 2020 from 897 in 2019 (see Table 2).

Table 2: Registration by tax type in 2020 and 2019 under the Block Management System

Type of Registration	Number of Registrations	
	2020	2019
TPIN	145	123
Turnover Tax	379	239
PAYE	172	266
Withholding Tax	127	239
Income Tax	29	13
Presumptive Tax	1	17
Tourism Levy	8	0
Total	**861**	**897**

Electronic Fiscal Devices

The Authority had by the beginning of the year under review procured a total of 7,000 Electronic Fiscal Devices (EFDs) comprising 4,000 Fiscal Cash Registers (FCRs) and 3,000 Electronic Signature Devices (ESDs). Of the procured EFDs, 3,742 FCRs were issued to 2,531 taxpayers and 255 ESDs were distributed to 99 taxpayers. The low uptake is due to the slow implementation of EFD interface solutions on account of cost and compatibility challenges.

Besides the FCRs and ESDs, the Authority implemented Virtual Electronic Fiscal Devices (V-EFDs) through Server-to-Server systems integration which is a third-party virtual device connection to the Tax Invoice Management System (TIMS). By end of year, 52 taxpayers had successfully integrated their Point-Of-Sale systems through the Virtual Electronic Fiscal Device solution.

The benefits of fiscalisation project began to bear fruit in 2020 as a total of 5,907 suspiciously classified invoices with a total sales value of K799.8 million and 952 credit notes valued at K479.7 million were identified for follow-ups by relevant units in the Authority. In addition, a cumulative total of 1,160 taxpayers were identified to have declared transactions on TIMS with total sales valued at K847.2 million but were, however, not declared on TaxOnline. Further, a cumulative total of 2,111 taxpayers were identified to have under-declared their cumulative tax payable valued at K519.3 million. During the same period, 12 taxpayers were found to have under-declared their output and assessments in the amount of K1.9 million were raised.

Improving Operational Efficiency

In 2020, several projects were undertaken aimed at improving the operational efficiency of the Authority:

Physical Infrastructure Development

During the year under review, the Authority constructed and rehabilitated infrastructure at its various locations across the country at a cost of K26.9 million.

Office Furniture and Equipment

The Authority procured assorted office furniture and non-ICT equipment for its various offices countrywide at a total cost of K3.0 million.

Transport

The Authority procured 6 new motor vehicles for its operations at a total cost of K4.6 million.

Enforcement and Compliance Actions

Customs Services Division

(a) Scanner Operations

In an effort to enhance operational efficiency relating to customs clearances, the Authority has installed non-intrusive scanners to speed up the examination of imports and exports. Scanners serve an additional purpose of aiding enforcement activities aimed at increasing compliance among importers and exporters.

Out of the 567,412 trucks recorded in 2020 at stations where scanners were positioned, 85,559 trucks were scanned representing 15.1 percent. Among the scanned trucks, a total of 1,187 trucks were found with inconsistencies from which a total of K7.2 million additional revenue was collected (see Table 3).

Table 3: Scanner Activity Report for 2020

Port	Total Truck Traffic	Scanned	%Scanned of Total Traffic	Truck with discrepancies	Additional Rev Collected (K)
Chanida	44,369	9,212	20.8%	25	474,328.70
Chirundu	151,647	20,690	13.6%	895	4,376,776.26
Kapiri Mposhi - EC	-	-	-	-	-
Kasumbalesa	177,125	1453	0.8%	2	13,091.00
Katima Mulilo	26,849	12,274	45.7%	10	56,023.98
Kazungula	36,399	23,539	64.7%	94	1,025,100.70
Mwami	16,601	5506	33.2%	17	5,913.38
Nakonde	114,422	12,885	11.3%	144	1,273,513.13
Total	**567,412**	**85,559**	**15.1%**	**1,187**	**7,224,747.15**

(b) Inland and Border Enforcement

Every year, the Authority conducts random and risk-based enforcement and compliance activities at various ports in form of inspections, roadblocks and follow-ups on intelligence. In 2020, the value for duty purpose of goods detained increased by 16.9 percent compared to 2019 (see Table 4).

Table 4: Detentions and Seizures in 2020 and 2019 (K 'Million)

Type	2020	2019	Variance	% Variance
Value of Detained Goods	609.5	538.9	70.6	13.1%
Value of Seized Goods	120.7	85.8	34.9	40.6%
Total	**730.2**	**624.7**	**105.5**	**16.9%**

During the year, enforcement activities yielded a total of K26.1 million as shown in Table 5.

Table 5: Revenue yield from detentions and seizures in 2020 and 2019 (K)

Station	2020	2019
Kapiri Mposhi	16,941,802.2	17,186,044.5
Livingstone	3,829,752.4	1,919,000.0
Kasumbalesa	1,640,367.1	1,376,925.3
Chipata Enforcement Unit	705,945.1	-
Katima Mulilo	673,031.0	797,698.1
Kitwe	490,015.4	1,419,310.9
Nakonde	472,754.8	988,197.6
Mokambo	472,572.5	62,400.0
Ndola	367,436.0	156,000.0
Chingola	196,986.2	336,143.2
Mwami	151,850.5	-
Sakania	87,116.0	-
Chirundu	42,000.0	32,165.1
Mpulungu	-	53,985.0
Lusaka port		63,000.0
Total	**26,071,629.2**	**24,390,864.7**

Inspectorate and Customs Enforcement Unit

In 2020, the operations of the unit involving mobile compliance enforcement activities focused on curbing smuggling through risk based random patrols and enforcement operations resulting in 3,398 interceptions. These interceptions which were mainly based on intelligence information were valued at K1.6 billion. From these interceptions, assessments worth K53.4 million were raised of which K36.3 million was collected. In addition, out of the 3,398 interceptions, 1,471 interceptions valued at K345.5 million were recommended for further investigation.

Investigations Department

a) Investigations Activities

During the year, 639 cases were investigated out of which 496 were brought forward from 2019. A total of 111 cases were concluded during the year, while 528 were carried forward to 2021 (See Table 6).

Table 6: Investigation Cases in 2020

	Brought Forward	New Cases Received	Total	Terminated	Referred to Division	Civil Settlement	Referred for Prosecution	Carried Forward
Customs	297	73	370	6	0	62	4	298
Domestic Taxes	199	70	269	8	0	31	0	230
Total	**496**	**143**	**639**	**14**	**0**	**93**	**4**	**528**

From the 639 cases investigated, 370 related to customs and excise, while 269 related to domestic taxes. This represents a decrease of 5 percent for customs related cases and an increase of 21 percent for domestic taxes related cases from the 391 and 223 cases handled in 2019 respectively.

b) Digital Forensics Activities

During the year under review, the Authority completed 50 digital forensic cases involving the examination of 147 digital forensic items.

Direct Taxes and Indirect Taxes Divisions

In 2020, the Direct Taxes and Indirect Taxes Divisions adapted their enforcement and compliance strategies to the challenges posed by the COVID-19 pandemic. The divisions updated their risk parameters for audit case selection, enhanced utilisation of third-party data and other intelligence information, and reviewed procedural guidelines to ensure adherence with recommended health protocols.

a) Tax Audits

The value of tax audit assessments increased to K3, 789.5 million in 2020 from K3, 300.3 million in 2019, representing an increase of 14.8 percent. Of this amount income tax accounted for K1,724.6 million while domestic VAT accounted for K1, 647.9 million (See Table 7).

Table 7: Tax Audit Assessments in 2020 (K' million)

Tax type	Penalties, interest and fines	Principal tax	Total audit assessment
Income Tax	831.39	893.16	1,724.55
VAT on domestic goods	1,511.50	136.34	1,647.84[3]
Local Excise Duties	98.78	80.69	179.47
PAYE	38.29	97.63	135.92
Withholding taxes	3.18	51.57	54.76
Mineral Royalty	3.06	29.45	32.51
Turnover tax	2.68	7.69	10.37
Skills Development Levy	2.47	1.35	3.82
Tourism Levy	0.00	0.22	0.22
Insurance Premium Levy	0.00	0.02	0.02
Grand Total	**2,491.3**	**1,298.1**	**3,789.5**

b) Block Management System

The Block Management System (BMS) continued to be an effective compliance enhancing initiative for small and medium taxpayers in identified trading areas or blocks. The initiative provides a platform for taxpayer engagements and education. During the year, the number of blocks managed across the country increased to 72 from 30 in 2019. The upscaling of the BMS initiative brought in additional 861 tax registrations bringing the cumulative total number of taxpayers managed under this initiative to 10, 528. This resulted in increased revenue yield from the program to K42.0 million in 2020 from K14.0 million collected in 2019 (see Table 8).

Table 8: Blocks managed in 2020 by Tax Office

Tax Office	Number of Blocks	Number of Taxpayers monitored in Blocks[4]	New Registrations under the BMS [5]	Amount of Taxes collected in the Blocks
Chingola	6	188	3	-
Chipata	4	326	83	-
Kabwe	5	654	174	52,999.9
Kasama	6	672	63	494,443.2
Kitwe	10	1,286	10	1,374,961.9
Livingstone	3	214	8	-
Lusaka	14	4,034	214	29,473,194.8
Mansa	4	188	98	270,249.0
Mongu	8	1,353	139	1,372,084.5
Ndola	6	1,306	47	8,933,044.5
Solwezi	6	307	22	-
Total	**72**	**10,528**	**861**	**41,970,977.7**

[3] This amount includes K1, 469.78 million relating to downward audit tax adjustments to VAT refund claims.

[4] This is the number of all taxpayers monitored under the BMS

[5] The number does not include those registered outside the BMS

Customer Experience

The Corporate Strategic Plan identifies improved customer experience as a key strategic objective. To achieve this objective, the Authority in 2020 integrated the Taxpayer Service Centres, the Call Centre and Taxpayer Education functions into one unit called the Customer Experience Unit. The Authority intensified its taxpayer education activities by utilising various platforms to disseminate information to the public including workshops, tax clinics, lectures, school chats, television, radio programmes, social media, taxpayer training and tax literature.

The taxpayer education sessions covered various topics including; taxpayer rights and obligations, compliance requirements, use of ZRA e-services and new technology platforms such as TaxOn-Phone and TaxOnApp, EFDs, and customs self-assessment.

Business Development

Enterprise Risk Management and Business Continuity Planning.

In line with the Authority's Risk Management Policy, a process to identify and manage risks at both strategic and operational levels is undertaken. The Authority's risk profile continued to evolve in 2020 in order to accommodate solutions aimed at treating challenges posed by the COVID-19 pandemic. The pandemic negatively impacted staff health and revenue collection which consequently called for a rethink of how we conduct business.

Other than COVID-19, the Authority's strategic risk watch list included; low taxpayer compliance; instability of core ICT systems; uncertainty of the sustainability of the fiscalisation initiative; high debt stock; terrorism; fraud and corruption; and inadequate ICT Business Continuity Plan (BCP) for core systems.

In 2020, the Authority continued to conduct tests aimed at enhancing business continuity resilience for systems namely; TaxOnline, Zambia Electronic Single Window, Share Point and Systems Application Product (SAP). The results were satisfactory with minor areas needing improvement.

Enhancements on TaxOnline and uptake of e-services

During the year, the Authority successfully developed and launched additional modules on TaxOnline namely; debt recovery; assessments; audit; objections and appeals; investigations; and refunds. This was after the successful deployment of frontline modules namely, registration, return filing and payments on TaxOnline.

In 2020, a total of 1,184,732 returns were filed electronically while 22,984 returns were filed manually or initiated by the Authority, representing 98.1 percent electronic filing rate. This is compared to 1,365,729 electronic returns and 35,725 manual returns in 2019, representing 97.5 percent electronic filing rate. The number of new-user sign-ups rose to 189,296 in 2020 from 27,946 in 2019. Further, e-registration applications received increased to 309,951 in 2020 compared to 245,426 in 2019 (see Table 9).

Table 9: Uptake of e-services in 2020 and 2019

Service	Type	2020	2019
User Sign up	Electronic	189,296	27, 946
Registration	Electronic	309,951	245,426
	Manual/ZRA Initiated	2,722	19, 398
Return Filing	Electronic	1,184,732	1, 365, 729
	Manual/ZRA Initiated	22,984	35, 725

ASYCUDAWorld System Upgrade

During the year under review, a number of upgrades were made on ASYCUDAWorld and among these were:

1. upgrading of ASYCUDAWorld Database Servers;
2. mainstreaming of the electronic Balance of Payments system;
3. implementation of motor vehicle declaration, quota management and TPIN Suspension features;
4. roll out of customs self-assessment at Ndola and Nakonde Centralised Processing Centres;
5. implementation of the mineral export permit;
6. implementation of improved error handling feature for adjusting interest;
7. implementation of the feature allowing for payment in US Dollars;
8. integration of TaxOnApp with passenger clearance, integrated border declaration form and the web service for the application; and
9. addition of 13 Government Ministries to the Voucher of Exemptions.

E-Payment Platform

As at end year, 18 commercial banks and other financial institutions in Zambia were connected to both TaxOnline and ASYCUDAWorld. Of these, 11 extended their e-payment platform to non-account holders (see Table 10).

Table 10: Banks connected with ZRA in 2020

List of banks with *e*-payment extended to both account and non-account holders	List of banks with *e*-payment available only to account holders
Access Bank	Bank of China
Atlas Mara Bank	Citi Bank
Absa Bank	First Alliance Bank
Cavmont Bank	First Capital Bank
EcoBank	First National Bank
Indo-Zambia Bank	Standard Chartered Bank
Investrust Bank	Zambia Industrial Commercial Bank
Natsave	
Stanbic Bank	
United Bank for Africa	
Zanaco	

During the year, ZRA partnered with C-grate 543 Konse Konse to implement and launch a threefold tax payment solution. These are: the WhatsApp tax payment option; payment over the counter through all C-grate merchants' country wide using the C-grate Point of Sale Machines; and online payment through the C-grate portal.

Apart from the banking payment solution, the USSD mobile tax payment platform offered by mobile network operators through the mobile money facility provided an alternative payment solution. The service providers participating on the e-payment platform are Airtel, MTN, ZAMTEL and C-grate 543 Konse Konse.

Modernisation of Trade Logistics

In order to facilitate international trade, the Authority in 2020 continued to modernise trade logistic as follows:

1. Expansion of the Customs Valuation Referencing Database by adding 26 products, bringing the total to 54;
2. Establishment of a regional Central Processing Centre at Chanida;
3. Configuration of remote stations to the ASYCUDAWorld system;
4. Launching of TaxOnApp mobile application, which allows for preclearance;
5. Addition of 13 Government ministries to the electronic voucher of exemptions bringing the total to 26; and
6. Roll out of customs self-assessment to all stations that are connected to ASYCUDAWorld.

Stakeholder Relations

Cooperating Partner Relations

The operations of the Authority involve cooperation with other key stakeholders, both internal and external. During the year, the Authority collaborated with the following partners:

Deutsche Gesellschaft fur International Zusammenarbeit (GIZ)

The Authority received support from GIZ through its Good Financial Governance Programme for the implementation of various projects. GIZ supported the Authority with equipment for staff to successfully work virtually during the height of the COVID-19 pandemic which ensured that operations of the Authority were not adversely hampered.

The GIZ supported the successful implementation of the Electronic Queue Management System in Chipata, Solwezi and Livingstone. With the support of GIZ, the TaxOnApp was successfully developed and rolled out in 2020. Other initiatives supported by GIZ include; TaxOnPhone, Taxation of Large Taxpayers, Mobile Offices Project, and the Bulk Intelligence Data Analytics Project (BIDA). In addition, GIZ, under the Kasumbalesa Trade Facilitation Project, procured 60 smart phones to support the Customs Validation System, supported the Electronic Data Exchange between ZRA and DRC Customs Administration and also between ZRA and the Malawi Revenue Authority.

Common Market for Eastern and Southern Africa (COMESA)

The Authority partnered with COMESA for the financing of the development of the customs management system to enhance customs revenue administration and trade facilitation.

United States Agency for International Development (USAID)
ZRA and USAID commenced engagements with a view to support domestic resource mobilisation in conjunction with the Ministry of Finance. The proposed activity will help Zambia improve domestic revenue mobilisation and expand the fiscal space for public spending and investments in service delivery and poverty reduction.

The activity will engage both government and non-government stakeholders to build capacity in tax policy analysis, improve tax compliance and administration, and strengthen the tax culture in a manner that facilitates private sector growth and an accountable relationship between taxpayers and the Government.

International Monetary Fund (IMF)

The IMF, through its Fiscal Affairs Department, continued to offer technical assistance to the Authority. The Fund offered training and capacity building programs to staff in Research and Corporate Strategy department, Direct Taxes, Indirect Taxes and Excise, and the Customs Services Divisions.

ATAF, OECD & IGF

The Authority through the Deep Dive Project continued to develop capacity in tackling Base Erosion and Profit Shifting in the Mining Sector with the support of the African Tax Administration Forum (ATAF), the Organization of Economic Cooperation and Development (OECD) and the Inter-governmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF). The project offers training and audit support in transfer pricing cases in the mining sector and in mining rights valuation.

Local Partners

To enhance revenue administration, the Authority interacted with Government Ministries and Agencies such as; the Patents and Companies Registration Agency; the Zambia Statistics Agency, the Financial Intelligence Centre, the Anti-Corruption Commission, the Drug Enforcement Commission, the Copperbelt University, the Energy Regulation Board, the Road Development Agency, Ministry of Local Government and Housing, Zambia Bureau of Standards, the Zambia Development Agency, the Road Traffic and Safety Agency and the Bank of Zambia among others.

In addition, the Authority also continued working with the Ministry of Commerce, Trade and Industry to accelerate the trade facilitation agenda through the Zambia Electronic Single Window.

Corporate Social Responsibility

In line with our Corporate Social Investment Policy, the Authority undertook various activities that enhanced our commitment to uplifting the welfare of members of our community as well as improve our corporate image. The activities that were undertaken in the year under review include:

1. donation of a solar backup solution, electric cooker, microwave oven and electric kettle to the Maternity Ward at Chelstone Clinic in Lusaka;
2. donation of 120 standard school desks to Bissell Community School in Lusaka District;
3. donation of hand sanitizer and financial resources to the Ministry of Health towards the fight against the COVID-19 pandemic;
4. donation of seized fuel and food stuffs to the Government security wings and various charitable organisations across the country, respectively; and
5. donation of seized motor vehicles to selected Government institutions.

Tax Policy Support

Tax Policy Review Committee

The Authority continued to play a significant role in the design, development and implementation of Tax Policy through its representation on the Tax Policy Review Committee (TPRC). The TPRC is a multi-sectoral committee constituted by the Ministry of Finance to advise the Minister of Finance on tax policy reforms for each fiscal year. The Authority submitted tax policy proposals and administrative changes to aid tax administration. Other activities included participation in the drafting of the 2021 Budget Address, computation of revenue impacts of proposed tax measures and drafting of tax legislation.

Provision of Revenue Statistics and Information

As part of its mandate, the Authority as a primary producer of statistics provides revenue and trade statistics to Government and other stakeholders. The provision of statistics enables policy makers to make evidence-based decisions. It is in this vein that the Authority provided timely responses to Ministerial and Parliamentary requests on revenue and administrative impacts of tax policy proposals.

During the year, the Authority also provided revenue and trade statistics to the Zambia Statistics Agency, the International Monetary Fund, the Bank of Zambia, research institutions such as the International Growth Centre, researchers, students and other partners.

The Authority also provided information on tax revenue performance and other aspects of its operations to the public through press statements and media briefings. This is in line with the Authority's strategic corporate objective of effectively communicating with its taxpayers and other stakeholders on its operations.

Budget Legislation

Following the presentation of the 2021 National Budget by the Minister of Finance in September 2020, the National Assembly requested the Authority to make written and oral submissions to the various Committees of the House on the ramification of the various tax Bills that were before it. The Authority made written submissions to, and appeared before the Budget Committee, the Expanded Budget Committee and the Committee on Delegated Legislation. The Bills that were considered were the Zambia Revenue Authority (Amendment) Bill; the Property Transfer (Amendment) Bill; the Value Added Tax (Amendment) Bill; the Income Tax (Amendment) Bill; the Customs and Excise (Amendment) Bill; the Skills Development Levy (Amendment) Bill; and the Mines and Minerals (Amendment) Bill.

The Authority recognises taxpayer education as an important component of the overall tax compliance strategy. In this regard, the Authority disseminated the 2021 Budget Address and other tax information to taxpayers physically and electronically on its website and other platforms in order to educate the public on their new or amended tax obligations. The information packs included Budget Highlights pamphlets, amendment Acts and Statutory Instruments. Customer Service Centres were available to serve walk-in clients while the National Call Centre attended to phone-in clients.

Due to the COVID-19 restrictions on public gatherings, only one post-2021 budget engagement was conducted physically to discuss the implications of the tax policy and administrative measures announced in the Budget. Subsequent engagements on the 2021 budget were conducted virtually. As per tradition, the Authority took advantage of these interactions to clarify on other matters relating to its operations.

Ministerial and Parliamentary Services

During the year under review, the Authority continued to interact with several stakeholders as it discharged its mandate. Major stakeholders included Parliament, Government Ministries and agencies. The Authority provided revenue performance reports to the Ministry of Finance as well as advice on various tax matters. The Authority also worked closely with other Government ministries and agencies such as the Ministry of Commerce, Trade and Industry, Ministry of Mines and Minerals Development and other border agencies.

Further, the Authority provided Parliamentary briefs directly to Parliament as well as through the Ministry of Finance. Interactions with Parliament were in form of written memoranda on different subjects to the various Committees of the House as well as through appearances before them. Committees engaged included the Budget Committee, the Public Accounts Committee, the Committee on National Economy, Trade and Labour and the Committee on Delegated Legislation, among others.

Trends In Domestic And Global Economic Indicators

Trends In Domestic And Global Economic Indicators

Tax revenue collections are significantly influenced by the performance of global and domestic economic variables including GDP, inflation, commodity prices, interest rate, and the exchange rate. This section provides an overview of the performance of the global economy, commodity prices and selected domestic macroeconomic indicators in 2020.

The Global Economy in 2020

The global economy in 2020 was adversely impacted by the COVID-19 pandemic. The highly contagious virus induced governments to enforce lockdowns and closing of national borders which paralyzed economic activities across the globe. According to the IMF, the world economy shrunk by 4.9 percent in 2020 compared to the 2.9 percent growth recorded in 2019. Global prices for commodities such as copper and crude oil plunged during the first half of the year mainly on account of reduced demand due to COVID-19. However, the prices for copper picked up in the second half of the year following the easing of lockdown measures in most economies coupled with production disruptions at key mining operations in South America.

The Domestic Economy in 2020

In real terms, the domestic economy contracted by 3.0 percent in 2020 from the 1.4 percent growth recorded in 2019. The negative growth was mainly on account of reduced output in education; arts, entertainment and recreation; accommodation and food services; wholesale and retail trade, repair of motor vehicles and motorcycles; construction; and manufacturing sectors. The slowdown in global economic activity as a result of COVID-19 constricted capital flows which partly affected the performance of the Kwacha against major trading currencies.

The real GDP was composed of 20.0 percent output from wholesale and retail trading while mining and quarrying accounted for 11.7 percent followed by construction at 10.5 percent; manufacturing (8.7 percent); Agriculture and Forestry (7.9 percent); Education (6.8 percent); Information and communication (6.4 percent); financial and insurance activities (5.2 percent); These sectors collectively accounted for 77.2 percent of the real GDP while the combined share of the rest of the sectors including taxes was 22.8 percent (see Table 11).

Table 11: Growth and Share of Real GDP in 2020 and 2019[6]

Economic Activity (Sector)	Percentage real growth		Percent share of real GDP	
	2020	2019	2020	2019
Agriculture, forestry and fishing	17.2%	7.7%	7.9%	6.2%
Mining and quarrying	8.0%	-5.1%	11.7%	10.0%
Manufacturing	-1.5%	2.4%	8.7%	8.2%
Electricity generation and supply	3.1%	-8.1%	1.8%	1.6%
Water supply; sewerage, waste management and remediation activities	2.1%	-1.2%	0.3%	0.2%
Construction	-5.3%	-5.0%	10.5%	10.2%
Wholesale and retail trade; repair of motor vehicles and motorcycles	-12.5%	0.4%	20.0%	21.1%
Transportation and storage	13.8%	-2.8%	4.2%	3.4%
Accommodation and food service activities	-23.7%	2.2%	1.5%	1.9%
Information and communication	14.3%	18.6%	6.4%	5.2%
Financial and insurance activities	13.0%	8.1%	5.2%	4.2%
Real estate activities	3.5%	3.5%	3.9%	3.4%
Professional, scientific and technical activities	6.3%	-0.9%	2.1%	1.8%
Administrative and support service activities	2.3%	0.3%	1.1%	0.9%
Public administration and defence; compulsory social security	-15.9%	8.3%	4.9%	5.4%
Education	-19.3%	1.8%	6.8%	7.8%
Human health and social work activities	7.4%	8.3%	2.0%	1.7%
Arts, entertainment and recreation	-71.6%	3.8%	0.1%	0.4%
Other service activities	3.5%	3.5%	0.9%	0.8%
Real GDP Growth Rate	**-3.0%**	**1.4%**		

Source: Zambia Statistics Agency

6 The 2020 computations are based on the preliminary GDP estimate while the 2019 computations are based on the finalized GDP estimate for 2019.

A comparison of sector growths shows that the agriculture, forestry and fishing; and information and communication sectors recorded the highest growths at 17.2 percent and 14.3 percent in 2020, respectively. This was followed by financial and insurance, transport and storage and mining and quarrying sectors. On the other hand, arts, entertainment and recreation sector suffered the heaviest contraction (-71.6 percent) followed by accommodation and food service activities; education; public administration and defence; and wholesale and retail trade; repair of motor vehicles and motorcycles sectors which all contracted by more than 10 percent.

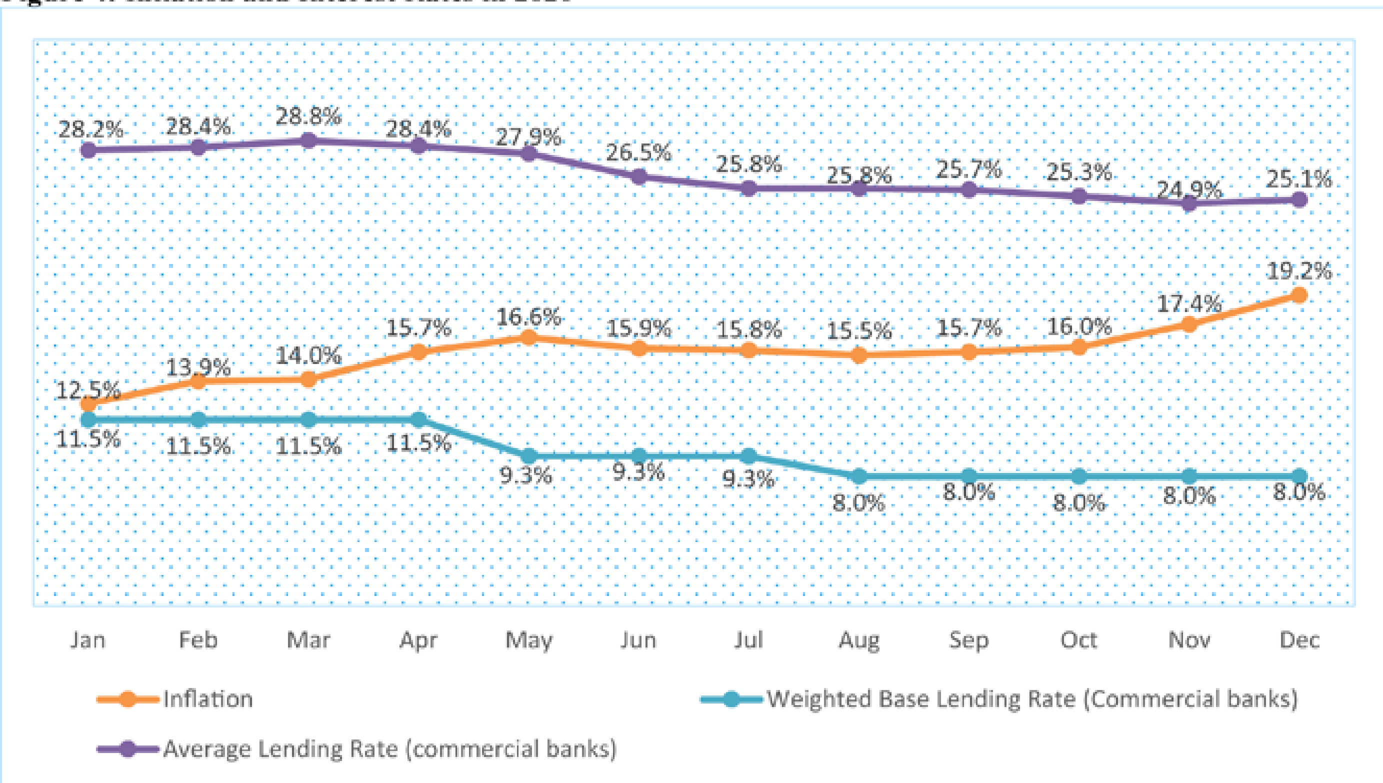
Inflation

The average inflation rate in 2020 increased to 15.7 percent from 9.1 percent recorded in 2019. The lowest annual inflation rate of 12.5 percent was recorded in January while the maximum was recorded in December at 19.2 percent (see Figure 4).

Interest Rates

In 2020, the average commercial bank lending rate increased to 26.7 percent from 25.6 percent recorded in 2019. Despite the reduction in the Bank of Zambia policy rate to an average of 9.5 percent from 10.3 percent in 2020 to mitigate the adverse economic impact of COVID-19, the increase in the lending rates was due to the adverse effects of rising inflation rate (see Figure 4).

Figure 4: Inflation and Interest Rates in 2020

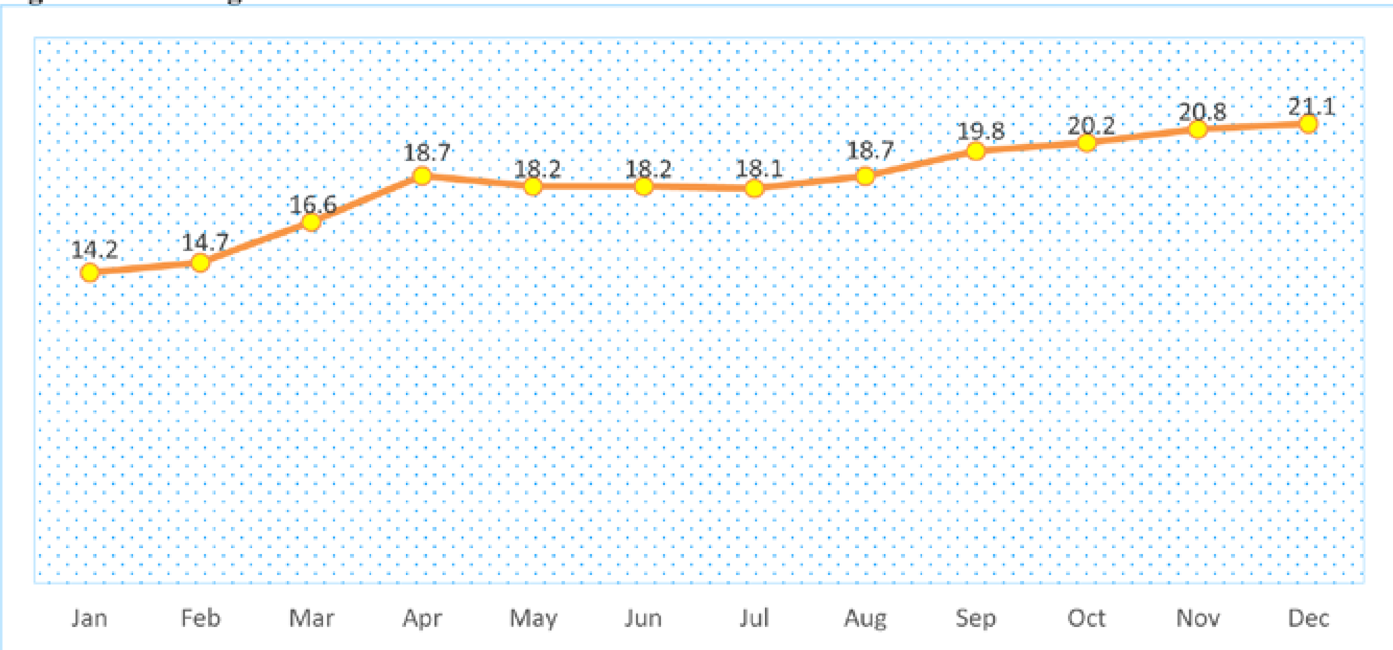


Source: Bank of Zambia

Exchange Rates

In 2020, the average monthly exchange rate of the Zambian Kwacha to the US Dollar increased to K18.3 per US Dollar from K12.9 per Dollar recorded in 2019. The unfavourable performance of the Kwacha against the US Dollar was mainly due to the COVID-19 induced global economic slowdown which adversely affected capital flows resulting in reduced supply of foreign exchange on the market. The negative performance of the Kwacha was exacerbated by reduced value of copper exports which declined by 19.2 percent in 2020 compared to 2019. Other factors that weighed down the performance of the Kwacha against the US Dollar include the increased foreign debt service payments and the continued electricity load management which affected production (see Figure 5).

Figure 5: Exchange Rate Movement in 2020



Source: Bank of Zambia

In 2020, the average price of copper on the London Metal Exchange increased by 2.7 percent to US$6,163.4 per metric tonne from the 2019 average of US$6,002.1 per metric tonne. On the other hand, average cobalt prices declined to US$31,819.2 per metric tonne from US$32,760.4 per metric tonne in 2019, indicating a 2.9 percent reduction. The relatively low prices recorded between February and June were due to reduced demand for the metals on account of reduced global production after the outbreak of the COVID-19 pandemic.

The average price of crude oil on the global market reduced to US$43.4 per barrel from US$61.8 per barrel in 2019, representing a decline of 29.8 percent (see Table 12).

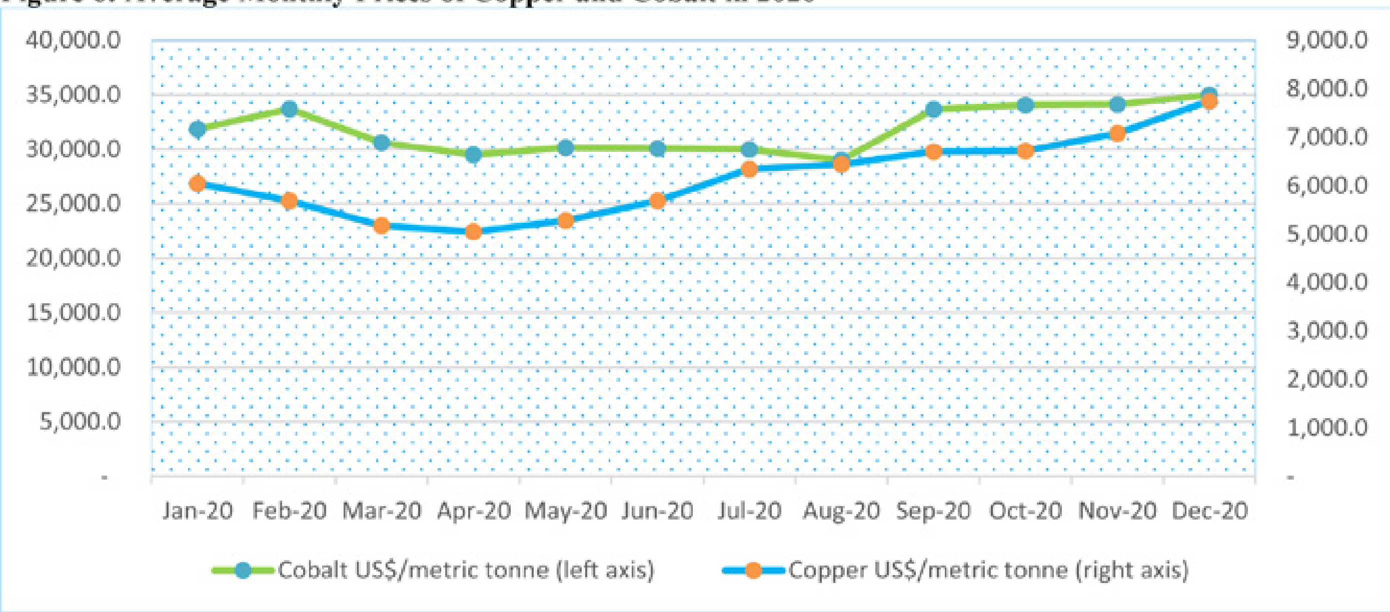
Table 12: Commodity Prices in 2020 and 2019

	Copper US$ per metric tone		Cobalt US$ per metric tone		Crude oil US$ per barrel	
	2020	2019	2020	2019	2020	2019
Average	6,163.4	6,002.1	31,819.2	32,760.4	43.4	61.8
High	7,749.1	6,449.6	35,000.0	37,477.3	61.6	69.6
Low	5,048.3	5,708.0	29,000.0	27,282.0	30.3	56.7

Source: London Metal Exchange and Bank of Zambia

As shown in Figure 6, between January and April 2020, average monthly copper prices consistently declined but steadily increased between April and December. Cobalt prices consistently declined between February and August before sustaining a steady rise in price to December.

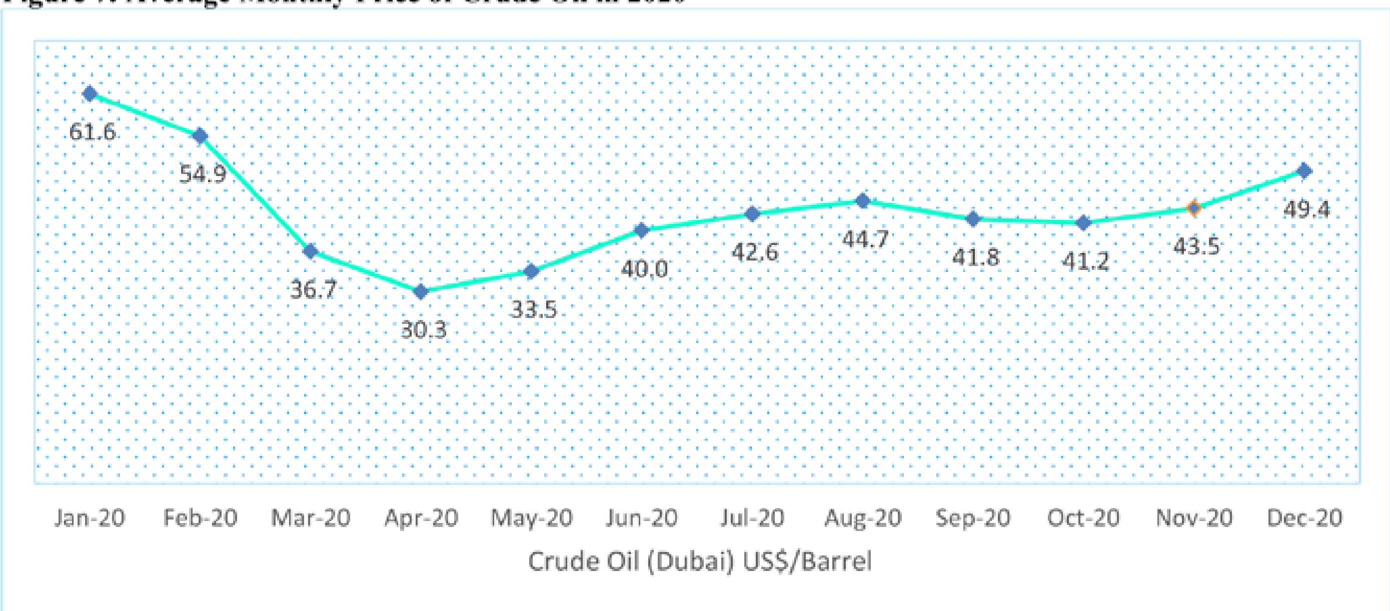
Figure 6: Average Monthly Prices of Copper and Cobalt in 2020



Source: London Metal Exchange

The global price of crude oil slumped in the period January to April 2020 before sustaining increased month on month prices for the larger part of the period April to December (see Figure 7).

Figure 7: Average Monthly Price of Crude Oil in 2020



Source: Bank of Zambia

OPERATIONAL PERFORMANCE OF THE AUTHORITY

Review of Revenue Performance

Revenue Performance in 2020

During the year under review, ZRA collected K70, 543.2 million in gross taxes while refunds stood at K12, 878.1 million. The net outturn therefore stood at K57, 665.1 million against a period target of K59, 037.5 million, thereby registering a deficit of K1, 372.4 million or 2.3 percent below the Budget target. However, this deficit was significantly lower than the projected deficit of K6.9 billion.

The Direct Taxes Division recorded surplus collections of K4, 135.1 million or 13.5 percent above the annual target of K30, 628.3 million. The positive performance in direct taxes was as a result of strong performance in PAYE, mining company tax, withholding taxes and mineral royalty tax which recorded respective surpluses of K1, 897.7 million, K1, 614.4 million, K117.1

However, the Indirect Taxes and Excise Division's collections were K4, 090.3 million or 40.3 percent below the annual target of K10, 147.7 million. All tax types under the indirect taxes category, except for rural electrification levy and insurance premium, recorded negative performance.

Similarly, trade-based taxes were K1, 417.2 million or 7.8 percent below the target of K18, 261.5 million. The negative performance of import VAT, customs duty, export duties and motor vehicle fees with respective deficits of K1, 121.9 million, K776.3 million, K53.9 million and K84.8 million dampened the performance of trade taxes. Conversely, import excise duties, carbon tax and import fuel levy were above the annual targets by K146.6 million, K1.2 million and K472.0 million respectively (see Table 13).

Table 13: Revenue Performance in 2020 (K' Million)

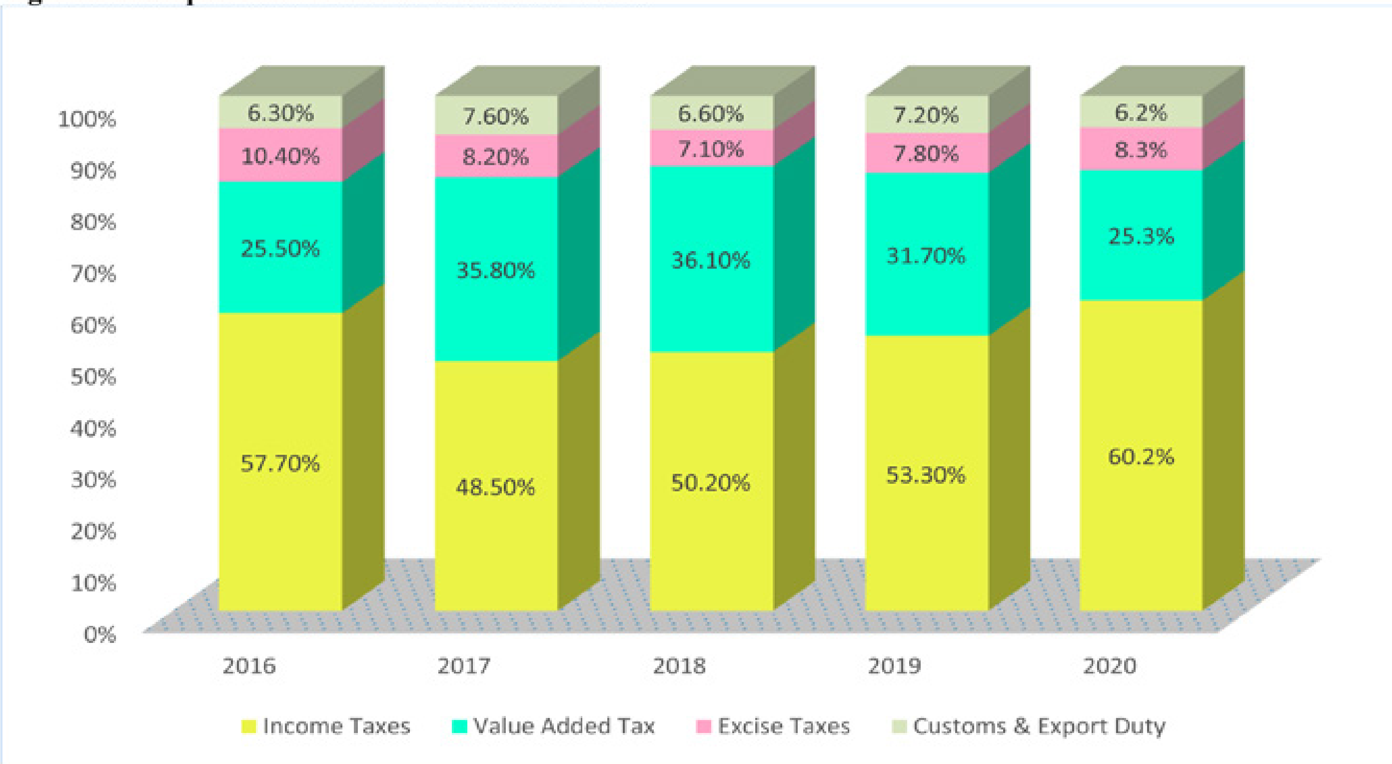
	Gross revenue	Refunds	Actual Outturn	Target	Variance (actual vs. target)	Percentage variance of target	Revenue to GDP[7] ratio
Total Revenue	**70,543.2**	**12,878.1**	**57,665.1**	**59,037.5**	**(1,372.4)**	**-2.3%**	**16.3%**
Tax Revenue	**70,300.6**	**12,878.1**	**57,422.6**	**58,693.3**	**(1,270.7)**	**-2.2%**	**16.2%**
Non-Tax Revenue	**242.6**	**0.0**	**242.6**	**344.3**	**(101.7)**	**-29.5%**	**0.1%**
1. Domestic Taxes Division	**53,535.8**	**12,715.0**	**40,820.8**	**40,776.0**	**44.8**	**0.1%**	**11.5%**
A. Direct Taxes	**34,835.8**	**72.4**	**34,763.4**	**30,628.3**	**4,135.1**	**13.5%**	**9.8%**
1. Company tax	9,512.6	0.0	9,512.6	7,903.9	1,608.6	20.4%	2.7%
Non-Mining	*4,212.7*	*0.0*	*4,212.7*	*4,218.4*	*(5.7)*	*-0.1%*	1.2%
Mining	*5,299.9*	*0.0*	*5,299.9*	*3,685.5*	*1,614.4*	*43.8%*	1.5%
2. PAYE	14,229.2	0.0	14,229.2	12,331.4	1,897.7	15.4%	4.0%
3. Withholding tax & others	5,566.6	72.4	5,494.3	5,377.2	117.1	2.2%	1.6%
4. Mineral royalty tax	5,348.2	0.0	5,348.2	4,819.6	528.5	11.0%	1.5%
5. Skills Dev. Levy	168.8	0.0	168.8	179.2	(10.4)	-5.8%	0.0%
6. Tourism Levy	10.5	0.0	10.5	17.0	(6.5)	-38.4%	0.0%
B. Indirect Taxes	**18,700.0**	**12,642.6**	**6,057.4**	**10,147.7**	**(4,090.3)**	**-40.3%**	**1.7%**
1. Local Excise Duties	1,929.4	0.0	1,929.4	2,562.0	(632.6)	-24.7%	0.5%
2. Local Excise-Cement	78.0	0.0	78.0	141.3	(63.3)	-44.8%	0.0%
3. Rural Electrification Levy	262.4	0.0	262.4	166.3	96.1	57.7%	0.1%
4. Local Fuel Levy	257.5	0.0	257.5	398.4	(141.0)	-35.4%	0.1%
5. Insurance Premium	107.4	0.0	107.4	106.2	1.2	1.1%	0.0%
6.VAT on domestic goods	16,065.4	12,642.6	3,422.8	6,773.4	(3,350.7)	-49.5%	1.0%
2. Customs Services Division	**17,007.4**	**163.1**	**16,844.3**	**18,261.5**	**(1,417.2)**	**-7.8%**	**4.8%**
1. VAT on imports	11,108.8	0.0	11,108.8	12,230.7	(1,121.9)	-9.2%	3.1%
2. Customs duty (Import tariffs)	3,568.9	163.1	3,405.9	4,182.2	(776.3)	-18.6%	1.0%
3. Export duties; o/w	132.5	0.0	132.5	186.4	(53.9)	-28.9%	0.0%
Export Duty on Maize	0.0	0.0	-	-	-	-	-
Export Duty on Timber	0.0	0.0	-	-	-	-	-
Export Duty on Concentrates	132.5	0.0	132.5	186.4	(53.9)	-28.9%	0.0%
4. Import Excise Duties	1,164.9	0.0	1,164.9	1,018.4	146.6	14.4%	0.3%
5. Import Fuel Levy	901.3	0.0	901.3	429.3	472.0	109.9%	0.3%
6. Carbon Tax	67.6	0.0	67.6	66.4	1.2	1.8%	0.0%
7. Motor Vehicle Fees	63.3	0.0	63.3	148.1	(84.8)	-57.3%	0.0%

[7] Based on the preliminary GDP estimate for 2020 of K354,409.6 million.

Composition of Revenue in 2020

The composition of the tax revenue remained unchanged in 2020 compared to the previous four years. Income taxes contributed the largest share to total revenues at 60.2 percent, while the second largest contribution was from VAT which accounted for 25.3 percent. The remaining proportion of tax revenue was shared between excise and customs duties with excise duties contributing 8.3 percent while customs and export duties accounted for 6.2 percent (see Figure 8).

Figure 8: Composition of Tax Revenue 2016 – 2020



The income taxes category comprises PAYE, company tax, withholding taxes and mineral royalty. In 2020, PAYE accounted for the largest share contribution to income taxes at 41.1 percent followed by company tax accounting for 27.5 percent. Collections from withholding taxes and mineral royalty represented 15.9 percent and 15.5 percent respectively.

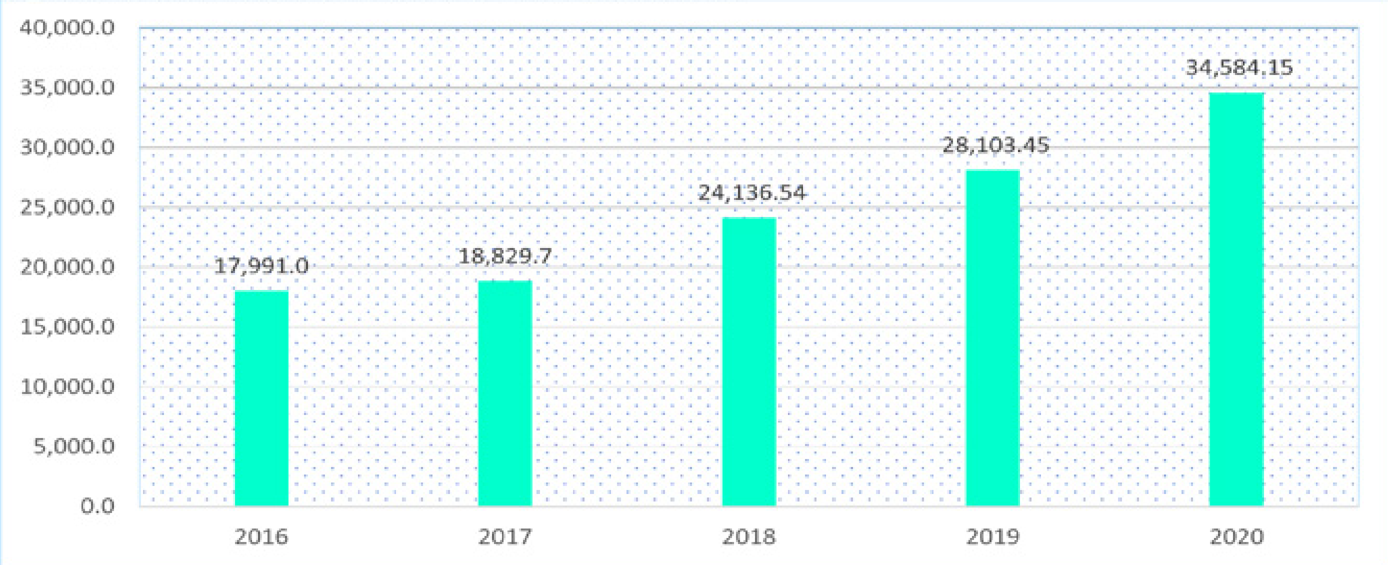
Import VAT accounted for 76.4 percent of total VAT collections while domestic VAT accounted for 23.6 percent. The contribution of customs duty to customs and export duties in 2020 increased to 96.3 percent from 91.5 percent recorded in 2019, while the share of export duties declined to 3.7 percent from 8.5 percent recorded in 2019 following the suspension of export duty on precious metals and stones.

Factors underlying Revenue Performance by Tax Type in 2020

Income Taxes

As depicted in Figure 9, income tax collections continued on a positive trajectory with increased collections of 23.1 percent between 2020 and 2019. The positive performance was due to strong performances in PAYE, mining company tax, mineral royalty tax and withholding taxes with respective surpluses of K1, 897.7 million, K1, 614.4 million, K528.5 million and K117.1 million. The positive performance of these tax types was driven by improved copper prices on the international market in the second half of the year.

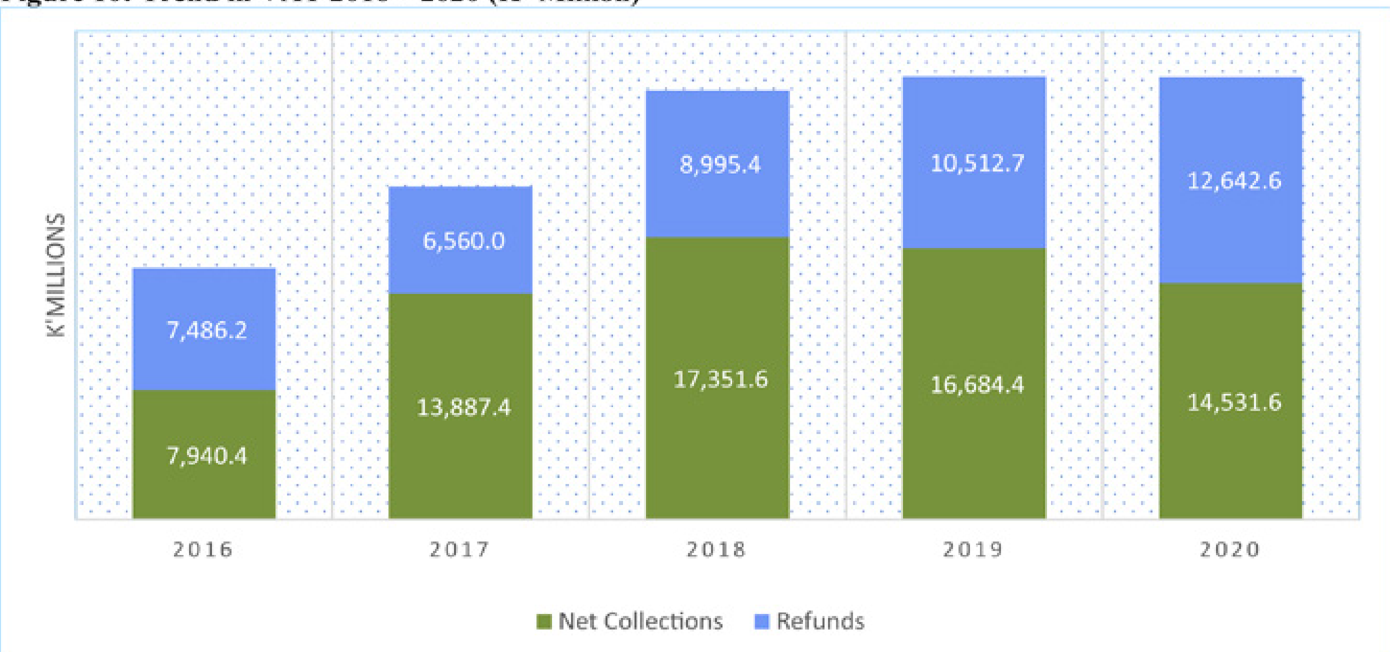
Figure 9: Trend in Income Taxes 2016 – 2020 (K' Million)



Value Added Tax

In 2020, domestic VAT and import VAT recorded deficits of K3, 350.7 million and K1, 121.9 million or 49.5 percent and 9.2 percent respectively. The underperformance was mainly due to reduced consumption of goods and services resulting from the adverse effects of the COVID-19 pandemic. The performance of import VAT was further worsened by the depreciation of the Kwacha against major convertible currencies, including the US Dollar against which the Kwacha depreciated by 46.5 percent. This was reflected in the reduction of taxable value of import VAT by 1.1 percent between 2020 and 2019. The decline in VAT collections coincided with the record-high VAT refund payments in the year under review (see Figure 10).

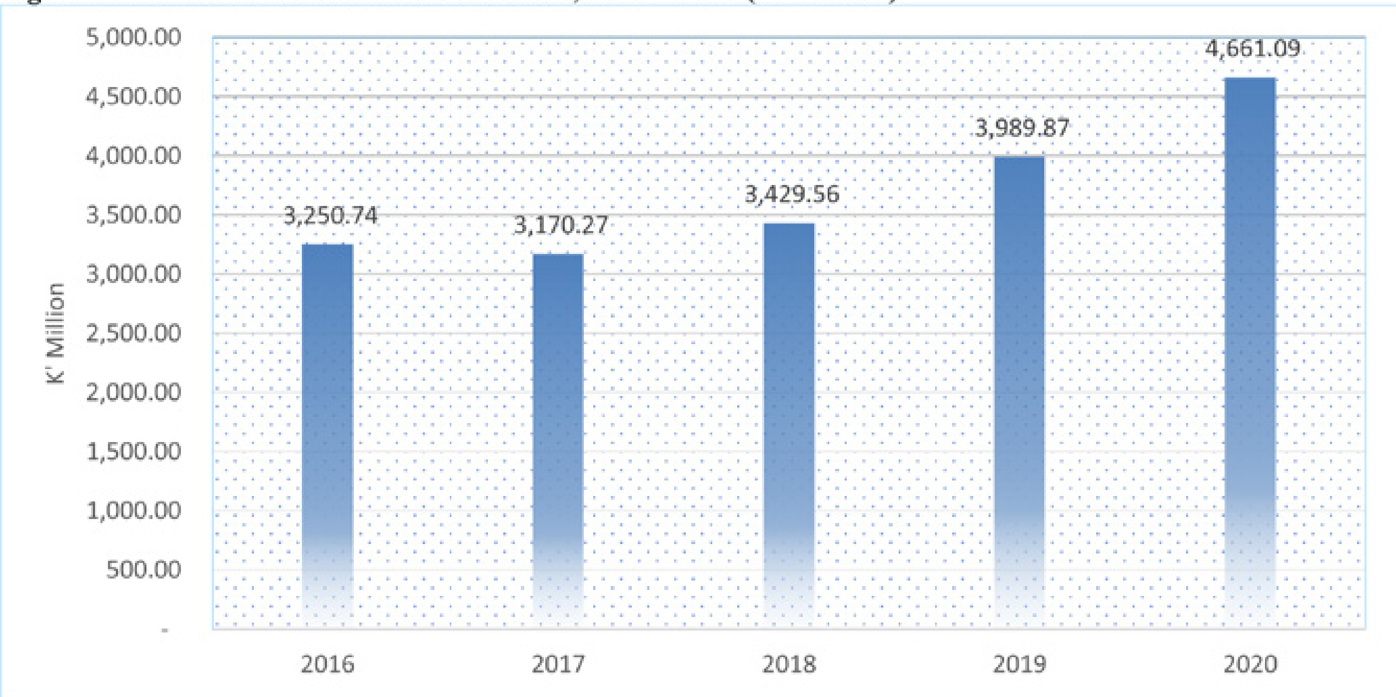
Figure 10: Trend in VAT 2016 – 2020 (K' Million)



Excise Duties

Excise taxes recorded increased collections in 2020 compared to 2019 by 16.8 percent. Despite this, excise taxes were below target by 2.5 percent. The underperformance was mainly due to reduced consumption of excisable products such as clear and opaque beer as a result of the COVID-19 regulations which curtailed non-essential social gatherings (see Figure 11).

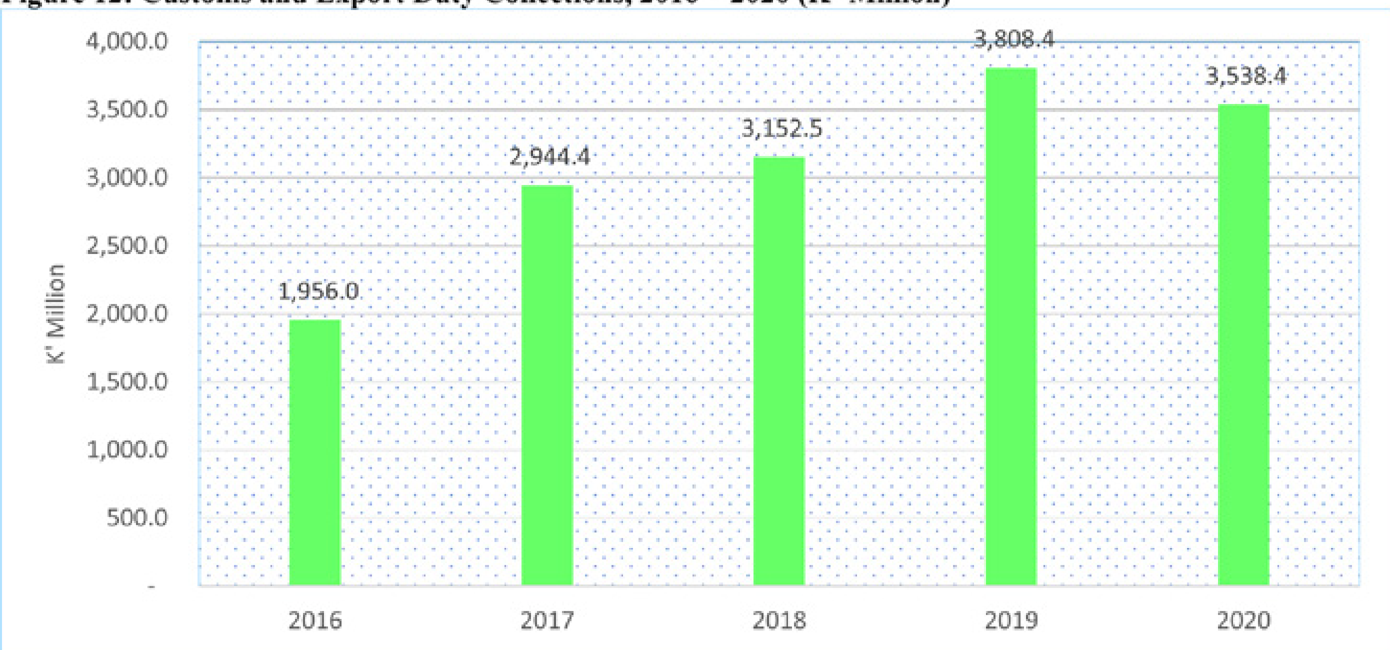
Figure 11: Trend in Excise Taxes Collections, 2016 – 2020 (K' Million)



Customs and Export Duties

Customs and export duties collected declined by 7.1 percent in 2020 compared to 2019. A total of K3, 538.4 million was collected in customs and export duties against a target of K4, 368.6 million, thereby registering a 19.0 percent deficit. The negative outturn was mainly due to a reduction in taxable value for duty purposes by 16.0 percent in 2020 compared to 2019. Furthermore, the performance was also affected by the increase in customs duty waived due to additional concessions granted to mitigate the impact of the COVID-19 pandemic on the economy and the waiver of customs duty on importation of fuel (see Figure 12).

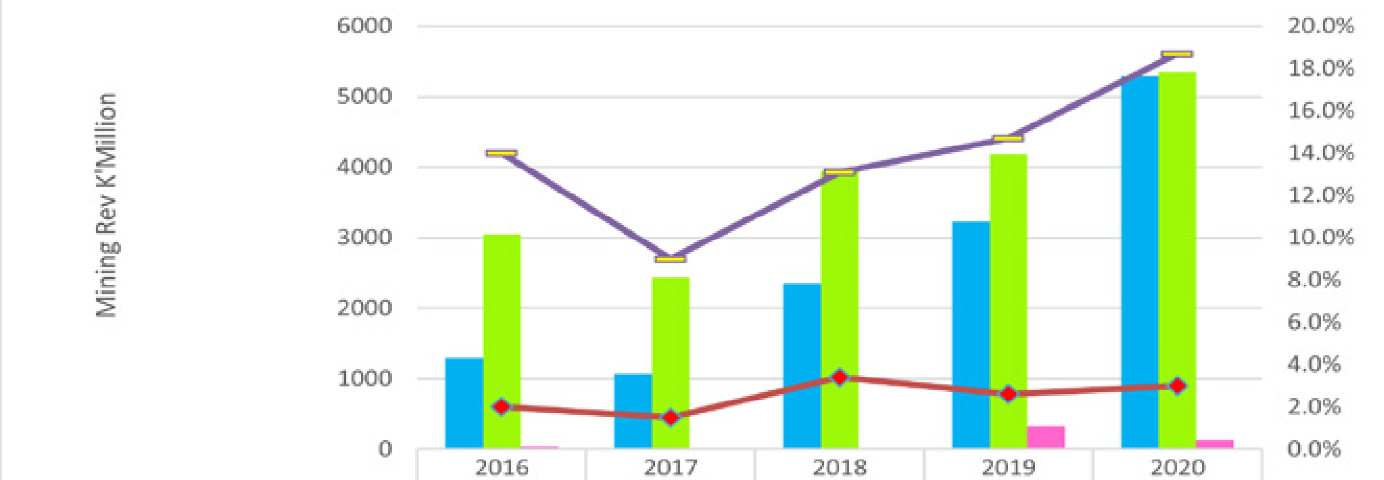
Figure 12: Customs and Export Duty Collections, 2016 – 2020 (K' Million)



Performance of Mining Sector Taxes

In 2020, the contribution of mining taxes to total taxes increased to 18.7 percent from 14.7 percent recorded in 2019. Mineral royalty and mining company tax contributed 49.6 percent and 49.2 percent to mining revenue respectively, while export duty accounted for 1.2 percent. The percentage of mining taxes to GDP increased to 3.0 percent from 2.6 percent recorded in 2019 (see Figure 13).

Figure 13: Tax Revenues from the Mining Sector, 2016 to 2020 (K' Million)



	2016	2017	2018	2019	2020
Company Tax	1289.5	1067.6	2356.8	3232.71	5299.85
Mineral Royalty	3053.1	2435.2	3936.7	4184.78	5348.16
Export Duty	35.3	6.4	8.6	323.84	132.53
Mining Rev as % of Tax Rev	14.0%	9.0%	13.1%	14.7%	18.7%
Mining Rev as % of GDP	2.0%	1.5%	3.4%	2.6%	3.0%

Contribution of Tax Types to GDP

Despite the COVID-19 induced global and domestic economic slowdown, the Authority recorded an 8.4 percent increase in nominal revenue collections between 2020 and 2019. Notwithstanding the 9.2 percent increase in the nominal GDP, the proportion of total revenue to GDP declined to 16.3 percent in 2020 from 17.5 percent in 2019. Compared to 2019, the ratio of tax to GDP for direct taxes increased to 9.8 percent from 9.4 percent. However, the tax to GDP ratios for indirect taxes and customs-based taxes declined to 1.7 percent and 4.8 percent in 2020 from 2.9 percent and 5.3 percent respectively in 2019 (see Table 14).

Table 14: Total Revenue as Share of GDP in 2020 and 2019

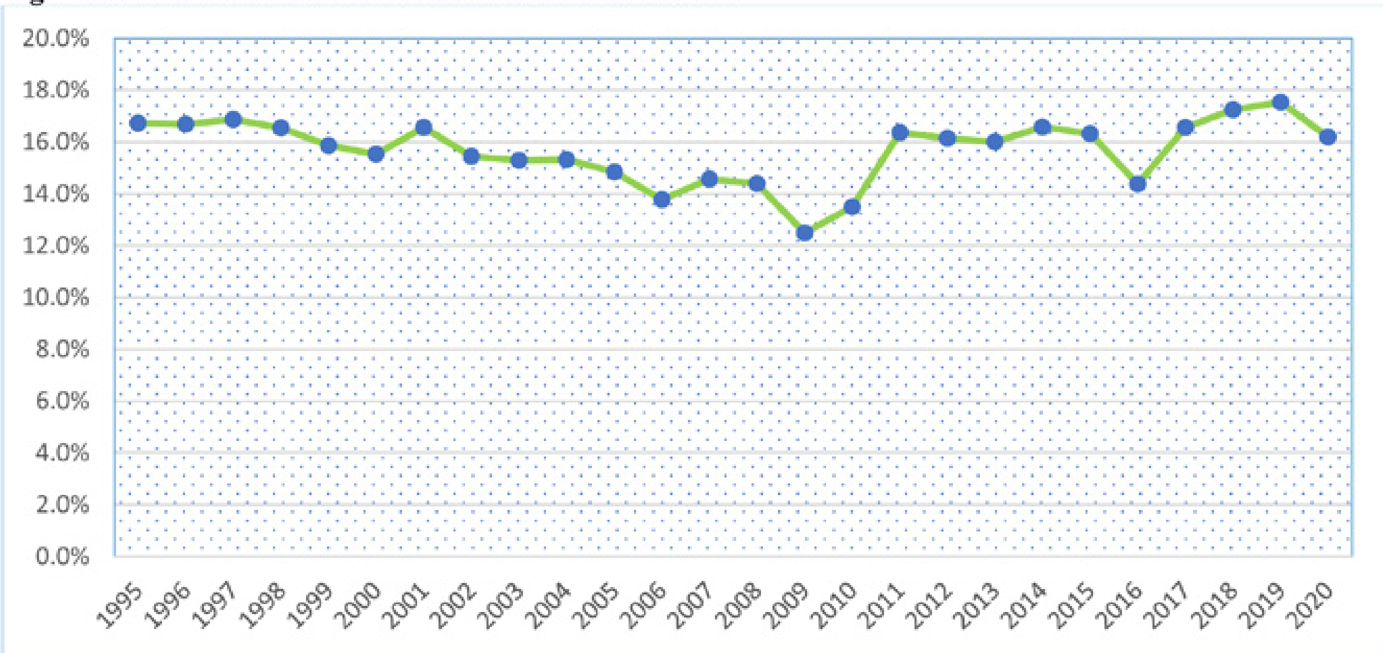
Tax Type	Percentage of GDP	
	2020[8]	2019[9]
1. Domestic Taxes	**11.5%**	**12.3%**
A. Direct taxes	**9.8%**	**9.4%**
Company Tax	2.7%	2.6%
Pay As You Earn (PAYE)	4.0%	3.9%
Withholding Tax	1.6%	1.5%
Mineral Royalty	1.5%	1.4%
Skills Development Levy	0.0%	0.1%
Tourism Levy	0.0%	0.0%
B. Indirect taxes	**1.7%**	**2.9%**
Local Excise Duty	0.5%	0.6%
Local Excise-Cement	0.0%	0.0%
Rural Electrification Levy	0.1%	0.0%
Local Fuel Levy	0.1%	0.2%
Insurance Premium	0.0%	0.0%
Domestic Value-Added Tax (VAT)	1.0%	2.0%
2. Trade Taxes	**4.8%**	**5.3%**
Import VAT	3.1%	3.5%
Import Duty	1.0%	1.2%
Export Duty	0.0%	0.1%
Import Excise Duty	0.3%	0.3%
Import Fuel Levy	0.3%	0.2%
Carbon Tax	0.0%	0.0%
Motor Vehicle Fees	0.0%	0.0%
Total Revenue as % of GDP	**16.3%**	**17.5%**
GDP (K' million)	**354,409.6**	**300,448.7**

[8] The 2020 GDP figure is a preliminary estimate. The increase in the GDP is on account of inflation as well as the depreciation of the kwacha coupled with high copper prices which resulted a higher nominal value of copper and other exports.

[9] Based on final figures for 2019 GDP

As depicted in figure 14, the ratio of tax to GDP has averaged 15.7 percent over the last 26 years. The trend is approximately linear and constant with the lowest ratio recorded in 2009 at 12.5 percent and the highest record was in 2019 at 17.5 percent.

Figure 14: Trend in Tax Revenue to GDP ratio 1995-2020



Trend in Collection of individual Tax Types and Total Revenue

Figures 15 to 22 show the ratio of each tax type to GDP between 1995 and 2020. As shown in the figures, it is evident that income taxes as a proportion of GDP have largely had an upward trend since 1995. Specifically, company income tax and mineral royalty have exhibited upward trends during this period with company income tax peaking in 2012 at 3.4 percent and mineral royalty peaking in 2015 at 2.0 percent, while PAYE has been fairly stable averaging 4.0 percent of GDP. Withholding tax to GDP was fairly stable between the periods 1997 to 2011 with an average of 0.7 percent, after which it has significantly increased.

The ratio of VAT to GDP exhibited a downward trend between the periods 1996 to 2010 after which it has highly fluctuated. On the other hand, excise and import duties have exhibited a downward trend since 1996. The ratio of custom duties to GDP has declined steadily since 1996.

Figure 15: Company Income Tax as Percentage of GDP, 1995 – 2020

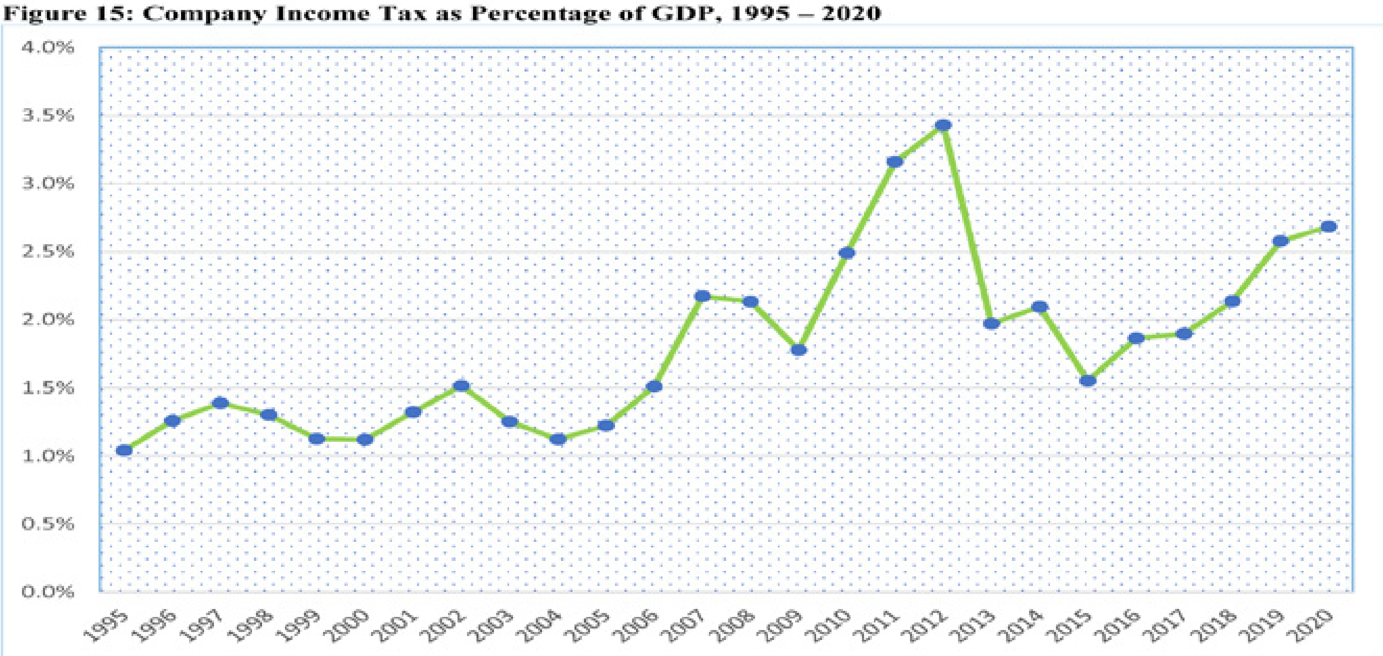


Figure 16: Pay As You Earn as Percentage of GDP, 1995 – 2020

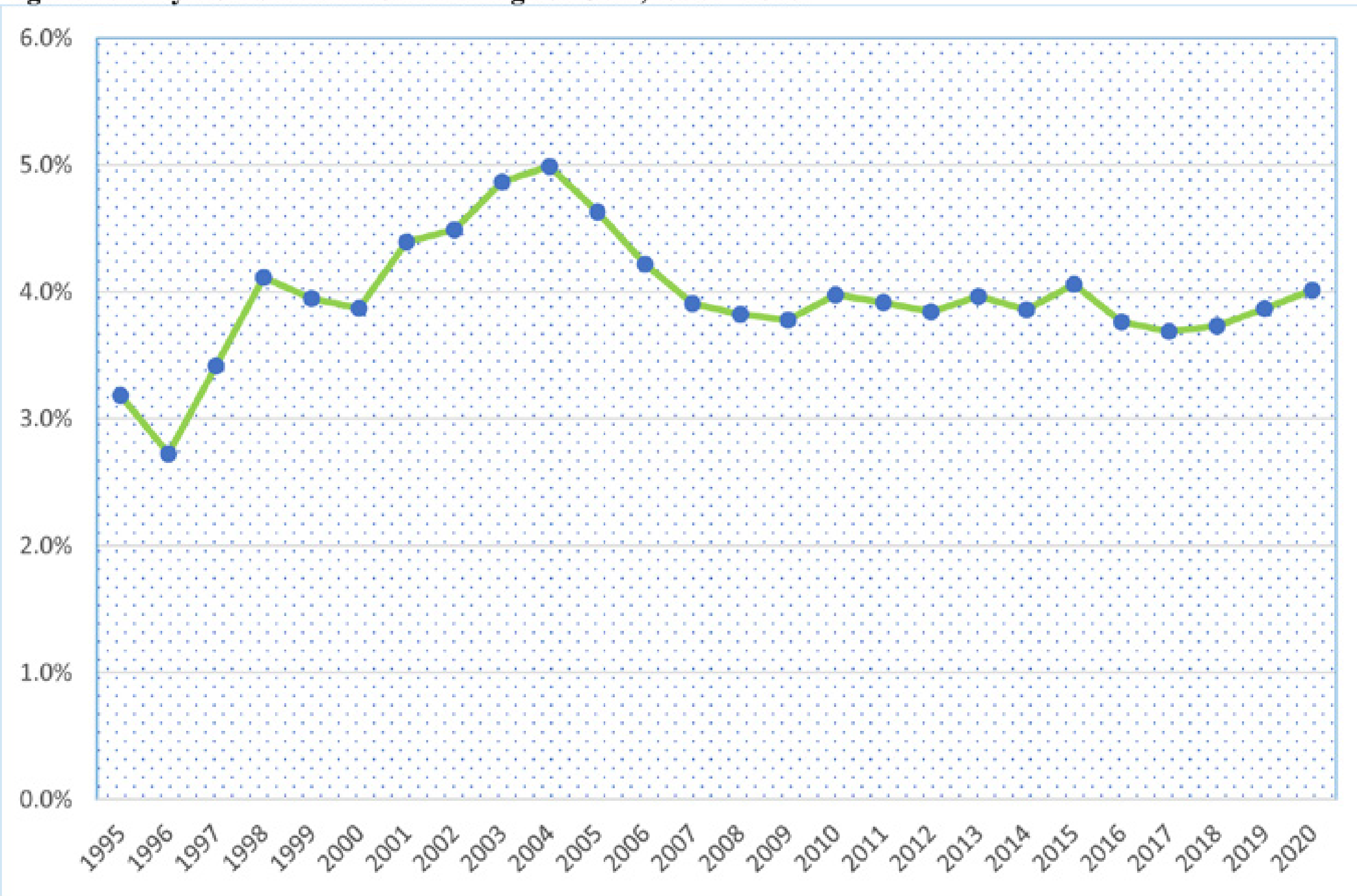


Figure 17: Withholding Tax as Percentage of GDP, 1995 – 2020

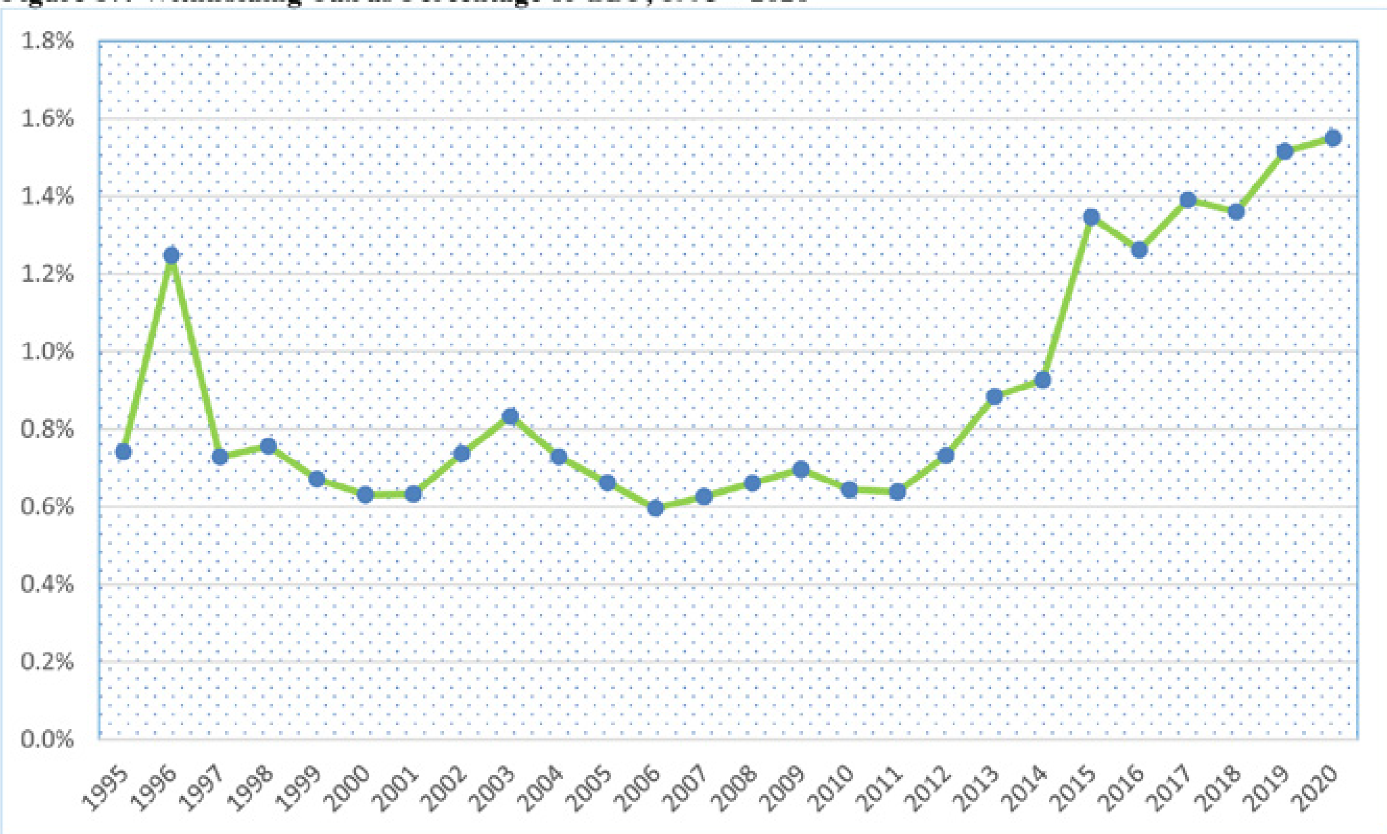


Figure 18: Value Added Tax as Percentage of GDP, 1995 – 2020

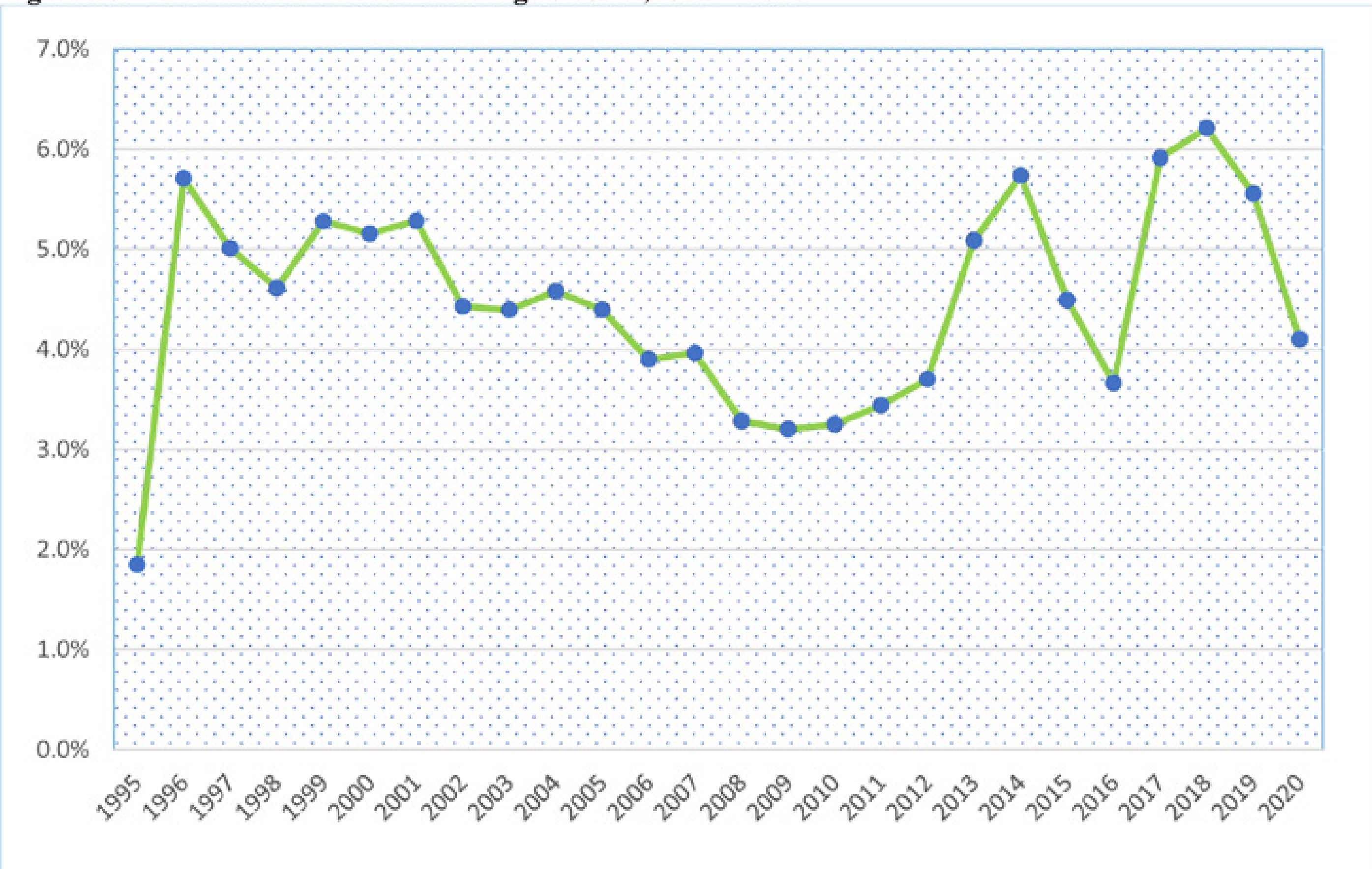


Figure 19: Mineral Royalty as Percentage of GDP, 1995 – 2020

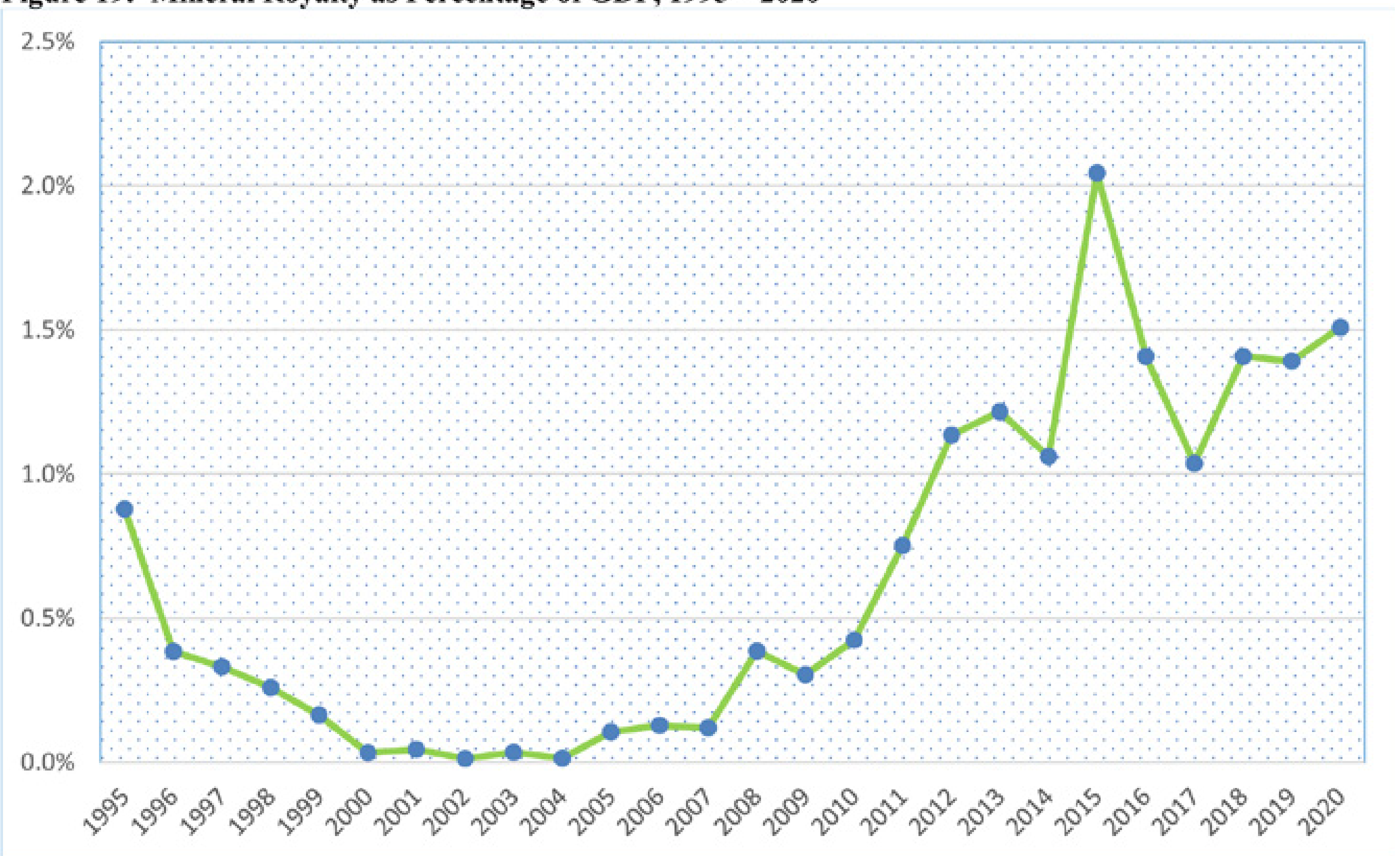


Figure 20: Excise Duties as Percentage of GDP, 1995 – 2020

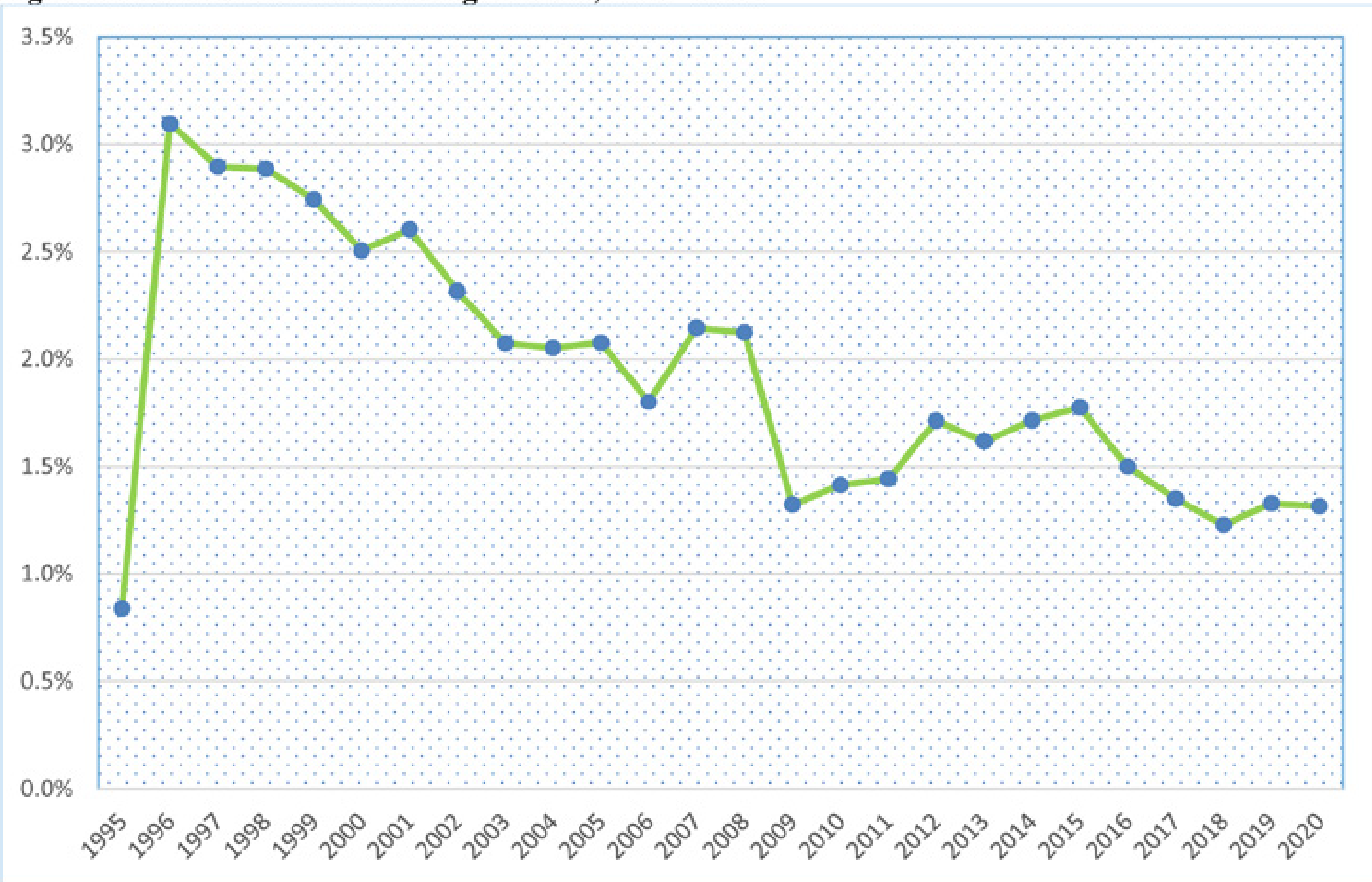


Figure 21: Import Tariffs as Percentage of GDP, 1995 – 2020

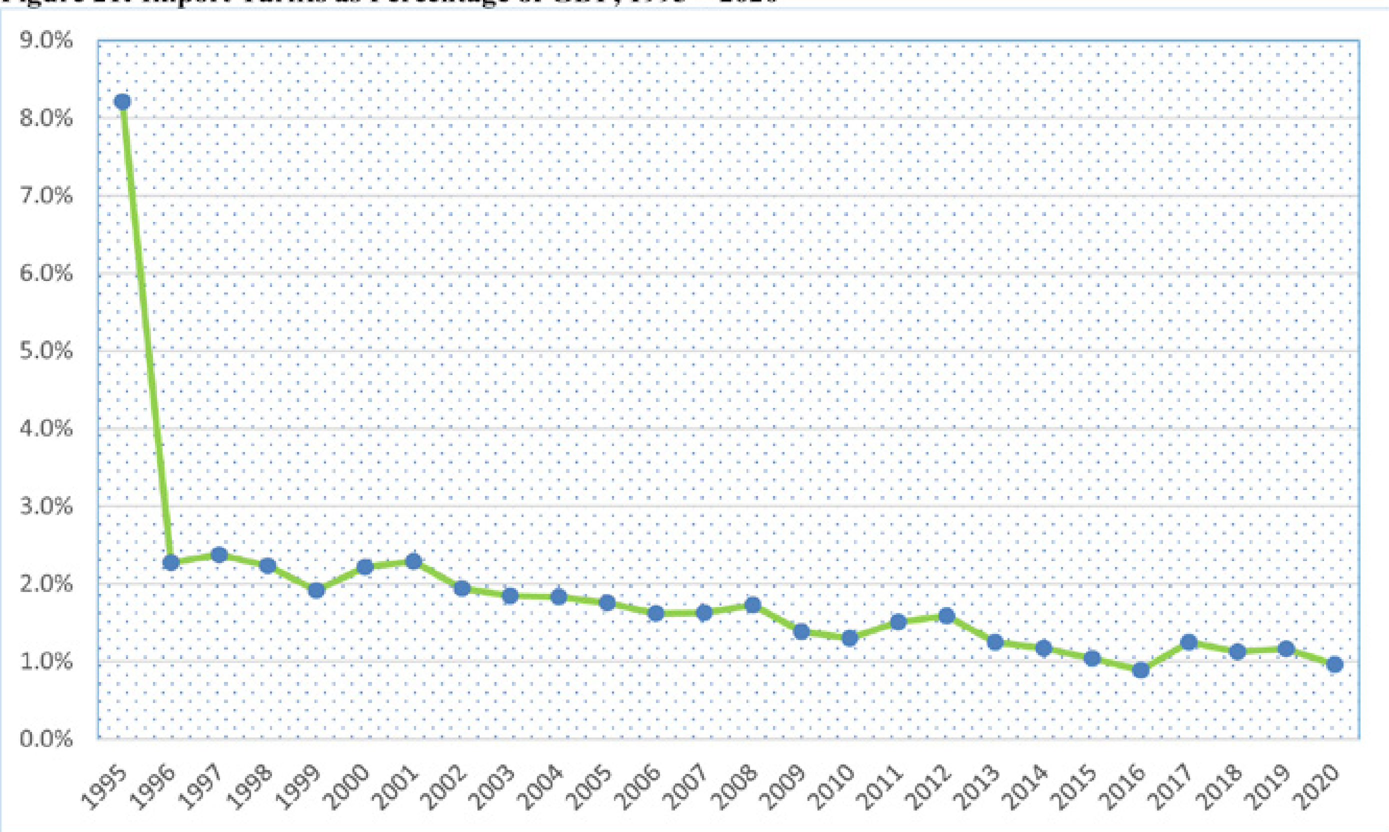
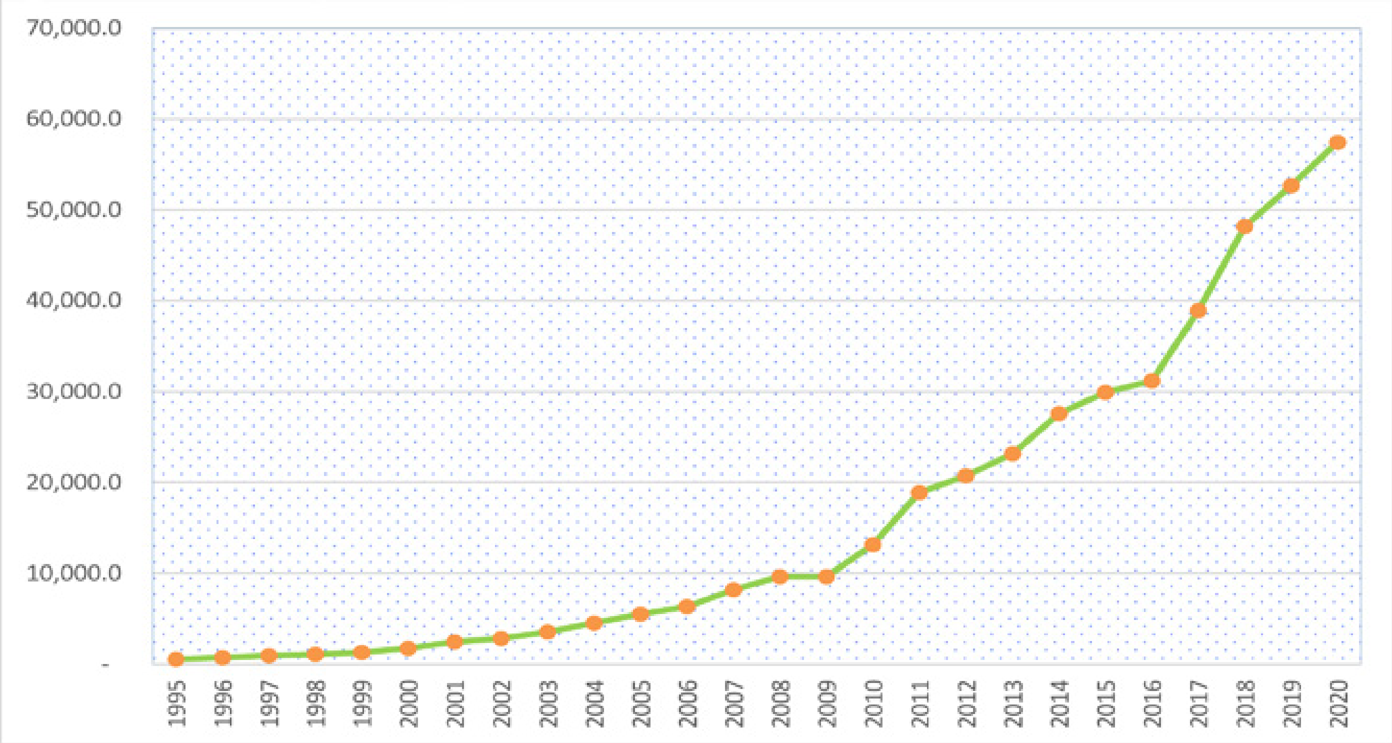
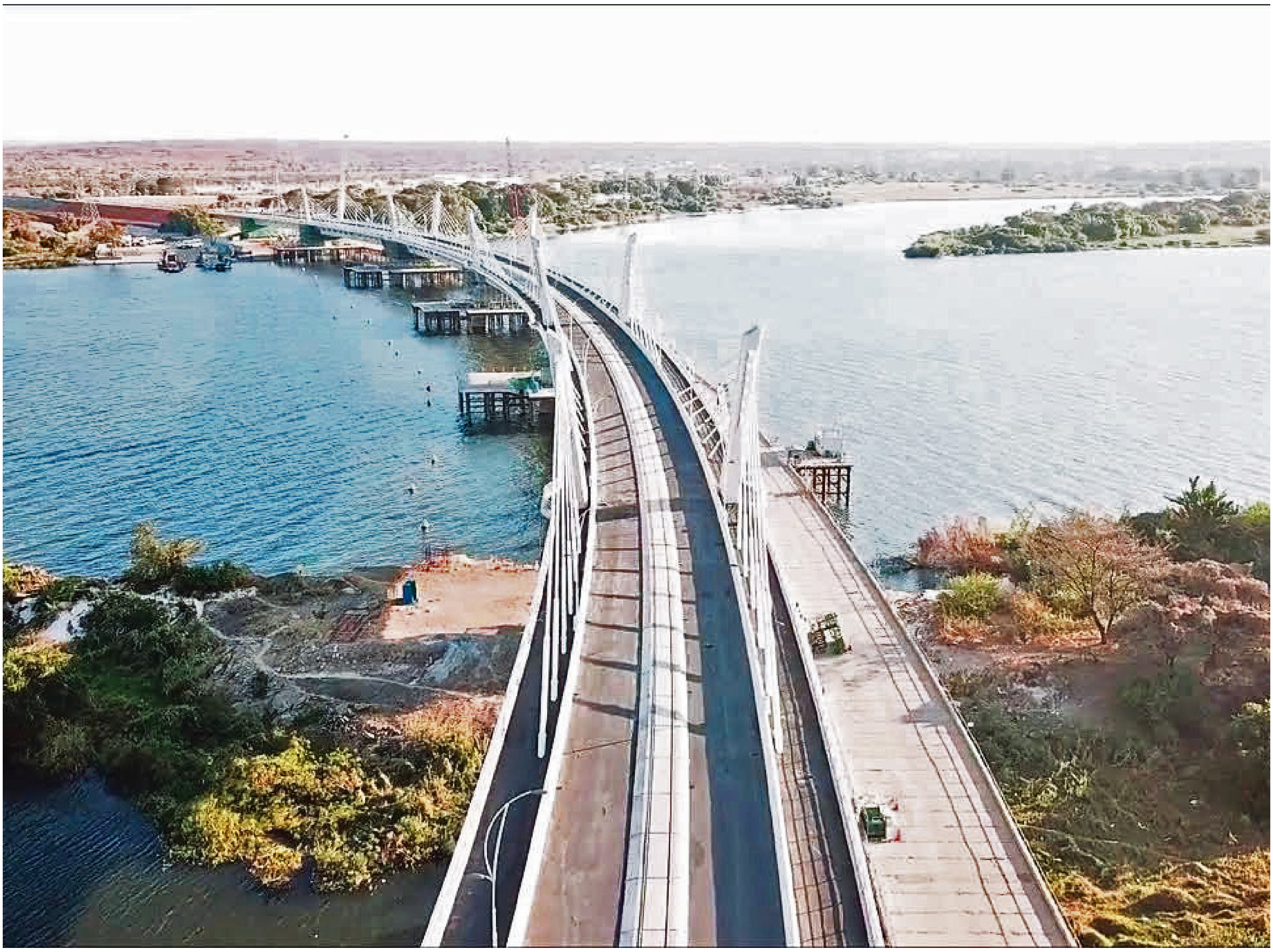


Figure 22: Tax Revenue (K' Million) 1995 – 2020





Performance of Operating Divisions and Corporate Initiatives

Customs Services Division

In 2020, the Authority continued to implement initiatives aimed at improving trade facilitation by reforming its customs procedures and processes in order to improve operational efficiency.

Customs Declarations

The registration to assessment conversion ratio indicates the volume of registered entries that reach the assessment stage of the revenue collection process. During the year, percentage of total transactions assessed marginally declined to 99.2 compared to 99.3 percent recorded in 2019 (see Table 15).

Table 15: Registration to Assessment Conversion Ratio for all transactions in 2020 and 2019

Period	Assessed	Un-assessed	Total	% Assessed	% Unassessed
2020	746,272	6.330	752,602	99.2%	0.8%
2019	789,881	5,940	795,821	99.3%	0.7%

Customs Refunds

ZRA administers a duty-draw back scheme which allows local manufacturers to claim a proportion of import duties paid on inputs used in the manufacture of exported goods. This scheme is aimed at making exports competitive on the international market. The Authority also administers other customs refunds arising from claims on import and export transactions.

Between 2019 and 2020, the number and value of duty drawback claims increased by 38.3 percent and 56.1 percent respectively. The value of processed claims was higher than the value of claims received due to the significant number of claims from the previous year that were processed in the year under review. The number of general refund claims increased to 439 in 2020 from 194 in 2019, whereas the value of refund claims decreased by 2.8 percent in 2020 compared to 2019 (see Table 16).

Table 16: Number and Value of Customs Refunds in 2020 and 2019

	2020	2019	Percentage Variance
Duty Drawback Refunds			
Number of duty drawback claims	224	162	38.3%
Value of duty drawback claims (K'Mn)	84.6	54.2	56.1%
Value of processed duty drawback claims (K'Mn)	191.2	46.6	310.3%
Value of duty drawback payments (K'Mn)	146.5	28.2	419.5%
General Refunds			
	2020	**2019**	**Percentage Variance**
Number of General refunds claims	439	194	126.3%
Value of General refunds claims (K'Mn)	24.3	25.0	-2.8%
Value of processed General refunds claims (K'Mn)	24.3	25.0	-2.8%
Value of General refunds claims (K'Mn)	23.1	25.0	-7.6%

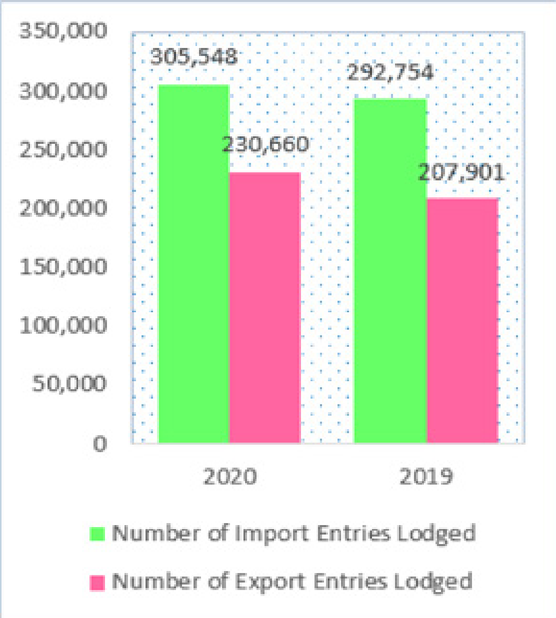
Import and Export Declarations

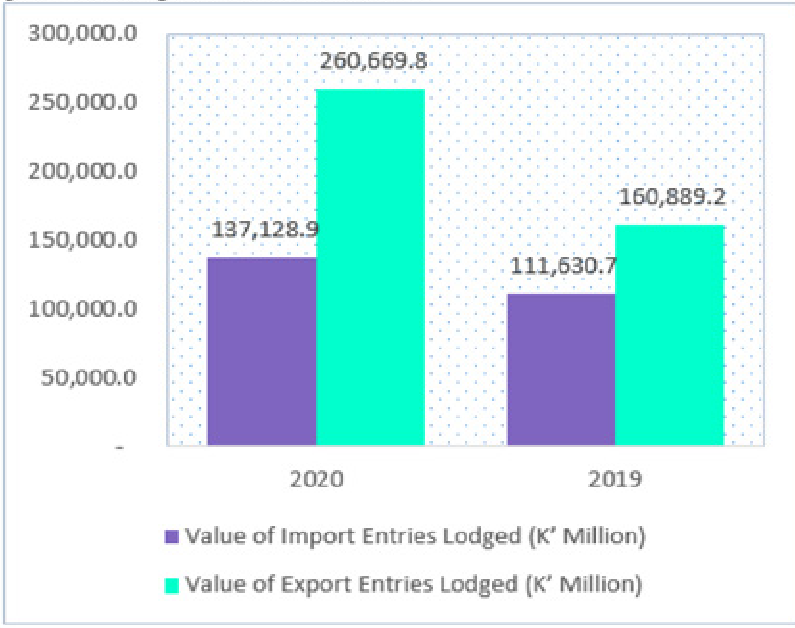
In the year under review, the volume of permanent import transactions increased by 4.4 percent with a corresponding increase of 22.8 percent in the Value for Duty Purposes (VDP). Similarly, permanent export transactions registered a growth of 10.9 percent in volume with a corresponding increase of 62.0 percent in the VDP (see Table 17 and Figure 23). The increase in VDP relative to the increase in volumes is partly due to the significant depreciation of the Kwacha against major convertible currencies in the year under review.

Table 17: Entries of Permanent Imports and Permanent Exports in 2020 and 2019

	2020	2019	Percentage Variance
Number of Import Entries Lodged	305,548	292,754	4.4%
Value of Import Entries Lodged (K' Million)	137,128.9	111,630.7	22.8%
Number of Export Entries Lodged	230,660	207,901	10.9%
Value of Export Entries Lodged (K' Million)	260,669.8	160,889.2	62.0%

Figure 23: Number and value of Entries for Import and Export in 2020 and 2019





Processing Efficiency

During the year under review, the processing efficiency as measured by the actual revenue collected against the potential revenue was recorded at 96.1 percent compared to 96.3 percent in 2019, representing a marginal decline of 0.2 percentage points. Specifically, the potential revenue in the period under review was K15, 555.9 million of which K14, 949.6 million was collected. A further K593.5 million or 3.8 percent was registered and assessed but not paid, while K12.8 million or 0.1 percent was not assessed and therefore no collections were made (see Table 18).

Table 18: Processing Efficiency in Tax Yield from all Taxable Transactions in 2020 and 2019 (K' Million)

	2020		2019	
	K' Million	% of Total	K' Million	% of Total
Un-assessed taxes	12.8	0.1%	91.4	0.6%
Registered, Assessed, Not paid	593.5	3.8%	451.3	3.0%
Registered, Assessed, and paid (Receipted)	14, 949.6	96.1%	14,308.8	96.3%
Total collectable amount	15,555.9	100.0%	14,851.6	100.0%

During the year under review, the total VDP increased by 75 percent to K338, 512.6 million from K193, 439.8 million recorded in 2019. The non-taxable VDP, on which duty is not collectible, accounted for 94 percent of the total VDP and grew by 82 percent in 2020 compared to 2019. The significant increase in the non-taxable VDP can be attributed to the tax relief measures to mitigate the effects of the COVID-19 pandemic, as well as the significant depreciation of the Kwacha against major convertible currencies (see Table 19).

Table 19: VDP and Tax Yield from Taxable and Non-Taxable Transactions in 2020 and 2019 (K' Million)

VDP Type	Value for Duty Purposes			Tax Amount (Gross)		
	2020	2019	% Variance	2020	2019	% Variance
Non-Taxable	318,362.1	174,663.0	82%	48,685.9	27,352.0	78%
Taxable	20,150.4	18,776.8	7%	3,142.3	2,990.7	5%
Total	**338,512.6**	**193,439.8**	**75%**	**51,828.1**	**30,342.7**	**71%**

In the year under review, the revenue foregone due to trade related concessions increased to K12, 074.9 million in 2020 from K8, 894.1 million in 2019, representing a 35.8 percent growth (see Table 20).

Table 20: Tax Revenue Foregone from Concessions, 2020 and 2019 (K' Million)

	2020	2019	Variance	% Variance
Total Revenue Foregone	12,074.9	8,894.1	3,180.8	35.8%

Risk Profiling Analysis

In order to reduce the possibility of revenue leakages and ensure effective utilisation of resources, the Authority utilises risk management techniques to examine customs declarations. Under the risk profiling analysis, there are four lanes to which entries can be channelled namely red, yellow, blue and green. Goods channelled to the red lane require physical inspection; while goods channelled to the yellow lane require documentary check. Goods channelled to the blue lane require post clearance audits. However, goods channelled to the green lane are considered low risk and are not subjected to further scrutiny. In 2020, the proportion of entries channelled to the red lane reduced to 16.1 percent compared to 19.2 percent in 2019. On the other hand 60.8 percent of the entries were channelled to the yellow lane in 2020 compared to 55.0 percent in 2019. The percentage of entries directed to the blue lane marginally decreased to 8.3 percent from 8.4 percent in 2019, and 14.7 percent of the entries were channelled to the green lane down from 17.4 percent in 2019 (see Table 21).

Table 21: Lane Analysis by Business Volume in 2020 and 2019

Lane	2020		2019	
	Number of entries	Percentage	Number of entries	Percentage
Red	114,414	16.1%	148,369	19.2%
Yellow	430,885	60.8%	424,875	55.0%
Blue	59,003	8.3%	64,864	8.4%
Green	104,227	14.7%	134,326	17.4%
Total	**708,579**	**100.0%**	**772,434**	**100.0%**

Direct and Indirect Taxes Divisions

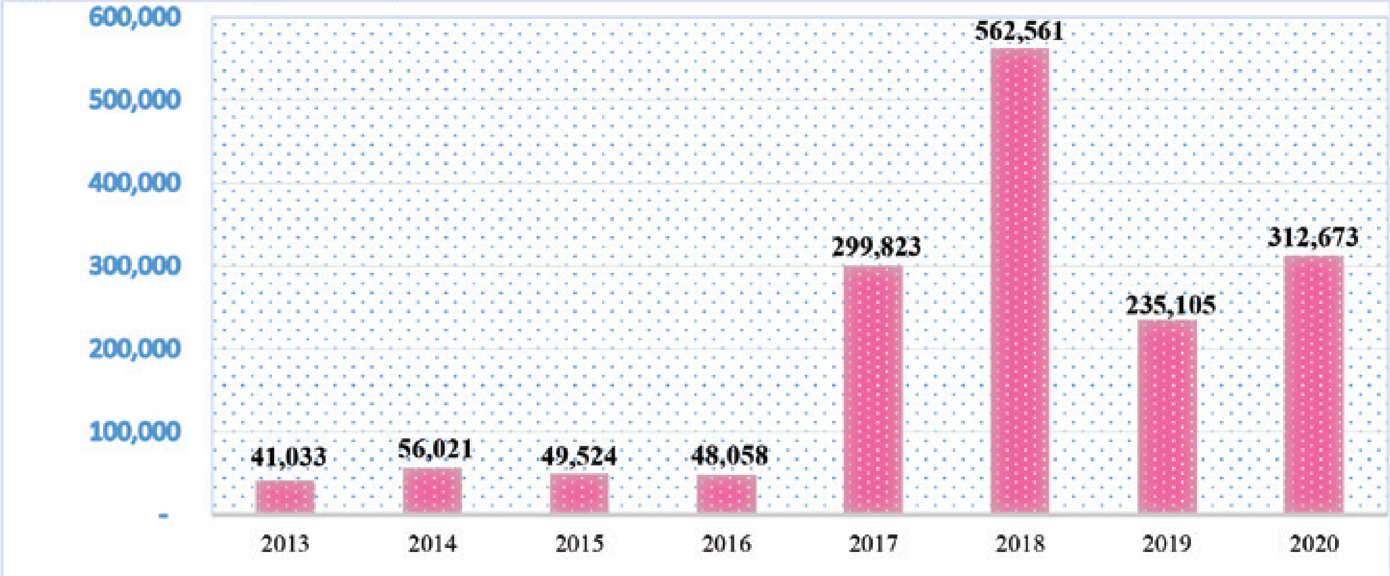
Taxpayer registration, return filing, payment of taxes and enforcement are the four compliance pillars in the administration of domestic taxes. The Authority administers a self-assessment tax regime where taxpayers are expected to assess their own tax liability, file tax returns and pay the correct amount of tax due. In ensuring that taxpayers are compliant, the Authority conducts taxpayer education that helps the taxpayers understand and meet their obligations. This section reviews the Authority's performance on these compliance pillars.

Tax Registrations

In the year under review, the total number of TPIN registrations increased by 32.7 percent to 312, 673 from 235, 105 in 2019. The increase in the number of TPIN registrations is in part due to enhanced taxpayer education, the requirement for the TPIN to undertake certain transactions such as connection to electricity and selling and buying of real property and young taxpayers who have entered the labour force. Figure 24 shows the trend of TPIN registrations from 2013 to 2020[10] .

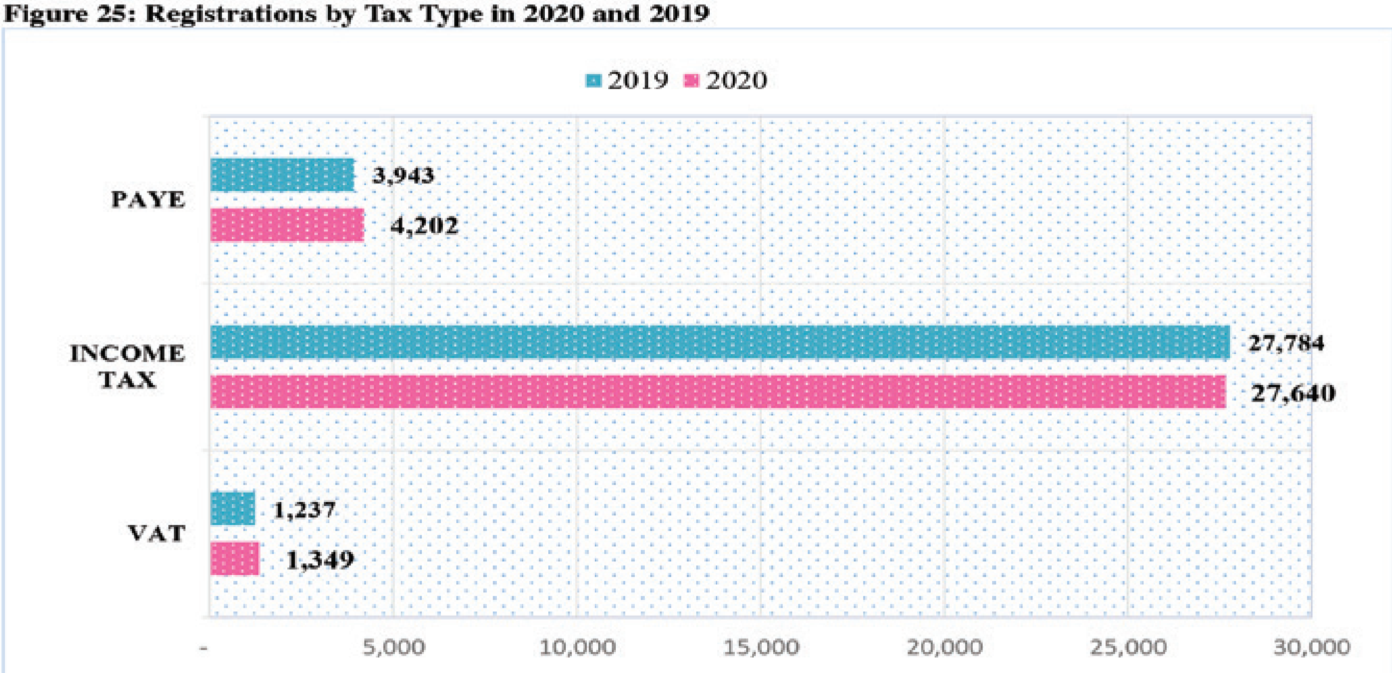
[10] A 2017 amendment to the Income Tax Act required all bank account holders to have a TPIN

Figure 24: TPIN Registrations, 2013 - 2020



In the period under review, there was an increase in the number of registrations for VAT and PAYE, whilst income taxes[11] recorded a decline in registrations. Specifically, there were 1, 349 VAT registrations in 2020 compared to 1, 237 registrations in 2019, and 4, 202 PAYE registrations in 2020 compared to 3, 943 registrations in 2019. For the income taxes, a total of 27,640 registrations were approved in 2020 compared to 27,784 in 2019 (see Figure 25).

Figure 25: Registrations by Tax Type in 2020 and 2019



Return Filing

In 2020, the total number of returns filed for income taxes decreased by 13.4 percent to 1,086,203 from 1,254,111 in 2019. Turnover tax recorded the highest number of returns filed accounting for 61 percent, while the other income taxes accounted for 39 percent (see Table 22).

In the direct taxes category, the total number of refund applications received by the Authority in 2020 decreased to 8,648 from 9,393 in 2019. The number of PAYE refund applications decreased by 11.2 percent, while the number of income tax refund applications recorded a 55.5 percent increase between 2020 and 2019. In monetary terms, a total of K72.4 million was refunded for withholding taxes (see Table 22).

[11] Comprises company income tax, turnover tax and withholding tax registrations

Table 22: Income Tax Return Statistics

	2020	2019	% Change
A. Number of returns submitted: o/w	**420,433**	**457,936**	**-8.2%**
Company tax	24,045	34,175	-29.6%
Individuals	5,015	15,925	-68.5%
PAYE	262,739	273,853	-4.1%
Withholding tax	128,634	133,983	-4.0%
Turnover Tax	**665,770**	**796,175**	**-16.4%**
Company	282,989	286,577	-1.3%
Individuals	382,781	509,598	-24.9%
B. Number of refund Applications: o/w	**8,648**	**9,393**	**-7.9%**
Employment Tax (Pay As You Earn)	7,936	8,935	-11.2%
Income Tax	712	458	55.5%
C. Value of Refunds paid (K' million):o/w	**72.4**	**88.2**	**-18.0%**
Employment Tax (Pay As You Earn)	0.0	6.2	-100.0%
Withholding taxes & others	72.4	82.0	-11.8%
Income Tax	0.0	0.0	0.0%

With respect to VAT return submissions, 138, 869 returns were received in 2020, an increase of 2.0 percent from 136, 203 received in 2019. Of this number, 58, 866 were payment returns and 65, 275 were nil returns representing increases of 3.1 percent and 6.8 percent respectively compared to 2019. The number of repayment returns decreased to 14, 728 in 2020 from 17, 966 in 2019 representing a decrease of 18.0 percent.

In terms of VAT refunds, the value of claims was K14, 128.8 million in 2020 compared to K16, 377.8 million in 2019, representing a decrease of 13.7 percent. A total of K12, 642.6 million was refunded in 2020 from K10, 512.7 in 2019 (see Table 23).

Table 23: VAT Return Statistics

	2020	2019	% Change
A. Number of returns submitted: o/w	**138,869**	**136,203**	**2.0%**
Payment returns	58,866	57,108	3.1%
Nil returns	65,275	61,129	6.8%
Repayment (claims) returns	14,728	17,966	-18.0%
B. Value of returns submitted (K' million):			
Payment returns	7,672.1	7,136.1	7.5%
Nil returns	0	0	0.0%
Repayment (claims) returns	14,128.8	16,377.8	-13.7%
C. Number of Refund Applications:			
Number of Refund Applications	14,728	17,966	-18.0%
Number of Refunds Processed	3,781	3,295	14.7%
D. Value of Refunds Paid (K' million)	**12,642.6**	**10,512.7**	**20.3%**

Compliance Initiatives that Supported Revenue Collection

During the year, the Authority implemented several initiatives aimed at enhancing revenue collection. These initiatives focused on the provision of simplified business solutions, capacity building and structural realignments for staff, and the use of internal and external data. The following are some of the specific initiatives implemented:

1. the signing of a Memorandum of Understanding with the Ministry of Local Government and Housing and the Ministry of Finance to appoint Local Authorities as tax agents for collection of taxes in the informal sector;

2. the rollout of simplified business solutions including TaxOnApp, WhatsApp tax payment platform, and enhanced TaxOnPhone;

3. enhanced collaborations and staff training in tackling base erosion and profit shifting in the mining sector resulting in a landmark ruling by the Supreme Court against a mining firm yielding a tax assessment of K486 million;

4. the expansion of the number of blocks under the Block Management System (BMS) to 72 in 2020 from 30 in 2019;

5. creation of three specialised units which are responsible for improving customer experience, coordination of the Authority's business intelligence functions, and enhancement of data quality; in addition to the continued implementation of the data matching project to compare consistency of taxpayer declarations across different tax types;

6. establishment of a directorate for VAT in the Northern region to improve regional operational efficiency;

7. introduction of Customs Self – Assessment;

8. to reduce incidences of under-valuation, misclassification and origin fraud through data exchange with other customs administrations;

9. the use of the Customs Valuation Reference Database to reduce undervaluation of imports;

10. sharing of data and information with strategic partners in a bid to gather intelligence;

11. undertook the following research activities:

i) the 2020 edition of the Cost of Compliance survey with a primary objective of estimating trends in costs borne by taxpayers in complying with tax obligations;

ii) a collaborative study with the International Growth Centre titled "Harnessing the Power of EFDs to Increase VAT Revenue in Zambia" which was part of a series of studies aimed at improving VAT collections.

Debt Management

Direct and Indirect Taxes Debt

At the close of the year, the stock of domestic taxes debt stood at K59, 659.4 million. The principal tax accounted for the largest share of the debt stock amounting to K32, 248.3 million with penalties at K23, 957.3 million and interest at K3, 453.8 million. The penalties and interests were cumulative positions of audit assessments on tax accounts mainly through account reconciliations. These assessments covered tax periods in 2020 and prior years. Overall, the debt stock grew by 24.8 percent over the 2019 debt stock (see Table 24).

Table 24: Composition of Domestic Debt, 2018 - 2020 (K' Million)

Year	Principal	Penalties	Interest	Total
2018	17,247.8	17,359.0	1,560.0	36,166.8
2019	27,044.8	19,209.7	1,549.8	47,804.3
2020	32,248.3	23,957.3	3,453.8	59,659.4

Of the total inland debt, domestic VAT had the largest share at K29, 733.8 million or 49.8 percent of the total debt. Company Income Tax with a stock of K11, 605.9 million was second followed by PAYE with a stock of K7, 491.3 million. Withholding Tax accounted for K3, 081.9 million. Turnover tax had a total stock of K2, 575.4 million, while Withholding VAT accounted for K2, 126.7 million. Mineral Royalty Tax accounted for K1, 786.8 million while Domestic Excise accounted for K989.4 million and the rest of the tax types had debt below K200.0 million each (see Table 25).

Table 25: Trend in Domestic Debt Accumulation, 2013 - 2020 (K' Million)

Tax Type	2013	2014	2015	2016	2017	2018	2019	2020
Company Tax	5,813.0	3,652.5	3,633.9	4,260.5	3,566.5	8,384.5	9,568.5	11,605.9
Back Duty	287.2	-	-	-	-	-	-	-
Self Employed (Turnover Tax)	812.8	75.9	496.2	1, 068.1	1,493.0	1,951.6	1,953.8	2,575.4
PAYE	641.4	473.4	2,200.1	5,465.9	5,934.1	4,032.9	5,120.1	7,491.3
Domestic VAT	901.9	11, 357.2	15,620.3	14,679.1	17,060.4	19,787.9	24,807.2	29,733.8
Mineral Royalty	40.3	133.8	1,288.7	1,655.2	2,015.7	471.9	1,324.5	1,786.8
Withholding tax	-	-	1,133.2	787.9	805.3	1,109.0	1,244.9	3,081.9
Domestic Excise	-	-	58.4	306.1	193.0	273.4	1,059.2	989.4
Insurance Premium Levy	-	-	-	2.5	74.8	76.6	83.3	83.0
Presumptive Tax	-	-	-	-	1.0	3.7	8.5	11.4
Property Transfer Tax	-	-	-	-	0.5	75.2	134.8	173.3
Tourism Levy	-	-	-	-	0.2	0.1	0.8	0.5
Withholding VAT							2,498.7	2,126.7
Total	**8,496.6**	**15,692.8**	**24,430.8**	**28,225.6**	**31,144.7**	**36,166.8**	**47,804.3**	**59,659.4**

Customs Debt

The customs debt of K 1,534.7 million at the close of the year increased by 163.7 percent from K585.3 million recorded in 2019 (see Table 26).

Table 26: Trend in Customs Debt Accumulation, 2013 - 2020 (K' Million)

Tax Type	2013	2014	2015	2016	2017	2018	2019	2020
Customs Duty	15.7	45.4	83.9	200.1	961.0	117.7	133.8	277.6
Advance Income Tax	1.2	2.1	4.6	24.1	47.7	24.6	26.6	151.1
Import excise duty	26.9	44.8	97.6	1.7	424.2	56.7	86.2	59.8
Fuel Levy	7.8	23	23	205.4	34.0	34.0	31.9	10.4
Export Duty	0	0.2	1.3	46.2	0.4	0.5	36.5	25.1
Motor Vehicle Fee	0.8	1.4	1.9	247.1	73.5	3.0	3.4	1.5
Carbon Emission Surtax	0.3	0.5	0.5	1.6	27.8	1.1	1.2	
Import VAT	32.8	93.7	244.5	435.4	828.3	207.9	255.9	978.2
Other					31.9		9.8	31.0
Total Debt	**85.5**	**211.1**	**457.2**	**1,161.6**	**2,428.8**	**445.5**	**585.3**	**1,534.7**

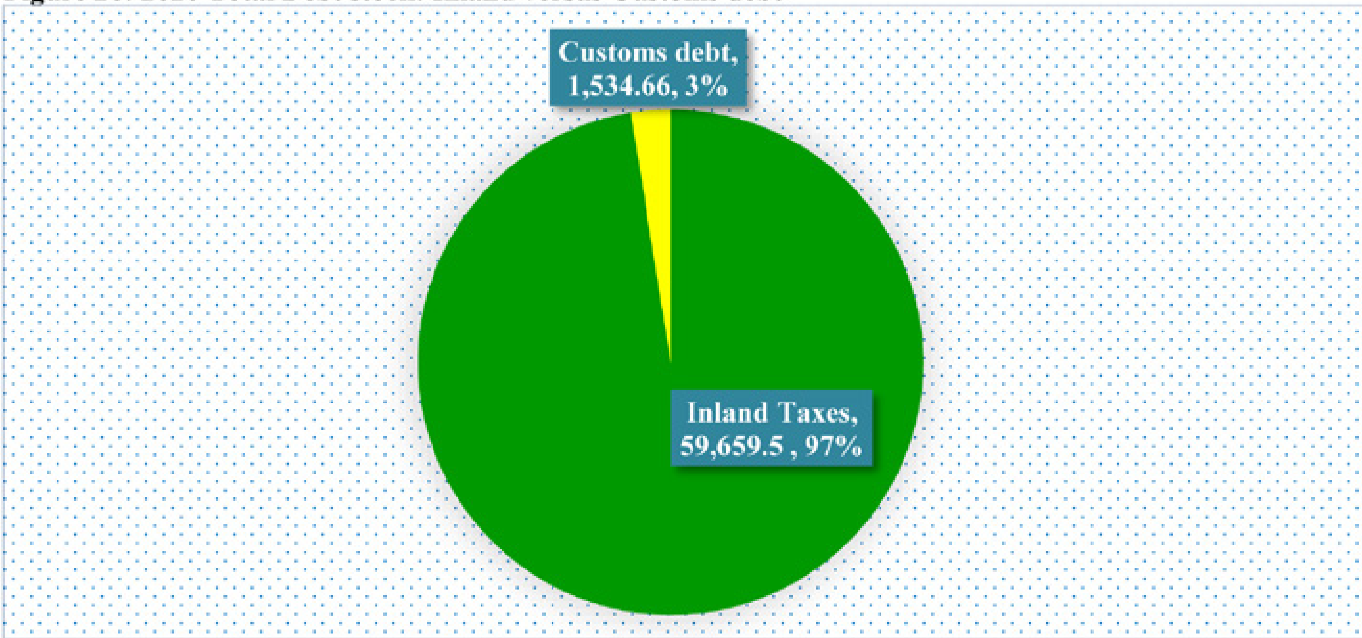
Total Debt Stock

The total tax debt stock increased by 26.5 percent to K61,194.10 million in 2020 from K48, 389.6 million in 2019, of which inland taxes debt accounted for K59, 659.4 million or 97.5 percent of this stock while customs accounted for K1,534.7 million or 2.5 percent of the total debt stock (see Table 27 and Figure 26).

Table 27: Total Debt Stock, 2013-2020

	2013	2014	2015	2016	2017	2018	2019	2020
Total Debt, K' Million: o/w	8,582.1	15,903.9	24,888.0	29,387.2	33,573.5	36,612.3	48,389.6	61, 207.6
Domestic Taxes Debt	8,496.6	15, 692.8	24,430.8	28,225.6	31,144.7	36,166.8	47,804.3	59, 659.4
Customs Debt	85.5	211.1	457.2	1,161.6	2428.8	445.5	585.3	1, 534.7
Domestic Taxes Debt (% of Total)	***99.0%***	***98.7%***	***98.2%***	***96.0%***	***92.8%***	***98.8%***	***98.8%***	***97.5%***
Customs Debt (% of Total)	***1.0%***	***1.3%***	***1.8%***	***4.0%***	***7.2%***	**1.2%**	**1.2%**	**2.5%**

Figure 26: 2020 Total Debt stock: Inland versus Customs debt



As part of the debt Management strategy, the Authority in 2020 reconciled 5,769 taxpayer accounts valued at K16.4 billion. This had a cumulative effect on the debt stock as the process involved posting missing returns and audit assessments while reallocating payments to reflect an accurate tax position. Through enforcement initiatives such as time to pay agreements, debt swaps, and waiver of penalties and interests, the Authority collected K8.3 billion of the accrued debt in 2020.

Taxpayer Education and Advisory Services

In line with our Corporate Strategic Plan and Taxpayer Education Strategy, the Authority implemented a number of strategies to keep the taxpayers and the general public informed on matters related to taxation in Zambia. The highlights of the Authority's interactions with its clients during the year are presented in this section.

Workshops

In 2020, the Authority conducted a total of 169 workshops[12] across the country. These workshops were aimed at sensitizing taxpayers and the general public on various tax matters. Further, the Authority engaged key stakeholder institutions such as the Zambia Association of Chambers of Commerce and Industry, Zambia Institute of Internal Auditors and the Zambia Institute of Chartered Accountants, among others.

Tax Clinics, Lectures and School Chats

To enhance public education on tax matters, the Authority conducted a total of 33 tax clinics and 46 public lectures and school chats in different locations around the country. The tax clinics placed emphasis on members of the public operating in the informal sector.

Television and Radio Programmes

Television and radio platforms were utilised in communicating tax matters including but not limited to: taxes administered by the ZRA; compliance requirements; available services to help taxpayers; and applicable due dates. A total of 828 programmes targeting various audiences were broadcasted in 2020.

Taxpayer Training

The Authority conducted 1,054[13] taxpayer training sessions across the country to increase awareness on the use of e-services and the use of the digital platforms that were introduced.

Tax Literature

As part of continuous taxpayer education, ZRA distributed literature to various stakeholders. The literature distributed included Practice Notes, Budget Highlights, withholding VAT guidelines, and leaflets for Fast track TPIN registration, Frequently Asked Questions and Self-assessment procedures for customs, among others.

Table 28 presents a summary of the 2020 taxpayer outreach programmes.

[12] Includes virtual workshops
[13] Includes virtual sessions due to COVID-19 restrictions

Table 28: Number of Taxpayer Outreach Programmes in 2020 and 2019

Type of Programme	2020	2019
Workshops/ Seminars	169	157
Open Days	1	0
Tax Clinics	33	174
Radios/ TV programmes	828	455
Agriculture and Trade Shows	0	13
Taxpayer Training Sessions	1, 054	194
Lectures/School Chats	46	21
Total	**2, 131**	**1, 014**

Website and Social Media

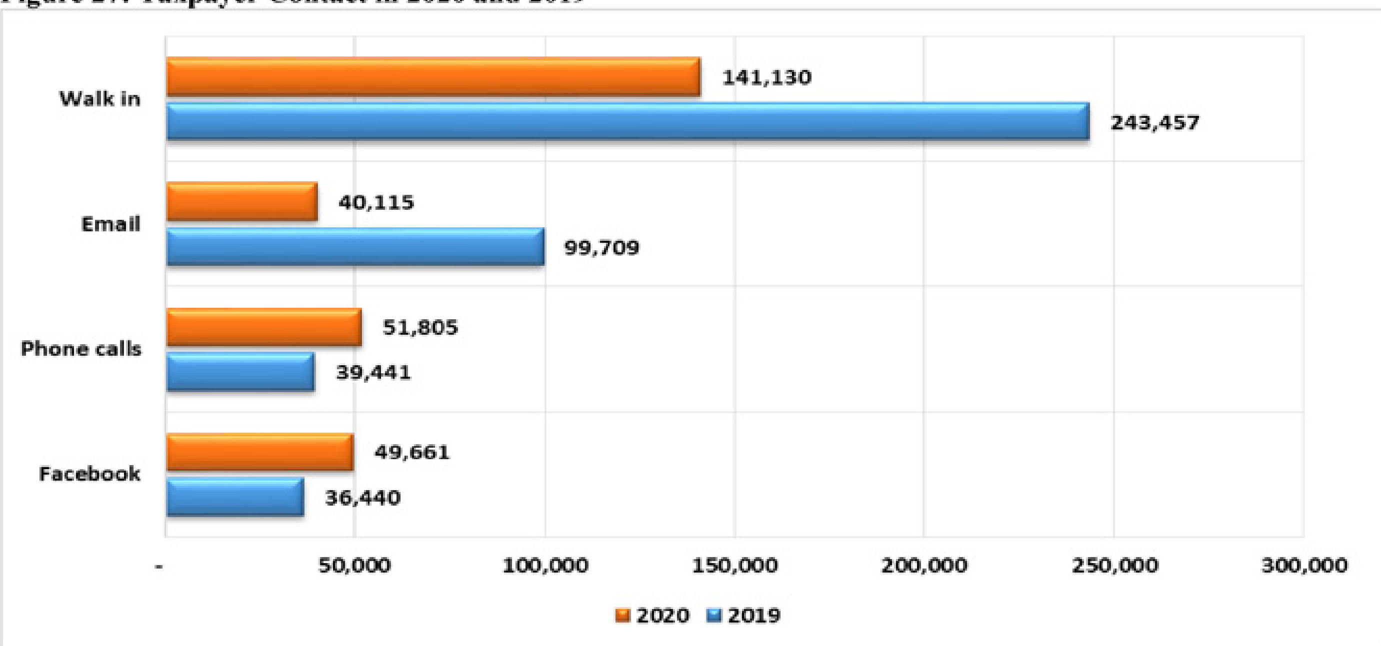
During the year under review, the Authority continued to use the following social media platforms Facebook, Instagram, Twitter, LinkedIn and YouTube to engage with taxpayers and the general public. For example, the Authority's Facebook following increased to 49, 661 in 2020 from 36, 440 in 2019.

The Authority also continued to use its website to enable taxpayers' access e-services and download tax information as part of efforts to provide improved service delivery and reduce the cost of compliance.

Taxpayer Contact

Taxpayer contact was mainly through walk-in contact, email, phone call and Facebook. The number of Customer Service Centre and Advice Centre walk-in contacts reduced to 141, 130 in 2020 from 243, 457 in 2019. This reduction was mainly due to the increased use of e-services following the simplification of the TPIN registration process, automation of the application for Tax Clearance Certificate and the restricted physical contact due to the COVID-19 pandemic. A total of 40, 115 emails to the Advice Centre were received and responded to in 2020 compared to 99,709 in 2019 while a total of 51, 805 phone calls were received in 2020 compared to 39, 441 in 2019. Figure 27 shows taxpayer contact in 2020 and 2019.

Figure 27: Taxpayer Contact in 2020 and 2019



MANAGING PUBLIC CONFIDENCE

Staff Integrity

The Authority, being a public body, places a high premium on staff integrity. In this regard, three integrity related policies were approved by the Governing Board. The Code of Ethics was reviewed, while the Conflict of Interest and the Gift and Benefit Policies were developed as new Policies.

During the year, the ZRA Integrity Committee engaged more than 750 members of staff and more than 35 stakeholders on matters of integrity. One major taxpayer engagement with manufacturers of opaque beer, wines and spirits, tobacco and plastic bags was conducted in collaboration with Excise Directorate. The objective of the taxpayer engagement was to discuss matters of integrity in the mentioned sectors and to provide all the necessary information needed by taxpayers to comply with tax laws.

A total of 40 newly appointed focal point persons were trained by the Anti-Corruption Commission. In September, the Commissioner-General led management and staff in commemorating UN International Anti-Corruption Day.

Comments and Complaints

The number of comments and complaints received in 2020 increased to 183 from 65 recorded in 2019. The increase was attributed to an increased number of process queries where taxpayers use the ZRAIC email to follow up on delayed assessments, VAT refunds and TPIN registration matters. The complaints and comments were received mainly through email and phone calls, but a few were received through other channels such as letters and suggestion boxes (see Table 29).

Table 29: Number of Complaints and Comments Received by ZRAIC

Year	Complaints	Comments	Total
2020	9	174	183
2019	8	57	65

The types of comments and complaints received by ZRAIC are depicted in Table 30.

Table 30: Types of Comments and Complaints Received

Taxpayer Feedback	2020	2019
Compliments	5	2
Information	89	16
Queries	41	31
Suggestions	0	0
Employment Applications	34	8
Complaints	9	8
Staff concerns	5	
Total	**183**	**65**

Reducing Compliance Costs

In order to reduce the cost of compliance, the Authority in 2020 commissioned a new tax administration system called TaxOnline II, which has enabled taxpayers and tax agents to conveniently perform most of their compliance activities online. The commissioning of the new system was a timely development during COVID-19 pandemic.

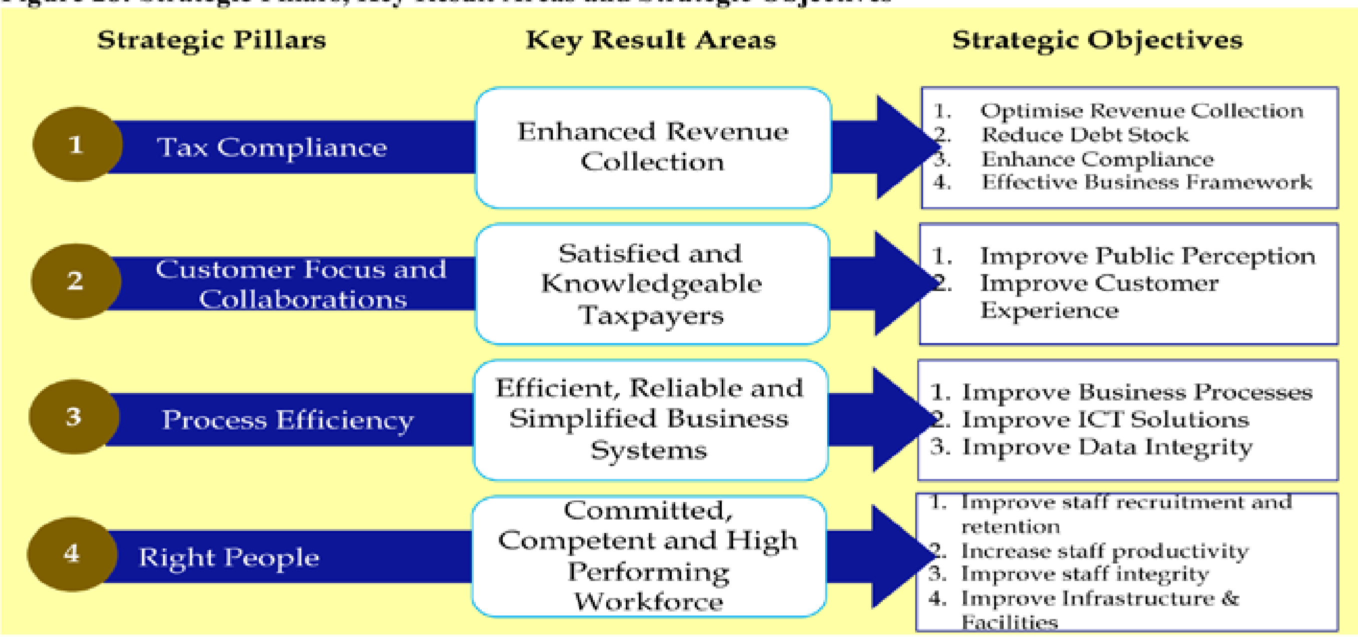
The Authority upgraded its USSD short key *858# called TaxOnPhone and unveiled the application version called TaxOnApp for smartphones.

STRATEGIC PERFORMANCE OF THE AUTHORITY

Performance of the Authority's Corporate Strategic Plan

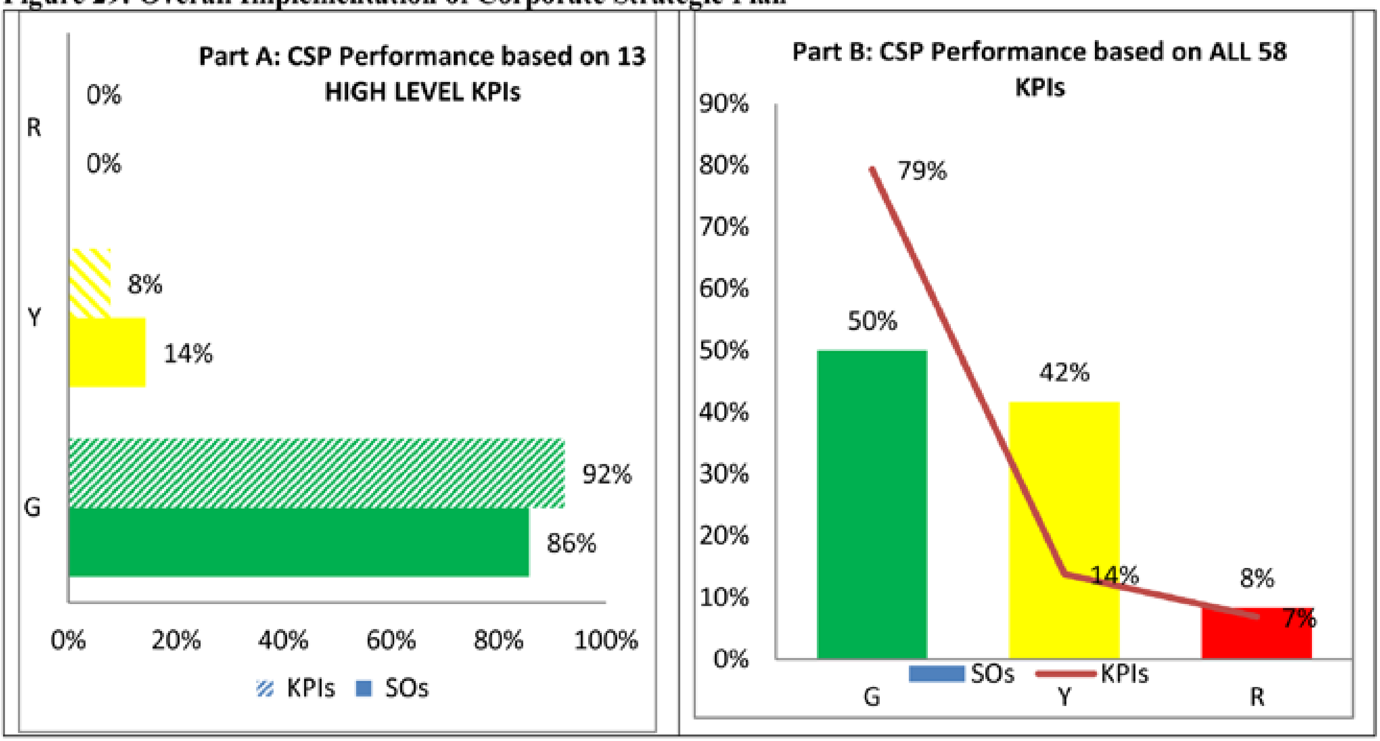
The Authority's Corporate Strategic Plan (CSP) 2019 – 2021 rests on four Strategic Pillars, four corresponding Key Result Areas (KRA) and thirteen Strategic Objectives as depicted in Figure 28.

Figure 28: Strategic Pillars, Key Result Areas and Strategic Objectives



In the year under review, 12 out of 13 high-level KPIs representing 92 percent were attained. In terms of all the 58 KPI's contained in the CSP, 46 were attained representing 79 percent. Based on the performance of the high level KPIs, the Authority achieved 86 percent of its set SOs. Figure 29 depicts the overall performance of the CSP, in terms of the 13 active high-level KPIs in Part A and all the 58 active KPIs in Part B.

Figure 29: Overall Implementation of Corporate Strategic Plan[14]



[14]G is green indicating 'achieved, Y is yellow indicating 'partially 'achieved' and R is red indicating not 'achieved'

Performance under each of the four Key Result Areas is highlighted below:

a) KRA 1: Enhanced Revenue Collection

Out of seven high level KPI's under this KRA six were achieved representing 86 percent

b) KRA 2: Satisfied and Knowledgeable Taxpayers

Under this KRA, there are two high-level KPIs both of which were achieved.

c) KRA 3: Efficient, Reliable and Simplified Business Systems

The two high-level KPIs under this KRA were achieved.

d) KRA 4: Committed, Competent and High Performing Workforce

Both KPI's under this KRA were achieved.

INTERNAL AND EXTERNAL SCRUTINY

Internal Scrutiny

Internal Audit

During the year under review, a total of 18 reports were tabled before the Audit Committee of the Governing Board. Out of these, 15 were finalised which included 10 audits carried forward from 2019 (see Table 31).

Table 31: Audits and Investigations Undertaken in 2020 and 2019

Audits and Investigations	2020	2019
Number of planned audits	23	21
Number of special reviews and investigations and audits finalised	5	12
Number of audits in progress	4	9
Number of 2019 audits finalised in 2020	10	19
Number of audit reports tabled before the Audit Committee	18	27

Internal Affairs

In 2020, a total of 63 cases related to fraud allegations, malpractices and misconduct involving ZRA officers were recorded. This number was lower than the 67 cases recorded in 2019, representing a 5.9 percent reduction. This reduction is largely attributed to the internal integrity campaigns conducted during the year and the implementation of recommendations aimed at improving ethical conduct among officers in the Authority (see Table 32).

Table 32: Cases of allegations of fraud and misconduct by employees in 2019 and 2020

Offence	2020	2019
Fraud	4	3
Dishonest Conduct	39	38
Theft	0	1
Bribery/Corruption	2	7
Abetting smuggling/collusion	12	15
Other	6	3
Total cases investigated	**63**	**67**

From the 63 cases recorded during the year, 36 cases involving 49 officers were recommended for disciplinary action. This resulted in 27 disciplinary actions of which 16 were dismissed while 11 were served with lower sanctions such as warning letters. An additional 6 cases involving 10 officers were recommended for prosecution. The balance of the cases was carried over into 2021.

External Scrutiny

Parliamentary Committees

Parliament as one of the key state institutions in our Country's governance system plays a critical role in promoting accountability in the operations of public bodies. This is done through the various parliamentary committees that undertake oral and written interactions with the public bodies.

During the year under review, the Authority submitted 13 reports to various Committees of the House in addition to written responses to parliamentary queries raised by Members of Parliament. Notable Committees to whom reports were submitted included; the Budget Committee, the Parliamentary Select Committee and the Committee on National Economy, Trade and Labour Matters. Furthermore, the Authority appeared before the Public Accounts Committee, the Expanded Budget Committee and the Committee on Delegated Legislation, among others.

Office of the Auditor General

As a public body established under an Act of Parliament, ZRA is subject to audits by the Office of the Auditor-General. These audits are aimed at providing assurance to the public that public bodies operate above board and in line with their established mandate.

In 2020, the Office of the Auditor General subjected ZRA to one audit covering tax revenue collection activities for the year ended 31st December 2019. Arising from this audit, nine queries were raised in the Tax Revenue Collection Audit Report. The Authority managed to close five queries during the year while four were still being attended to as at the end of the year.

The Authority also followed up prior period audit queries during the year resulting in the closure of two prior years' audit findings upon verification of implementation. Six audit queries were verified pending resolution and were awaiting status update from the Auditor General's Office as at the end of the year.

Litigation

The Authority continued to employ litigation as one of the tools to enhance compliance. Litigation provides an opportunity to seek impartial redress in settling disputes between the Authority and taxpayers. In 2020 the Authority handled several civil and criminal matters in various courts of law.

Civil Litigation

The number of civil cases litigated by ZRA in 2020 was 51 compared to 88 in 2019, representing a 41 percent reduction. From the cases litigated, 8 were before the Supreme Court; 2 were before the Court of Appeal; 13 were before the High Court; 18 were before the Tax Appeals Tribunal; 9 were before the Industrial Relations Court while 1 case was before the Subordinate Court (See Table 33).

Table 33: Tax Related Litigation in 2020 and 2019

Type of Court	2020	2019	% Change
Supreme Court	8	14	(43%)
Court of Appeal	2	3	(33%)
High Court	13	25	(48%)
Tax Appeals Tribunal	18	31	(42%)
Industrial Relations court	9	15	(40%)
Magistrates Court	1	0	100%
Total Cases	**51**	**88**	**(42%)**

In terms of litigation by tax type, a total of 24 cases or 47 percent were related to customs and excise, while 13 cases or 25 percent related to direct and indirect taxes. The labour related cases were 11 or 22 percent and 3 cases or 6 percent were general civil cases.

The total number of cases concluded during the year was 20 out of which 5 were concluded in favour of ZRA, while 1 was in favour of the taxpayer. A total of 7 cases were discontinued, 1 case was withdrawn and 6 were concluded through consent settlement. As at the end of the year, a total of 31 cases were active in the various courts and at the Tax Appeals Tribunal.

Tax Appeals

During the year under review, ZRA handled 224 tax appeal cases representing a decrease of 17 percent over the number of cases handled in 2019. Of these, 190 were appeals on assessments and 34 were appeals on other determinations such as seizure and forfeiture. A total of 124 appeals were from ICE which accounted for 55 percent of the appeals handled. Appeals from Customs, Direct Taxes, Indirect Taxes and Excise, Finance and Investigations accounted for 45 percent. The number of cases resolved stood at 189, representing a resolution rate of 84 percent compared to 55 percent in 2019. The resolution rate for appeals from each of the operating divisions/units in 2020 was at least 83 percent (see Table 34).

Table 34: Tax Appeals Handled in 2020 and 2019

Year	Appeal Type	Customs	Direct Taxes & Indirect Taxes	Finance	Investigations	ICE	Totals
2020	Assessments	41	31	0	6	112	**190**
	Other Determinations	17	4	1	0	12	**34**
	Total Received	58	35	1	6	124	**224**
	Total Resolved	51	29	1	5	103	**189**
	% Resolved	88%	83%	100%	83%	83%	**84%**
2019	Assessments	39	42	3	27	107	**218**
	Other Determinations	16	6	0	11	18	**51**
	Total Received	55	48	3	38	125	**269**
	Total Resolved	28	17	3	18	83	**149**
	% Resolved	51%	35%	100%	47%	66%	**55%**
% Change Total Received		5%	-27%	-67%	-84%	-1%	**-17%**

Criminal Litigation (Prosecutions)

During the year, ZRA handled 29 cases out of which 28 were customs related while 1 related to domestic taxes. The number of cases concluded was 17, out of which 15 convictions were secured while 1 was acquitted, and 1 case was withdrawn. One other case was referred for further investigation. The total number of cases prosecuted in 2020 increased to 17 from 13 in 2019. As at end of the year, 10 cases were under litigation and 1 was at planning stage (see Table 35).

Table 35: Prosecuted cases by Tax Type in 2020

Office Type	Brought Forward	New Cases	Total	Concluded				Carried Forward
				Conviction	Acquittal	Withdrawn	Referred	
Customs	13	15	28	14	1	1	1	11
Domestic Taxes	1	-	1	1	-	-	-	-
Total	**14**	**15**	**29**	**15**	**1**	**1**	**1**	**11**

Seizure of Goods

During the year, ZRA seized various goods which were a subject of various tax offences. The seized goods were valued at K120.7 million representing a 34.9 percent increase from the seized value of K85.8 million in 2019. The goods were either forfeited to the State and auctioned to recover taxes or donated to public and charitable organizations in accordance with the law.

MANAGING PEOPLE

Staff Strategy

During the year under review, the Authority continued to focus on promoting an effective and efficient workforce. In this regard, the Authority undertook the following:

i) promotion of 180 employees in line with the Promotion Policy;
ii) appointment of 73 employees through internal job advertisements; and
iii) recruitment of 194 new employees to ensure that the Authority was adequately staffed.

Staff Complement

The Authority's staff complement stood at 2,066 employees as at close of 2020 compared to 1,960 in 2019, representing a 5.4 percent increase. This increase was in response to the operational and structural changes implemented in the year. Nevertheless, this staff complement was still below the approved establishment of 2,144 representing 96.4 percent of the approved establishment compared to 98.2 percent in 2019 (see Table 36).

Table 36: ZRA Staff Complement by Division/Department/Unit as at end 2020 and 2019

Division / Unit	2020		2019	
	Actual	Approved	Actual	Approved
Commissioner General's Office	54	57	87	88
Direct Taxes	372	385	601	613
Indirect Taxes	268	272	-	-
Customs Services	640	663	643	627
Administration Department	283	296	269	281
Legal Department	18	21	11	12
Research & Corporate Strategy	26	27	19	19
Human Resource	38	46	34	43
Finance	157	160	152	157
Corporate Strategy	-	-	10	10
Information & Comm Technology	70	76	83	88
Innovation & Projects Management	85	86	4	5
Internal Audit & Risk	24	24	18	20
Investigations	31	31	29	32
Total	**2,066**	**2,144**	**1, 960**	**1, 995**

To achieve gender-balance, the share of female staff increased to 38.1 percent in 2020 from 36.6 percent in 2019. In terms of staff category, the share of non-represented contract staff was 12.6 percent of the workforce in 2020 compared to 12.0 percent in 2019. Similarly, the share of staff in the represented contract/permanent staff category increased to 47.3 percent from 46.1 percent in 2019.The share of staff in the represented non-contract staff category marginally declined to 40.1 percent from 41.9 percent in 2019 (see Table 37).

Table 37: ZRA Staff Complement by Category and Gender

Staff Category	2020				2019			
	Male	Female	Total	% of Total	Male	Female	Total	% of Total
Non-represented Contract Staff (ZRA00 – ZRA04)	**200**	**61**	**261**	**12.6**	**180**	**55**	**235**	**12.0**
Total Represented Contract & permanent Staff (ZRA05 – ZRA06)	**562**	**415**	**977**	**47.3**	**539**	**365**	**904**	**46.1**
o/w Represented Contract Staff (ZRA05 – ZRA06)	*206*	*150*	*356*	*17.2*	*180*	*110*	*290*	*14.8*
o/w Represented permanent Staff (ZRA05 – ZRA06)	*356*	*265*	*621*	*30.1*	*359*	*255*	*614*	*31.3*
Represented Non-Contract Staff (ZRA07 – ZRA10)	**517**	**311**	**828**	**40.1**	**523**	**298**	**821**	**41.9**
Total	**1,279**	**787**	**2,066**	**100**	**1,242**	**718**	**1,960**	**100%**

The staff complement in the operating divisions/departments was 1,311 or 63.5 percent in 2020 compared to 1,273 or 64.9 percent in 2019 (see Table 38).

Table 38: ZRA Staff Classification as Operations and Support in 2020 and 2019

Division/Department	2020	2019	% Change
Operations:			
Direct Taxes	372	601	(38.1) %
Indirect Taxes	268	-	100 %
Customs Services	640	643	(0.5) %
Investigations	31	29	6.9 %
Sub Total	**1,311**	**1,273**	**3.0 %**
Support Services:			
Commissioner General's Office	54	87	(37.9) %
Research & Corporate Strategy	26	19	36.8 %
Administration Department	283	269	5.2 %
Legal Department	18	11	63.6 %
Human Resource	38	34	11.8 %
Finance	157	152	3.3 %
Internal Audit & Risk	24	18	33.3 %
Corporate Strategy	-	10	(100) %
Information Technology	70	83	(15.7) %
Innovation & Projects Management	85	4	2,025 %
Sub Total	**755**	**687**	**9.9 %**
Grand Total	**2, 066**	**1,960**	**5.4 %**

Resourcing and Selection

A total of 403 vacancies were filled in 2020, out of which 208 were through internal recruitment and the balance was through external recruitment.

Staff Development and Training

The Authority has a continuous training and development programme for its staff that enables it to respond to the changing business environment and improve service delivery. In this regard, training programs were undertaken by staff that were attended by 3,438 participants compared to 3,867 participants in 2019. The Authority also undertook an evaluation of its training and development activities to assess the impact of programs on participants.

Performance Management and Development Process

The Authority has a robust Performance Management and Development Process which is implemented through the Performance Management Development Contracts (PMDCs) between members of staff and their supervisors. In terms of performance ratings, 97.8 percent of the employees met their performance objectives.

Staff Pension Scheme

As at end December 2020, the ZRA Pension Trust Scheme had a membership of 1,294. The Trustees concluded the appointment of the Fund Manager, Auditor and Actuary and Investment Consultant for the Scheme - as required by law.

Staff Separations

During the year, 89 employees separated from ZRA representing an attrition rate of 4.3 percent compared to 126 separations in 2019 representing an attrition rate of 6.4 percent. The separations were on account of dismissals, resignations, early retirement, expiry of fixed term contracts, discharges from employment and deaths (see Table 39).

Table 39: Separations Recorded in 2020 and 2019

Year	2020	2019
Dismissal	16	31
Termination of Contract/ Employment	2	2
Contract Expiry	15	6
Resignation	6	32
Retirements by service & Age	42	44
Medical/ Employment Discharge	-	6
Death	7	5
Redundancy	1	0
Total	**89**	**126**

Staff Welfare and Employee Relations

Employee Wellness/HIV and AIDS

The employee wellness scheme, which is subscribed to by all staff, was established to promote a healthy workforce through fitness programs and encouragement of lifestyle changes.

By the end of December 2020, the ZRA Employee Wellness Scheme had a membership of 2,066 with 72 employees were accessing the Anti-Retroviral Therapy.

The implementation of activities under the Employee Wellness Policy was hampered by the COVID-19 pandemic, which adversely affected the organisation of wellness activities.

Employee Relations

During the year under review, employee relations remained stable and cordial between management, the union and members of staff.

PHYSICAL ASSET MANAGEMENT AND INFORMATION & COMMUNICATION TECHNOLOGY

Asset Management

In 2020, the Authority undertook various infrastructure development projects at its various locations across the country. The total amount spent on construction and rehabilitation projects was K 26.9 million (see Table 40).

Table 40: Major Construction Projects in 2020

No.	Project Name	Contract Value (K)	Status
1	Construction of an office block in Chinsali	8,739,223.4	68% complete
2	Construction of 8 housing units in Chanida	3,186,000.0	completed
3	Rehabilitation of the Mongu office	2,988,653.7	completed
4	Construction of 3 staff houses in Kasama	2,591,169.7	completed
5	Construction of 4 staff houses in Kipushi	1,984,615.0	55% complete
6	Construction of 8 housing units in Kashiba	1,374,815.8	90% complete
7	Renovation of the second floor at Revenue House	1,373,906.6	completed
8	Rehabilitation of Solwezi office	1,202,938.0	98% complete
9	Fencing off Katima Mulilo border post	744,035.6	completed
10	Supply and installation of the high mast lighting at Chirundu Border Post	730,000.0	Contract Awarded
11	Alteration and extension of kitchen at the ZRA training centre	617,196.0	99% complete
12	Refurbishment of the Revenue House reception hall	447,694.9	98% complete
13	Renovations at Chirundu one stop border post	439,123.8	Completed
14	Construction of a guard house at Revenue House	263,524.0	99% complete
15	Construction of the ablution block at Kapiri Mposhi Office	255,357.0	completed
16	Refurbishment of the Livingstone service centre	GIZ/ZRA	completed
17	Refurbishment of the Chipata service centre	GIZ/ZRA	completed
18	Refurbishment of the Solwezi service centre	GIZ/ZRA	completed
Total		**26,938,253.5**	

Information and Communication Technology

In its continued effort to enhance service delivery, the Authority invested in excess of K40 million to procure high-end and sophisticated servers meant to stabilise the core tax administration systems, TaxOnline and ASYCUDAWorld. The new TaxOnline system was launched early in the year, with simplified features enabling taxpayers to meet most of their tax obligations online.

Other initiatives undertaken during the year included:

i) the upgrade of TaxOnphone and launch of TaxOnApp;
ii) automation of internal business processes;
iii) the upgrade of the SAP system used for Financial, Human Resource, Procurement and Treasury Management; and
iv) provision of remote working capabilities for meetings and training programmes for staff.

MANAGING RESOURCES

Managing Resources

In 2020, the Authority received total income of K1,686.4 million and incurred total expenses of K1,738.5 million which resulted in a deficit of K52.2 million. The major financing of K1,285.4 million was received through funding from the Government which increased by 37.2 percent compared to 2019.

Table 41 provides a comparative summary of the Authority's operating income and expenditure for 2020 and 2019.

Table 41: Summary of Income and Expenditure, 2020 and 2019

	2020	2019
	K	K
Revenue from non-exchange transactions		
Government grants	1,285,366,971	937,148,830
Deferred income	3,819,399	1,579,124
Sub total	***1,289,186,370***	***938,727,954***
Revenue from exchange transactions		
Asycuda processing fees	378,420,006	382,251,288
Other income	8,886,148	7,501,425
Finance income	2,762,534	5,900,677
Kasumbalesa Agency fees	7,089,219	4,127,609
Kariba Dam Agency fees	31,830	29,970
Sub total	***397,189,737***	***399,810,969***
Total Revenue	**1,686,376,107**	**1,338,538,923**
Expenditure		
Personnel expenses	(1,147,996,922)	(1,005,437,696)
Administrative expenses	(106,222,015)	(89,879,046)
Other operating expenses	(145,495,244)	(199,878,696)
Depreciation and amortisation expenses	(114,122,595)	(98,978,091)
Loss on foreign exchange transactions	(224,711,324)	(52,245,091)
Total expenses	**(1,738,548,100)**	**(1,446,418,620)**
(Deficit)/surplus for the year	**(52,171,993)**	**(107,879,697)**

During the year, the Authority collected K378.4 million in ASYCUDA fees compared to K382.3 million collected in 2019. In addition, K7.1 million was received from the Kasumbalesa Joint Venture Project where ZRA is the appointed profit collection agent on behalf of the Government. The Authority retained 10 percent of this amount as administration fee in accordance with the approval granted by the Minister of Finance.

Recurrent Expenditure

In the period under review, staff related expenditure accounted for the largest share of total expenses at 65.9 percent. This was followed by operating expenses and administrative expenses that accounted for 8.4 percent and 6.1 percent of total expenses, respectively. The Authority further incurred losses of K338.8 million attributed to depreciation and amortization expenses and loss on foreign exchange transactions.

During the year, administrative expenses increased by 18.2 percent while other operating expenses reduced by 27.2 percent compared to their 2019 levels. The increase of 13.8 percent in staff related expenditure relative to 2019 was attributed to an expanded staff establishment and improved emoluments.

Capital Expenditure

During the year ended 31st December 2020, the Authority spent K70.7 million in capital expenditure. The detailed financial performance based on Accrual Basis of Accounting is shown in the Financial Statements.

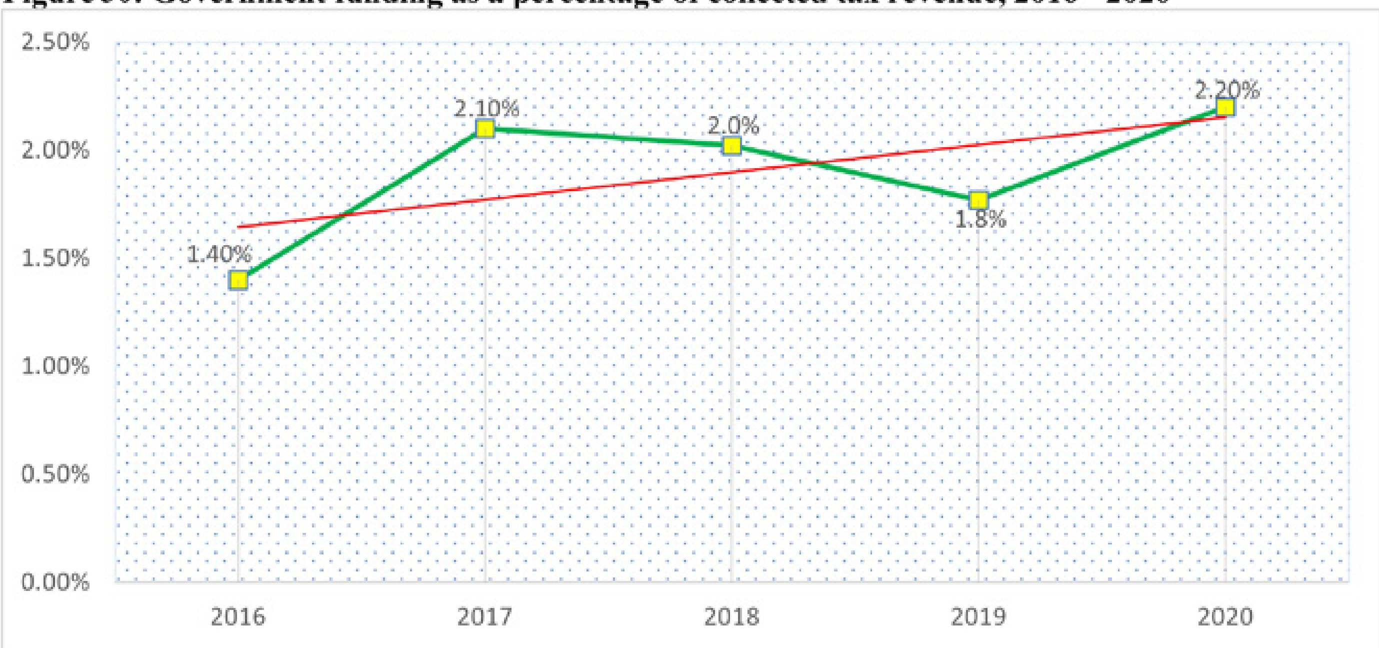
Cost of Tax Revenue Collection

The proportion of government funding relatively to the total taxes collected is an important measure that tracks the efficiency of tax revenue administration in an economy. This proportion which is also known as the cost of tax collection ratio shows the extent of the utilised scarce public resources to mobilise a given level of tax revenue.

In the period under review, the cost of tax revenue collection ratio increased to 2.2 percent compared to 1.8 percent in 2019. The increase in the ratio was mainly due to the COVID-19 pandemic which reduced economic activity resulting in lower revenue collection. The splitting of Domestic taxes division into Direct taxes and Indirect taxes divisions, the procurement of TaxOnline II and the opening of new service centers all led to increased operational costs for the Authority.

The cost of revenue collection ratio has averaged 1.9 percent during the last five years (See Figure 30).

Figure 30: Government funding as a percentage of collected tax revenue, 2016 - 2020



Annex

The list of institutions that the Zambia Revenue Authority collaborated with in 2020.

1. African Tax Administration Forum (ATAF)
2. Anti-Corruption Commission (ACC)
3. Bank of Zambia (BoZ)
4. Common Market for Eastern and Southern Africa (COMESA)
5. Department for International Development (DFID)
6. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ);
7. Drug Enforcement Commission (DEC)
8. European Union (EU)
9. Financial Intelligence Centre (FIC)
10. General Directorate of Customs and Excise of the Democratic Republic of Congo
11. Inter-Governmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF)
12. International Growth Centre (IGC)
13. International Monetary Fund (IMF)
14. Ministry of Agriculture
15. Ministry of Commerce, Trade and Industry
16. Ministry of Finance
17. Ministry of Local Government and Housing
18. Ministry of Mines and Minerals Development
19. Ministry of Health
20. Ministry of National Development Planning
21. National Assembly of Zambia
22. National Institute of Public Administration (NIPA)
23. National Pension Scheme Authority (NAPSA)
24. Organization of Economic Cooperation and Development (OECD)
25. Patents and Companies Registration Agency (PACRA)
26. Road Transport and Safety Agency (RATSA)
27. Sherwood Greene Properties Zambia
28. Southern African Development Community (SADC)
29. Tanzania Revenue Authority (TRA)
30. The Copperbelt University (CBU)
31. The Judiciary of Zambia
32. United Nations Conference on Trade and Development (UNCTAD)
33. United Nations University World Institute for Development Economics Research (UNU-WIDER)
34. United Nations Economic Commission for Africa (UNECA)
35. United States Department of the Treasury
36. World Bank
37. World Customs Organization (WCO)
38. World Trade Organization (WTO)
39. Zambia Bureau of Standards (ZABS)
40. Zambia Chamber of Commerce and Industry (ZACCI)
41. Zambia Development Agency (ZDA)
42. Zambia Institute for Policy Analysis and Research (ZIPAR)
43. Zambia Institute of Chartered Accountants (ZICA)
44. Zambia Information and Communications Technology Authority (ZICTA)
45. Zambia National Broadcasting Corporation (ZNBC)
46. Zambia National Marketeers Credit Association (ZANAMACA)
47. Zambia Police Service
48. Zambia Postal Services (ZAMPOST)
49. Zambia Public Procurement Agency (ZPPA)
50. Zambia Statistics Agency (ZAMSTATS)
51. Zimbabwe Revenue Authority (ZIMRA)

FINANCIAL STATEMENTS

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

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ZAMBIA REVENUE AUTHORITY

GOVERNING BOARD'S REPORT

The Governing Board submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of the Authority.

PRINCIPAL ACTIVITIES

The principal activities of the Authority are to assess, charge, levy and collect revenue due to the Government of the Republic of Zambia ("the Government") under such laws as the Minister of Finance may, by enacted legislation or statutory instrument, specify; and to ensure that revenue collected is, as soon as reasonably practicable, credited to the Government Treasury. The Authority is a grant aided institution.

RESULTS	2020	2019
	K	K
Revenue	1 686 376 107	1 338 538 923
Deficit for the year	(52 171 993)	(107 879 697)

The deficit for the year of **K52.2 million** (2019: K107.9 million) has been adjusted in the capital fund.

GOVERNING BOARD

The members who held office during the year were:

Amb. Bwalya S. K. Chiti - Chairperson
Mrs. Cecilia M. B. Zimba
Mr. James Koni
Mr. Andrew Nkunika
Mr. Fredson K. Yamba
Mrs. Lydia M. Sibanda
Mrs. Grace T. Bwanali
Mr. Christopher M. Mvunga

Mr. Christopher M. Mvunga replaced Dr. Denny Kalyalya on the board on 7th October 2020 following his appointment as Bank of Zambia Governor.

EMPLOYEES

The total remuneration of employees during the year amounted to **K1,148.0 million** (2019: K1,005.4 million). The average number of employees for each month of the year was as follows:

Month	Number	Month	Number
January	2 013	July	2 100
February	2 024	August	2 095
March	2 009	September	2 124
April	2 002	October	2 125
May	1 984	November	2 101
June	2 104	December	2 114

The Authority has policies and procedures to safeguard the occupational health, safety and welfare of its employees.

PROPERTY AND EQUIPMENT

The Authority purchased property and equipment amounting to **K70.7 million** (2019: K64.5 million) during the year. In the opinion of the Directors, the carrying value of property and equipment is not more than their recoverable value.

GIFTS AND DONATIONS

Donations to charitable organisations and events during the year amounted to **K370,989** (2019: K905,606).

AUDITOR

The Authority's Auditors, Messrs Deloitte & Touché, were reappointed to another term of three years following a competitive bidding process. Their current term of office is the audit of financial years 31 December 2018, 2019 and 2020 and they will be retiring after the 2020 audit.

DIRECTOR

Date: 14th April 2021

ZAMBIA REVENUE AUTHORITY

STATEMENT OF GOVERNING BOARD'S RESPONSIBILITIES

The Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia (the "Act") requires the Governing Board to:

- assess, charge, levy and collect all revenue due to the Government of the Republic of Zambia under such laws as the Minister of Finance and National Planning may, by enacted legislation or statutory instrument, specify;
- ensure that all revenue collected is, as soon as reasonably practicable, credited to the Government Treasury;
- keep proper books of account and other records which disclose with reasonable accuracy at any time the financial position of the Authority;
- safeguard the assets of the Authority and hence take reasonable steps for the prevention and detection of fraud and other irregularities; and
- prepare financial statements for each financial year which comply with International Public Sector Accounting Standards (IPSAS).

The Governing Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the annual statements and their report, is shown on pages 3, 4 and 5.

The Governing Board is also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguards, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties.

Nothing has come to the attention of the Governing Board to indicate that any material breakdown in the functioning of these control, procedures and systems has occurred during the year under review.

In the opinion of the Governing Board members, the Authority has complied with the requirements of the Act.

Signed on behalf of the Board by:

DIRECTOR

DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the Government of Zambia through the Minister of Finance

Report on the financial statements

Opinion

We have audited the accompanying financial statements of the Zambia Revenue Authority (the "Authority") as set out on pages 6 to 31, and which comprise the statement of financial position as at 31 December 2020, the statement of financial performance, the statement of changes in net assets, the statement of cash flows and the statement of comparison of budget for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Authority as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Actuarial valuation of pension obligations	
The Authority operates an unfunded lump sum gratuity arrangement. As the arrangement is unfunded, gratuity benefits are paid out of the Authority's general revenues. Upon retirement of unionisable and contract employees, a liability is settled by the Authority under the final salary principles. The Authority has legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. International Public Sector Accounting Standard No. 39 Employee Benefits states that " An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period."	In considering the actuarial valuation of pension obligation, we performed the following procedures: Obtained the actuarial report based on 31 December 2020 numbers. Ensured that the valuation met IPSAS 39 requirements. Reviewed key inputs used within the report as well as challenged key assumptions made. Performed a retrospective review to assess obligation for reasonableness. Corroborated the inflation rates used to inflation projections in the region and tested for reasonableness.

Key audit matters	How our audit addressed the key audit matter
Actuarial valuation of pension obligations (Continued)	
We focused on this audit area because of the significant assumptions and judgements which are included to arrive at the pension obligation. Key assumptions that are involved in the calculation of the defined benefit obligation as per note 23 to the financial statements are: ● Discount rate; ● Expected rate of salary increment; and ● Average longevity at retirement age for current employees.	The Discount rates used were appropriate and comparable to Government bond yield rates available with the Bank of Zambia. Had a discussion with the actuary on where mortality rates were derived from and compared those rates to the central statistics office in Zambia. Ensured the Independent Actuaries who carried out the valuation were appropriately qualified and competent. Assumptions were tested and were found to be reasonable. We found that the assumptions used by the Expert were appropriate and the discount rates were comparable to the market. Further, the disclosures pertaining to the pension obligations were found to be appropriate and comprehensive in the financial statements.

Other information

The Governing Board is responsible for the other information. The other information comprises the Governing Board's Report and the statement of Governing Board's responsibilities, as required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Governing Board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Zambia Revenue Authority, Chapter 321 of the Laws of Zambia, and for such internal control as the Governing Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Board is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Board either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so. The Directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

Auditor’s responsibilities for the audit of the financial statements (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governing Board.
- Conclude on the appropriateness of the Governing Board’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Governing Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Governing Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

The Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia, requires that in carrying out our audit we confirm the following:

In our opinion, the Zambia Revenue Authority has maintained proper accounting records and other records as required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

Deloitte & Touche

DELOITTE & TOUCHE

ALICE JERE TEMBO
PARTNER
AUD/F000433

DATE: 28th April 2021

ZAMBIA REVENUE AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 December 2020

	Notes	2020 K	2019 K
Revenue from non-exchange transactions			
Government grants	6	1 285 366 971	937 148 830
Deferred income	10	3 819 399	1 579 124
		1 289 186 370	938 727 954
Revenue from exchange transactions			
Asycuda processing fees	7	378 420 006	382 251 288
Other income	8	8 886 148	7 501 425
Finance income	9	2 762 534	5 900 677
Kasumbalesa Agency fees	12	7 089 219	4 127 609
Kariba Dam Agency fees	12	31 830	29 970
		397 189 737	399 810 969
Total Revenue		1 686 376 107	1 338 538 923
Expenditure			
Personnel expenses	13	(1 147 996 922)	(1 005 437 696)
Administrative expenses	14	(106 222 015)	(89 879 046)
Other operating expenses	15	(145 495 244)	(199 878 696)
Loss on foreign exchange transactions	16	(224 711 324)	(52 245 091)
Depreciation and amortisation expenses	17, 18	(114 122 595)	(98 978 091)
Total expenses		(1 738 548 100)	(1 446 418 620)
Deficit for the year		(52 171 993)	(107 879 697)

ZAMBIA REVENUE AUTHORITY

STATEMENT OF FINANCIAL POSITION
at 31 December 2020

	Notes	2020 K	2019 K
ASSETS			
Current assets			
Inventories	19	9 042 847	2 256 332
Employee loans and advances (exchange transactions)	20	67 860 510	27 782 569
Other assets	21	50 803 909	51 098 442
Cash and cash equivalents	22	149 346 111	104 058 096
Customs deposit bank accounts	26	3 092 782	580 186
Tax refunds bank accounts	27	53 680 821	84 494 299
		333 826 980	270 269 924
Non-current assets			
Property and equipment	17	801 104 512	822 031 715
Intangible assets	18	108 366 320	100 014 672
Employee loans and advances (exchange transactions)	20	22 620 170	15 422 554
		932 091 002	937 468 941
TOTAL ASSETS		1 265 917 983	1 207 738 865
Liabilities			
Current liabilities			
Deferred income	10	835 029	1 624 041
Post employment benefits	23	49 717 020	48 451 946
Payables	24	115 121 371	93 427 857
Borrowings	25	119 003 981	75 170 602
Customs deposit bank accounts	26	3 092 782	580 186
Tax refunds for tax payers	27	53 680 821	84 494 299
Total current liabilities		341 451 004	303 748 931
Non-current liabilities			
Deferred income	10	1 677 132	1 703 082
Post employment benefits	23	265 923 953	274 561 028
Borrowings	25	407 524 425	329 429 362
Total non-current liabilities		675 125 510	605 693 472
TOTAL LIABILITIES		1 016 576 514	909 442 403
NET ASSETS		249 341 469	298 296 462
Capital deficiency		(130 261 715)	(89 019 682)
Revaluation reserve		379 603 184	387 316 144
NET ASSETS/EQUITY		249 341 469	298 296 462

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 December 2020

	Capital deficiency K	Revaluation reserve K	Total K
At 1 January 2019	(212 817 465)	389 734 624	176 917 159
Total comprehensive loss for the year	123 797 783	(2 418 480)	121 379 303
Deficit for the year	(107 879 697)	-	(107 879 697)
Other comprehensive income:			
Gain on employee retirement benefit plan	229 259 000	-	229 259 000
Amortisation of revaluation surplus	2 418 480	(2 418 480)	-
Balance as at 31 December 2019	**(89 019 682)**	**387 316 144**	**298 296 462**
At 1 January 2020	**(89 019 682)**	**387 316 144**	**298 296 462**
Total comprehensive income for the year	**(41 242 033)**	**(7 712 960)**	**(48 954 993)**
Deficit for the year	(52 171 993)	-	(52 171 993)
Other comprehensive income:			
Gain on employee retirement benefit plan	3 217 000	-	3 217 000
Amortisation of revaluation surplus	7 712 960	(7 712 960)	-
At 31 December 2020	**(130 261 715)**	**379 603 184**	**249 341 469**

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	Notes	2020	2019
		K	K
Cash flows from operating activities			
Deficit for the year		(52 171 993)	(107 879 697)
Adjustments for:			
Amortisation of capital grant	10	(3 819 399)	(1 579 124)
Depreciation and amortisation	17, 18	114 122 595	98 978 091
Amortisation of staff benefit	20	27 311 267	10 051 767
Impairment loss on employee loans and advances	20	-	213 966
Gain on disposal of equipment		(1 787 800)	(529 842)
Net exchange losses on borrowings	25	225 436 602	61 474 559
Unrealised exchange losses		46 235 700	34 142 955
Interest paid on borrowings	25	(5 149 410)	(3 985 546)
Net finance income		(2 762 534)	(5 900 677)
Capital work in progress written off	17	973 177	534 426
Defined benefit obligation expense	23	160 290 000	187 411 000
Operating cash flows before movements in working operating funds		508 678 205	272 931 877
Changes in operating funds:			
(Increase) decrease in inventories	19	(6 786 515)	1 309 258
Increase in employee loans and advances	20	(74 586 824)	(12 395 804)
Decrease (increase) in other assets	21	294 533	(23 083 605)
Increase (decrease) in payables	24	21 693 514	(7 638 014)
		(59 385 293)	(41 808 165)
Employee benefits paid from plan	23	(164 445 000)	(159 981 025)
Net cash generated from operating activities		284 847 913	71 142 687
Cash flows from investing activities			
Interest received		2 762 534	5 900 677
Acquisition of property and equipment and intangible assets	17, 18	(102 727 866)	(96 425 781)
Proceeds from disposal of equipment		1 995 448	1 754 968
Investment Climate facility and Norwegian Tax Administration grant refunded	9	-	(1 375)
Capital grant received - World Bank	10	3 004 437	2 701 360
Net cash used in investing activities		(94 965 447)	(86 070 151)
Cash flows from financing activities			
Repayment of borrowings	25	(98 358 750)	(63 841 750)
Net cash used in financing activities		(98 358 750)	(63 841 750)
Net increase (decrease) in cash and cash equivalents		91 523 715	(78 769 214)
Cash and cash equivalents at beginning of the year		104 058 096	216 970 265
Effect of foreign exchange rate changes		(46 235 700)	(34 142 955)
Cash and cash equivalents at end of the year	22	149 346 111	104 058 096

ZAMBIA REVENUE AUTHORITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
for the year ended 31 December 2020

	Notes	Approved Budget	Revised Budget	Actual Amounts	Performance difference
		K	K	K	K
Revenue					
Government grants	31.1.1	1 157 356 493	1 239 356 493	1 285 366 971	46 010 478
Asycuda processing fees	31.1.2	428 020 768	398 020 768	378 420 006	(19 600 762)
Other income	31.1.3	4 866 914	4 866 914	8 886 148	4 019 234
Finance income	31.1.4	-	5 917 808	2 762 534	(3 155 274)
Deferred income	31.1.5	-	-	3 819 399	3 819 399
Kasumbalesa Agency fees	31.1.6	4 299 166	4 299 166	7 089 219	2 790 053
Kariba Dam Agency fees	31.1.7	-	-	31 830	31 830
		1 594 543 341	**1 652 461 149**	**1 686 376 107**	**33 914 958**
Expenditure					
Personnel expenses	31.2.1	1 147 162 440	1 132 182 920	1 147 996 922	(15 814 002)
Administrative expenses	31.2.2	109 430 356	122 086 562	106 222 015	15 864 547
Other operating expenses	31.2.3	245 305 998	281 995 105	145 495 244	136 499 861
Depreciation and amortisation expenses	31.2.4	-	-	114 122 595	(114 122 595)
Net exchange losses	31.2.5	-	-	224 711 324	(224 711 324)
Total expenditure		**1 501 898 794**	**1 536 264 587**	**1 738 548 100**	**(202 283 513)**
Surplus/(deficit) for the year		**92 644 547**	**116 196 562**	**(52 171 993)**	**236 198 471**

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2020

1. GENERAL INFORMATION

The Zambia Revenue Authority ("the Authority") was established following enactment by Parliament of the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia (the "Act"), to carry out the affairs of the former Customs and Excise Department and the Department of Income Taxes. The Act, which came into effect on 1 April 1994, also transferred the assets and liabilities of those former departments to the Authority. The address of its registered office is:

Revenue House
Kabwe Roundabout
P. O. Box 35710
Lusaka

2. STATEMENT OF COMPLIANCE

The financial statements of the Authority have been prepared in accordance with and comply with International Public Sector Accounting Standards ("IPSAS"). The financial statements are presented in Zambian Kwacha (K), which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for, leasing transactions that are within the scope of IPSAS 13 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IPSAS 21 Impairment of non-cash generating assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Authority had a capital deficiency of K130,261,715 (2019: K89,019,682) as at the reporting date. On the basis that the Authority is Grant aided and funding by the Government has continued in the subsequent period, the Governing Board are of the opinion that the preparation of these financial statements on the going concern basis remains appropriate.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation

In preparing the financial statements of the Authority, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in income and expenditure in the year in which they arise.

(c) Revenue recognition

Revenue from non-exchange transactions

Government revenue grants

Income represents the revenue grants receivable from the Government and other co-operating partners during the year and is accounted for on an accruals basis. Government grants are recognised when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant.

Grants that compensate the Authority for expenses incurred are recognised in income and expenditure as other income on a systematic basis in the periods in which the expenses are recognised.

Capital grants

Capital grants are recognised initially as deferred income at fair value where there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant, and are then recognised in the income and expenditure as other income on a systematic basis over the useful life of the asset. Specifically, government grants whose primary condition is that the Authority should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to surplus or deficit on a systematic and rational basis over the useful lives of the related assets.

Revenue from exchange transactions

Other income

Other income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Rental income

Rental income from properties is recognised in income and expenditure on a straight line basis over the term of the relevant lease agreement.

Sale of cigarette stamps

Revenue from sale of cigarette stamps is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration the Authority expects to receive in exchange for those goods or services. Revenue is measured net of returns, trade discounts and volume rebates.

Interest income

Interest income is recognised using the effective interest rate method.

(d) Property and equipment

Leasehold land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve, all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Leasehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold buildings	2%
Office equipment, furniture, fixtures and fittings	20%
Furniture, fixtures and fittings	20%
Motor vehicles	25%
Equipment	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in income and expenditure. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(f) Inventories

Inventories are stated in the statement of financial position at the lower of cost and net realisable value. Cost comprises direct material costs. Cost includes all costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value takes into account all directly related costs to be incurred in marketing, selling and distribution. Provision is made where necessary, for defective, slow moving and obsolete inventories.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of intangible assets

At each reporting date, the Authority reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is leasehold land or buildings, other than investment property, carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Authority becomes a party to the contractual provisions of the instrument.

(i) *Financial assets*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as loans and receivables or held-to-maturity investments, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Authority commits to purchase or sell the asset. The Authority's financial assets include: cash and short-term deposits, employee loans and advances and other receivables.

(a) Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost less any impairment.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

(c) Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(d) *De-recognition of financial assets*

The Authority derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the statement of comprehensive income.

(ii) Financial liabilities

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

The Authority’s financial liabilities include payables, other payables and borrowings.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Deferred income

Income intended to compensate costs over a period of time is deferred and released to the profit or loss over the periods necessary to match it with the costs for which it is intended to compensate.

(k) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(m) Employee benefits

i) Retirement benefit obligations

The Authority operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Authority pays contributions to publicly administered pension insurance plans on a mandatory basis. The Authority has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Authority and all its employees also contribute to the appropriate National Social Security Fund, which is a defined contribution scheme.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Authority before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Authority recognises termination benefits at the earlier of the following dates: (a) when the Authority can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IPSAS 39 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Authority makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Retirement benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Authority determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Authority considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Authority's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Authority does not hedge any of its risk exposures.

Financial risk management is carried out by the finance department under policies approved by the Governing Board. The Governing Board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk and investment of excess liquidity.

Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables. The Authority does not have significant concentrations of credit risk. The Authority's credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Governing Board. The utilisation of credit limits is regularly monitored.

For cash and cash equivalent balances, the Authority's exposure and credit ratings of counterparties are regularly monitored and the aggregate value of transactions spread amongst approved financial institutions. The Authority actively seeks to limit the amount of credit exposure to any one financial institution and credit exposure is controlled by counterparty limits that are reviewed and approved by the Authority Treasury. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' for International and regional banks with a local presence are accepted.

No credit limits were exceeded during the reporting period, and the Governing Board do not expect any losses from non-performance by these counterparties.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority undertakes certain transactions denominated in foreign currencies hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters as approved by the Board of Directors.

The Authority is exposed to foreign exchange risk which arises primarily with respect to bank and cash balances which are denominated in US Dollars. Foreign exchange risk also arises from a loan from Ministry of Finance (a subsidiary loan which the Government of the Republic of Zambia secured from the People's Republic of China denominated in Chinese Yuan) and supplier payments denominated in US Dollars.

Below is the Kwacha equivalent of the financing assets and liabilities that are denominated in foreign currencies.

	2020 K	2019 K
Assets		
US dollar denominated	19 818 789	35 001 036
Liabilities		
Chinese Yuan denominated	526 528 406	404 599 964
US dollar denominated	13 531 172	21 992 181
	540 059 577	426 592 145

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management performs cash flow forecasting and monitor rolling forecasts of the Authority's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 25) at all times so that the Authority does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Authority's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation.

The table below analyses the Authority's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year K	Between 1 and 5 years K	Over 5 years K
At 31 December 2020:			
- borrowings	119 003 981	407 524 425	-
- payables	115 121 371	-	-
- employee benefits	49 717 020	167 532 090	98 391 863
	283 842 372	575 056 515	98 391 863

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	Less than 1 year	Between 1 and 5 years	Over 5 years
	K	K	K
At 31 December 2019:			
- borrowings	75 170 602	293 540 310	35 889 052
- payables	93 427 857	-	-
- employee benefits	48 451 946	173 100 236	101 460 792
	217 050 405	466 640 546	137 349 844

Capital management

The Authority's objectives when managing capital are to safeguard the Authority's ability to continue as a going concern. Adequacy of the capital of the Authority is maintained by the Authority on a regular basis. As and when required the Authority will request supplementary funding from the Ministry of Finance.

Fair value measurements

This hierarchy requires the use of observable market data when available. The Authority considers relevant and observable market prices in its valuations where possible.

Fair value of the Authority's financial assets and financial liabilities that are measured at fair value on a recurring basis.

There were no financial assets and liabilities that are measured at fair value on a recurring basis during the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	Carrying value 2020	Fair value 2020	Carrying value 2019	Fair value 2019
Financial assets	K	K	K	K
Employee loans and advances	**90 480 680**	**90 480 680**	43 205 123	43 205 123
Other assets	**50 803 909**	**50 803 909**	51 098 442	51 098 442
Customs deposit bank account	**3 092 782**	**3 092 782**	580 186	580 186
Tax refunds bank accounts	**53 680 821**	**53 680 821**	84 494 299	84 494 299
Financial liabilities				
Borrowings	**526 528 406**	**526 528 406**	404 599 965	404 599 965
Payables	**115 121 371**	**115 121 371**	93 427 857	93 427 857
Customs deposit bank accounts	**3 092 782**	**3 092 782**	580 186	580 186
Tax refund bank accounts	**53 680 821**	**53 680 821**	84 494 299	84 494 299

Fair value Hierarchy as at 31 December 2020

	Level 1	Level 2	Level 3	Total
Financial assets	K	K	K	K
Employee loans and advances	-	-	90 480 680	**90 480 680**
Other assets	-	-	50 803 909	**50 803 909**
Customs deposit bank account	-	-	3 092 782	**3 092 782**
Tax refunds bank accounts	-	-	53 680 821	**53 680 821**
Financial liabilities				
Borrowings	-	-	526 528 406	**526 528 406**
Payables	-	-	115 121 371	**115 121 371**
Customs deposit bank accounts	-	-	3 092 782	**3 092 782**
Tax refund bank accounts	-	-	53 680 821	**53 680 821**

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

		2020	2019
		K	K
6.	**GOVERNMENT GRANTS**		
	Annual budgetary allocation	905 587 024	890 010 624
	Supplementary funding	379 779 947	47 138 206
		1 285 366 971	937 148 830

Supplementary funding includes K150 million for the upgrade and modernization of ICT systems, K152 million for cushioning the impact of Covid-19 on the operations of the Authority, K13 million for border management expenses and K64 million for other modernization activities.

7. ASYCUDA PROCESSING FEES

	2020	2019
Asycuda processing fees are derived from the charge of K500 per transaction for the processing of imported goods at the borders. This income is partly used to maintain the scanners that process imported goods.	378 420 006	382 251 288

8. OTHER INCOME

	2020	2019
Cigarette stamps sales proceeds	3 127 265	2 365 294
Rental income	2 338 249	2 564 616
Gain on disposal of property and equipment	1 787 799	1 653 224
Sundry income	1 632 835	918 291
	8 886 148	7 501 425

Rental income arises from the excess office space that is let to third parties.

9. FINANCE INCOME

	2020	2019
Relates to interest income on short term bank deposits.	2 762 534	5 900 677

10. DEFERRED INCOME

	2020	2019
At beginning of the year	3 327 123	2 204 887
Receipts during the year	3 004 437	2 701 360
Recognised in statement of financial performance	(3 819 399)	(1 579 124)
At end of the year	2 512 161	3 327 123
Amounts falling due within one year	835 029	1 624 041
Amounts falling due after one year	1 677 132	1 703 082
	2 512 161	3 327 123

In December 2007, the Authority received a capital grant from the Government for the procurement, installation and operation of specialist scanning equipment. The equipment is used for non-intrusive inspection of cargo and is currently installed at the Chirundu and Livingstone border posts. The equipment was purchased and brought into use in June 2008.

In January 2013, the Authority received assets from Public Expenditure Management and Financial Accountability (PEMFA), in the form of office equipment and furniture, amounting to K690,005; as well as part funding for a motor vehicle in the sum of K340,000. These have been treated as deferred income in accordance with IPSAS 23, *Revenue from Non -exchange Transactions* . The grant assets are being depreciated over their respective estimated useful lives of 5 and 4 years respectively, with the associated deferred income being amortised accordingly.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

10. DEFERRED INCOME (CONTINUED)

In October 2016, the Authority received assets from The World Bank, in the form of motor vehicles valued at K3,602,292 and office equipment valued at K497,766. These have been treated as deferred income and are being depreciated over their respective estimated useful lives of 5 and 4 years respectively, with the associated deferred income being amortised accordingly.

In May 2018, the Authority received various assets from the German Development Cooperation, in the form of computers and office furniture valued at K293,400 and K16,691 respectively. These have been treated as deferred income and are being depreciated over their respective estimated useful lives of 5 years with the associated deferred income being amortised accordingly.

In 2019, the Authority received various assets from the World Bank which included handheld scanners, sirens and drones all valued at K1.5 million. The German Development Cooperation donated various office furniture and ICT equipment valued at K952,411. The Public Financial Management Reform Program (PFMRP) donated Canon document scanners valued at K154,104. The World Customs Organisation donated ICT equipment valued at K66,833. These have been treated as deferred income and are being depreciated over their respective estimated useful lives with the associated deferred income being amortized accordingly.

During the year 2020, the Authority received K2.3 million worth of seals from the World Bank for use in the management of transit cargo vehicles for customs purposes, Laptops worth K0.4 million from the German Development Agency, GIZ, Laptops worth K0.14 million from the Ministry of Commerce Trade and Industry.

11. MINERAL VALUE CHAIN AND NORWEGIAN TAX ADMINISTRATION GRANTS	2020 K	2019 K
Tax Administration grants		
At beginning of the year	-	1 375
Refunds	-	(1 375)
At end of the year	-	-

12. AGENCY FEES

(a) Kasumbalesa Agency fees

In March 2017, the Authority was appointed by the Government of the Republic of Zambia (GRZ) as a Profit Collection Agent in respect of the Concession Agreement between the GRZ and the Zambian Intellectual Property Border Crossing Company Limited (ZipBCC) for collection of profits on its behalf. The income of **K7,089,219** (2019: K4,127,609) reported in the statement of financial performance represents 10% agency fees on the government share of profits collected on its behalf by the Authority during the year.

(b) Kariba Dam Agency fees

In January 2013, the Authority signed a memorandum of understanding with Zambezi River Authority for collection of toll fees on the Kariba dam on its behalf. The income of **K31,830** (2019: K29,970) reported in the statement of financial performance represents 10% agency fees on the toll fees collected on behalf of Zambezi River Authority during the year.

13. PERSONNEL EXPENSES	2020 K	2019 K
Basic pay	474 826 524	394 988 093
Retirement benefit expense	177 111 088	197 041 026
Housing allowance	135 373 887	114 009 467
Leave pay	129 918 543	99 138 828
Other allowances	50 722 446	49 755 212
Overtime	44 447 790	33 318 520
Bonus	38 287 142	43 475 102
Pension Scheme contributions	26 474 411	16 496 519
NAPSA contributions	24 991 531	21 177 737
Medical expenses	23 490 068	14 819 835
Training	8 176 456	10 299 205
Staff welfare and professional subscriptions	7 645 459	7 798 446
Insurance	5 431 862	1 970 676
ART/Employee wellness contribution	1 099 715	1 149 030
	1 147 996 922	1 005 437 696

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

14. ADMINISTRATIVE EXPENSES

	2020 K	2019 K
Repairs and maintenance - buildings	20 355 781	17 279 673
Travel expenses	13 393 245	15 006 833
Advertising and public relations	10 348 116	9 063 703
Office rentals	9 467 582	8 536 049
Postage and telephones	4 350 637	5 247 812
Fuel	6 543 020	5 197 577
Staff uniforms	5 288 661	4 755 463
Electricity, water and rates	6 881 138	4 663 510
Printing and stationery	7 100 094	4 538 732
Motor vehicle repairs	7 094 400	4 505 610
Subscriptions and publications	4 351 237	4 020 700
Board expenses	2 300 228	2 035 710
Motor vehicle insurance and licence	2 321 389	1 517 126
Conferences and seminars	3 610 420	1 096 669
Corporate social responsibility	1 389 069	876 908
Audit expenses	632 858	796 448
Bank charges	326 094	549 643
Insurance	468 046	190 880
	106 222 015	89 879 046

15. OTHER OPERATING EXPENSES

	2020 K	2019 K
Repairs and maintenance - IT	67 452 386	117 694 824
Travel/relocation	31 627 061	33 598 638
Security	22 044 274	20 136 354
Advertising/promotional material and conferences	8 298 803	11 513 209
Field work - fuel	6 566 041	5 430 705
Scanner operations	2 973 196	1 898 758
Printing and stationery	2 506 580	1 610 387
Cigarette stamps	2 091 754	2 175 887
Legal and professional expenses	949 976	1 113 967
Tender Expenses	659 923	1 070 928
Other professional fees	325 250	3 635 039
	145 495 244	199 878 696

16. NET EXCHANGE LOSSES

The movements in the US Dollar exchange rates during the year were as follows:

	2020	2019
Mid market exchange rate at 1 January	14.1	12.0
Mid market exchange rate at 31 December	21.2	14.1
Average depreciation	50%	18%

The Zambian Kwacha depreciated against the US Dollar and other major convertible foreign currencies during the year. The impact of the depreciation of the Zambian Kwacha during the year is that the Authority earned net unrealised exchange losses on its foreign currency denominated monetary liabilities.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

17. PROPERTY AND EQUIPMENT

	Leasehold land	Leasehold buildings	Plant and machinery	Office equipment	Motor vehicles	Furniture fixtures and fittings	Capital work in progress	Total
	K	K	K	K	K	K	K	K
At 1 January 2019	39 570 402	468 400 216	236 175 401	48 507 266	20 904 785	10 485 123	16 803 960	840 847 153
Additions	-	-	86 250	25 489 252	14 960 423	10 267 857	13 713 241	64 517 023
Disposals	-	-	(10)	(2 035 849)	(4 171 191)	(172 610)		(6 379 660)
Transfers	-	19 343 220	-	3 668 338	-	-	(23 011 557)	-
Depreciation charge	-	(9 724 465)	(41 115 876)	(16 365 987)	(10 405 824)	(3 960 757)	-	(81 572 909)
Eliminated on disposal	-	-	10	1 948 055	3 047 808	158 661	-	5 154 534
Expensed*	-	-	-	-	(20 398)	-	(514 028)	(534 426)
At 31 December 2019	**39 570 402**	**478 018 971**	**195 145 775**	**61 211 075**	**24 315 603**	**16 778 274**	**6 991 615**	**822 031 715**
At 31 December 2019								
Cost or valuation	39 570 402	507 291 380	437 372 637	131 152 894	72 444 355	32 381 510	6 991 616	1 227 204 794
Accumulated depreciation	-	(29 295 521)	(242 202 699)	(69 941 819)	(48 128 752)	(15 604 288)	-	(405 173 079)
Carrying amount	**39 570 402**	**477 995 859**	**195 169 938**	**61 211 075**	**24 315 603**	**16 777 222**	**6 991 616**	**822 031 715**
At 1 January 2020	39 570 402	507 291 380	437 372 637	131 152 894	72 444 355	32 381 510	6 991 616	1 227 204 794
Additions	-	-	139 645	46 599 818	4 662 462	3 731 920	15 520 576	70 654 421
Disposals	-	-	-	(348 745)	(2 773 969)	(563 563)	-	(3 686 277)
Transfers	-	4 391 177	-	-	-	-	(4 391 177)	-
Depreciation charge	-	(10 182 985)	(41 095 819)	(23 196 372)	(10 943 891)	(4 981 731)	-	(90 400 798)
Eliminated on disposal	-	-	-	273 554	2 669 564	535 511	-	3 478 629
Expensed*	-	-	-	-	-	-	(973 177)	(973 177)
At 31 December 2020	**39 570 402**	**501 499 572**	**396 416 463**	**154 481 150**	**66 058 521**	**31 103 646**	**17 147 838**	**1 206 277 591**
At 31 December 2020								
Cost or valuation	39 570 402	511 682 557	437 512 282	177 403 968	74 332 848	35 549 866	17 147 838	1 293 199 761
Accumulated depreciation	-	(39 478 506)	(283 298 518)	(92 864 637)	(56 403 079)	(20 050 508)	-	(492 095 248)
Carrying amount	**39 570 402**	**472 204 051**	**154 213 764**	**84 539 331**	**17 929 769**	**15 499 358**	**17 147 838**	**801 104 512**

***** The capital work in progress expense asset relates to the renovation costs incurred by the Authority in creating a Data Centre at Head Office.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

17. PROPERTY AND EQUIPMENT (CONTINUED)

Fair values of buildings

An independent valuation of the Authority's buildings was performed by valuers, Hallmark Properties Limited to determine the fair value of the land and buildings. This revaluation was performed at the end of 2018. The revaluation surplus is credited to other comprehensive income and is shown in revaluation reserves' in capital fund and reserves. The Authority carries out valuation every five years to ensure that the carrying amount of the buildings does not significantly differ from the fair value.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

The buildings are all classified as Level 2 and are recurring fair value measurements with significant observable inputs. There were no transfers between different levels during the year.

Valuation techniques to derive Level 2 fair values

Level 2 fair values were derived using comparable value of similar buildings adjusted for differences in key attributes such as property size and condition. The most significant input into this valuation is the price per square metre.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2020	2019
	K	K
Cost	196 967 451	192 576 273
Accumulated depreciation	(45 654 372)	(40 763 759)
Carrying amount	151 313 079	151 812 515

The Authority holds title to the Revenue House and an institutional house. However, the Government holds title to all other properties transferred to the Authority in 1994.

18. INTANGIBLE ASSETS

	Software	Capital work in progress	Total
COST	K	K	K
At 1 January 2019	109 909 359	31 908 758	141 818 117
At 1 January 2020	109 909 359	31 908 758	141 818 117
Additions	-	32 073 445	32 073 445
Transfers	54 142 410	(54 142 410)	-
At 31 December 2020	**164 051 769**	**9 839 793**	**173 891 562**
Amortisation			
At 1 January 2019	(24 398 263)	-	(24 398 263)
Amortisation charge for the year	(17 405 182)	-	(17 405 182)
At 1 January 2020	(41 803 445)	-	(41 803 445)
Amortisation charge for the year	(23 721 797)	-	(23 721 797)
At 31 December 2020	**(65 525 242)**	**-**	**(65 525 242)**
CARRYING AMOUNT			
At 31 December 2020	**98 526 527**	**9 839 793**	**108 366 320**
At 31 December 2019	68 105 914	31 908 758	100 014 672

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

19. INVENTORIES

	2020 K	2019 K
Uniforms	6 838 816	474 567
Cigarette stamps	1 031 582	1 043 572
Stationery	1 007 052	530 232
Other consumables	165 397	207 961
	9 042 847	2 256 332

No allowance has been made for obsolescence and slow moving inventory (2019: Nil).

20. EMPLOYEE LOANS AND ADVANCES

	2020 K	2019 K
Advances against gratuity	42 121 507	14 451 121
Vehicle ownership loans	22 442 719	5 403 045
Other loans	14 463 087	13 619 053
Personal loans	11 642 324	9 802 236
Home ownership loans	74 257	210 469
	90 743 894	43 485 924
Impairment allowance	(263 214)	(280 801)
	90 480 680	43 205 123
Amounts falling due within one year	67 860 510	27 782 569
Amounts falling due after one year	22 620 170	15 422 554
Total employee loans and advances	90 480 680	43 205 123

Interest is charged at 5% per annum for all employee loans except for senior management car loans which are charged at 18%.

Staff loans marked to market

	2020 K	2019 K
At beginning of year	43 205 123	41 075 052
Current year fair value	74 586 824	12 181 838
Amortisation to profit or loss	(27 311 267)	(10 051 767)
	90 480 680	43 205 123

Employee loans and advances are offered on concessionary rates. House, Car and personal development loans are enhanced by collateral of landed property and in the case of car loans, the vehicle registration certificate is endorsed with the Authority as absolute owner.

Where staff loans are issued to members of staff at concessionary rates, fair value is calculated based on market rates. This will result in the long term staff loans benefit as shown above.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

20. EMPLOYEE LOANS AND ADVANCES (CONTINUED)

The prevailing interest rates on staff loans were as follows:

	2020	2019
	%	%
Personal loan	5	5
Personal Development loan	5	5
House	5	5
Car loan	5	5
Car loan-senior management	18	5

Movement in the impairment allowance	2020	2019
	K	K
At beginning of year	280 801	66 835
Amounts recovered in the year	(17 587)	-
Impairment in the current year	-	213 966
Balance at end of the year	263 214	280 801

21. OTHER ASSETS

	2020	2019
Funds receivable from Kasumbalesa Concession	19 818 789	35 001 036
Prepayments	22 347 869	12 489 823
Other receivables	8 637 251	3 607 583
	50 803 909	51 098 442

The carrying amounts of the other receivables approximate to their fair values. None of the above assets are past due or impaired.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

22. CASH AND CASH EQUIVALENTS

	2020	2019
Cash at bank and in hand	149 346 111	104 058 096
Held as follows:		
Zambia National Commercial Bank Plc	122 182 340	48 098 784
Bank of Zambia (Asycuda Fees)	11 621 487	15 491 165
Citi Bank Limited	7 645 356	6 281 200
Atlas Mara Bank Limited	5 976 134	6 649 194
Cash on hand	1 087 531	497 911
Indo Zambia Bank Limited	760 790	26 963 988
Investrust Bank PLC	12 710	10 200
First Capital Bank Limited	10 000	10 000
First Alliance Bank Limited	10 000	10 000
Cavmont Bank Limited	10 000	10 000
Standard Chartered Bank Plc	9 501	10 051
Stanbic Bank Limited	8 362	9 818
First National Bank Limited	6 700	8 185
Eco Bank Limited	5 200	7 600
Total cash and cash equivalents	149 346 111	104 058 096

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

23. EMPLOYEE BENEFITS

	2020 K	2019 K
Retirement benefits	5 105 711	81 162 694
End of contract gratuity	310 535 262	241 850 280
	315 640 973	323 012 974
Amounts falling due within one year	49 717 020	48 451 946
Amounts falling due after one year	265 923 953	274 561 028
	315 640 973	323 012 974
Movement in the present value of the defined benefit obligations:		
Defined benefit obligations at 1 January	323 012 974	524 841 999
Benefits paid by the plan	(164 445 000)	(159 981 025)
Service costs	105 034 000	101 458 000
Interest cost	55 256 000	85 953 000
Actuarial (gains) loss	(3 217 000)	(229 259 000)
Defined benefit obligation at end of year	315 640 974	323 012 974
Expense recognised in deficit or surplus		
Service costs	105 034 000	101 458 000
Interest costs	55 256 000	85 953 000
	160 290 000	187 411 000

The significant actuarial assumptions were as follows:

	31 December 2020		31 December 2019	
	Retirement benefits	End of contract gratuities	Retirement benefits	End of contract gratuities
Discount rate	30.1%	30.1%	23.5%	23.5%
Inflation	10.0%	10.0%	10.0%	10.0%
Future salary increases	11.5%	11.5%	11.5%	11.5%

Assumptions regarding future experience are set on actual advice in accordance with actuaries.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 3.2%	Increase by 2%
Salary growth rate	0.50%	Increase by 3.4%	Decrease by 3.3%

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

24. PAYABLES

	2020	2019
	K	K
Accrued leave pay	66 137 053	42 128 024
Trade payables	27 660 355	30 616 435
Accrued expenses	21 323 963	20 683 398
	115 121 371	93 427 857

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

25. BORROWINGS

	2020	2019
Loan from Ministry of Finance	526 528 406	404 599 964
Amounts falling due within one year	119 003 981	75 170 602
Amounts falling due after one year	407 524 425	329 429 362
	526 528 406	404 599 964
At beginning of year	404 599 964	410 952 702
Loan repayments during the year	(98 358 750)	(63 841 750)
Loan interest paid during the year	(5 149 410)	(3 985 546)
Net exchange losses during the year	225 436 602	61 474 558
	526 528 406	404 599 964
	CNY	CNY
At beginning of year	198 275 000	235 462 500
Loan repayments during the year	(35 000 000)	(35 000 000)
Loan interest paid during the year	(1 837 500)	(2 187 500)
Balance at the end of the year	161 437 500	198 275 000

In 2012, the Authority assumed a subsidiary loan which the Government of the Republic of Zambia secured from the People's Republic of China for procurement, installation and operation of 8 non-intrusive scanning equipment from Exim Bank.

The loan is for a duration of 13 years at a fixed interest rate of 1% per annum (revised). Under the terms of this loan, the Authority is to pay annual interest amounts in two instalments March and September starting 2013, while principal repayments commenced in 2015.

26. CUSTOMS DEPOSITS BANK ACCOUNTS

	2020	2019
	K	K
Customs deposits bank accounts The Customs deposits bank accounts relate to monies held on behalf of importers pending assessments. The Customs and Excise Act, Chapter 322 of the Laws of Zambia requires that after 30 days any monies not refunded to importers must be returned to the Government. The corresponding liability to refund importers is included as a payable.	3 092 782	580 186

27. TAX REFUNDS BANK ACCOUNTS

	2020	2019
Value Added Tax (VAT) refund	5 038 073	65 206 566
Income tax refund	44 346 808	13 820 572
Customs refund	4 295 940	5 467 161
	53 680 821	84 494 299

The tax refunds bank accounts relate to monies from the Government being amounts payable to tax payers on their claims for tax paid. The corresponding liability to refund tax payers is shown as a payable.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

28. CONTINGENT LIABILITIES

There were legal proceedings outstanding against the Authority, which were awaiting ruling/judgment by the courts of law as at 31 December 2020. In the opinion of the Governing Board, these claims and lawsuits in aggregate will not have a significant adverse effect on the financial statements. All tax related litigation claims will be funded by the Government if they materialise.

29. COMMITMENTS

	2020 K	2019 K
Capital commitments		
Capital expenditure contracted for at the end of the reporting period but not recognised in the financial statements is as follows:		
Property, plant and equipment	11 577 766	12 065 211
Operating lease commitments		
The Authority leases various properties under non-cancellable operating lease. The lease terms are between 1 and 5 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	9 580 078	1 374 342
Later than 1 year and not later than 5 years	19 160 156	3 215 140
	28 740 233	4 589 482

30. RELATED PARTY TRANSACTIONS

	2020	2019
Transactions with Government		
Funding received from Government	1 285 366 971	937 148 830
Scanner loan repayments to Government	103 508 161	67 827 296
Key management personnel compensation		
Key management includes Governing Board and members of senior management. The compensation paid or payable to key management for employee services is shown below:		
Salaries and other short-term employment benefits	24 479 210	23 331 226
Post-employment benefits	10 654 657	10 462 219
Directors Fees	1 119 052	2 035 710
	36 252 919	35 829 155
Loans to Commissioners		
Loans and advances	16 356 621	3 465 780

The Authority has been providing short term loans to key management personnel at rates below average commercial rates of interest. The loans are unsecured.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

31. BUDGET INFORMATION

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements; first, the reasons for overall growth or decline in the budget are stated, followed by details of overspending or underspending on line items.

31.1 REVENUE

31.1.1 Government grants

The grant for the current year is higher due to supplementary funding which was provided to help mitigate the negative impact of Covid-19 and the exchange rate deterioration on the Authority's costs and revenue mobilisation programmes. There was also a favourable variance on the performance of the Kasumbalesa profit sharing budget line owing to favourable movements in the US Dollar exchange rate.

31.1.2 Asycuda processing fees

The Asycuda processing fee per transaction was maintained at K500.0 per transaction. However, owing to cross-border travel and trade restrictions brought about by the outbreak of the Covid-19 pandemic, the actual transaction volumes were less than budgeted by about 42,000 transactions in the year resulting in a negative variance of K22.0 million.

31.1.3 Other income

Other income was higher than budgeted owing to the increase in cigarette stamp sales and increased income received from the disposal of assets.

31.1.4 Finance income (Mineral Value Chain and NTA)

The projects sponsored by the Royal Norwegian Government for strengthening of Tax administration came to an end in 2018. No activity was recorded in the current year.

31.1.5 Deferred income

This comprises of amortization of various assets donated to the Authority (including office equipment and motor vehicles) by Public Expenditure Management and Financial Accountability (PEMFA), Public Financial Management Reform Program (PFMRP), World Bank and World Customs Organisation (WCO). These figures are not included in the budget due to the uncertainty of the grant income from donors.

31.1.6 Kasumbalesa Agency fees

The Authority's agency fee of 10% on the Kasumbalesa profit sharing was higher than budget in the period due to good performance of the concession in the year and the higher than budgeted exchange rate. The fees are paid in United States Dollars (US$).

31.1.7 Kariba Dam Agency fees

This relates to 10% agency fee on Kariba dam toll fees collected on behalf of Zambezi River Authority and was not included in the budget.

31.2 EXPENDITURE

31.2.1 Personnel expenses

The performance against the budget shows a negative variance due to leave days, gratuity and terminal benefits accruals. Overall, the actual cash expense performance and the budget were fairly the same.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

31. BUDGET INFORMATION (CONTINUED)

31.2 EXPENDITURE (CONTINUED)

31.2.2 Administrative expenses

The actual expenditure remained within budget for the year despite an increase in some operating costs. The advent of Cocid-19 slowed down a number of planned activities while some were completely abandoned.

31.2.3 Other operating expenses

The expenditure was well within budget as some activities were scaled down while others were deferred due to the Covid-19 pandemic.

31.2.4 Depreciation and amortization expenses

The actual depreciation and amortisation of both tangible and intangible assets for the year is not included in the annual budget but is shown in the final audited financial statements of the Authority. This is due to the uncertainty of number of assets and class which the Authority will have at the end of any reporting period.

31.2.5 Net exchange losses

The Authority had assumed a subsidiary loan on non -intrusive scanning equipment from Exim bank through the Government. As this is denominated in Chinese Yuan (CYN), the outstanding balance is translated into Zambian Kwacha at year end. Exchange losses were experienced at year end due to adverse movement in the exchange rate between the CYN and the Kwacha. The Scanner loan balance at the reporting date was CNY161,437,500 (2019: CNY 198,275,000).

32. EVENTS AFTER THE REPORTING DATE

There have been no material facts or circumstances that have occurred between the reporting date and the date of these financial statements that require disclosure in or adjustment to the financial statements.

NOTES:

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