ZAMBIA REVENUE AUTHORITY

Annual Report 2008

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Letter of Transmittal

ZAMBIA REVENUE AUTHORITY | Working To Serve You Efficiently

CHAIRMAN OF THE GOVERNING BOARD

The Honourable Dr. Situmbeko Musokotwane, MP
Minister of Finance and National Planning
P O Box 50062
Lusaka.

Dear Minister,

I have the pleasure of presenting to you, on behalf of the Governing Board, the 14th Annual Report of the Zambia Revenue Authority, covering the financial year 1st January 2008 to 31st December 2008.

This Report has been prepared in accordance with the requirements of the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

Yours faithfully,

Caleb M. Fundanga (Dr.)
Acting Chairman of the Governing Board

30th June 2009

Mission Statement

To maximize and sustain revenue collection through integrated, efficient, cost effective and transparent systems, professionally managed to meet the expectations of all stakeholders.

Vision

To be a world class organization recognized as a beacon For excellence, effectiveness, professionalism and efficiency.

Glossary

ACC	Anti-Corruption Commission
ADC	Asset Disposal Committee
AIT	Advance Income Tax
ASYCUDA	Automated System for Customs Data
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
DEC	Drug Enforcement Commission
EU	European Union
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-oporation and Development
PAYE	Pay As You Earn
RAT	Revenue Appeals Tribunal
SADC	Southern African Development Community
SAP	Systems Applications and Products
SMM	Senior Management Members
SWOT	Strengths, Weaknesses, Opportunities and Threats
TCC	Tax Clearance Certificate
TOT	Turnover Tax
TPIN	Taxpayer Identification Number
VAT	Value Added Tax
WCO	World Customs Organisation
WTO	World Trade Organisation
ZBS	Zambia Bureau of Standards
ZDA	Zambia Development Agency
ZRA	Zambia Revenue Authority
ZRAIC	Zambia Revenue Authority Integrity Committee

Corporate Profile

The Zambia Revenue Authority 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, the Authority is charged with the responsibility of collecting revenue on behalf of the Government of the Republic of Zambia. A Governing Board oversees the operations of the Authority. The membership of this Board as provided for in the Act includes: the Secretary to the Treasury; the Permanent Secretary in the Ministry of Justice; the Governor of the Bank of Zambia; a representative from each of the following bodies; the Law Association of Zambia, the Zambia Association of Chambers of Commerce and Industry, the Bankers' Association of Zambia; the Zambia Institute of Chartered Accountants; and two other members appointed by the Minister of Finance and National Planning. The Governing Board elects its Chairperson from amongst its members. The Chief Executive of the Authority is the Commissioner General who is appointed by the President of the Republic of Zambia.

Responsibilities

The main responsibilities of the Authority are to:

- Properly assess and collect taxes, duties, levies and fees due to Government. These being;
  - Value Added Tax;
  - Customs Duties;
  - Export Duties;
  - Excise Duties;
  - Income Taxes;
  - Property Transfer Tax;
  - Mineral Royalty;
  - Medical Levy;
  - Motor Vehicle Fees; and
  - Carbon Tax.
- ensure that all monies collected are properly accounted for and banked;
- properly enforce all relevant legislation and administrative provisions;
- provide statistical information, on revenue, to the Government;
- give advice on tax policy to the Government; and
- facilitate international trade.

Stakeholders

The main stakeholders in the operations of the Authority include:

- the people of Zambia, as represented by the Authority's Governing Board;
- the Zambian business community and those groups that represent their interests, together with their professional advisors;
- banks and other financial institutions;
- taxpayers;
- members of COMESA, SADC, WTO and other countries transacting business with Zambia, or transiting goods through Zambia;
- tourists, travellers, and traders crossing Zambia's borders;
- the donor community and multilateral agencies, e.g. IMF, World Bank, EU;
- management and staff of the Authority;
- the mass media; and
- NGOs and other interest groups

Governing Board

Dr. Caleb Fundanga
Acting Chairman

Mr. Elijah C. Banda S.C.
Member

Mrs. Gertrude M. Imbwae
Member

Mr. Evans C. Chibiliti
Member
(2007 to 2008)

Mrs. Sue M. S. Mwaanza
Member

Mr. Likolo Ndalamei
Member
(Nov. 2008 to date)

Mr. Justin Chisulo
Member

Mrs. Fredah Luhila
Member
(Feb. 2008 to date)

Mr. Cosmas H. Michelo
Member

Senior Management

Mr. Chriticles P. Mwansa
Commissioner General

Ms. Nana Mudenda
Commissioner
Administration & Legal

Mr. Wisdom Nhekairo
Commissioner
Domestic Taxes

Mrs. Lombe Ng'andwe
Commissioner
Corporate Services
(2002 - April 2008)

Mr. Muyangwa Muyangwa
Commissioner
Customs Services

Mrs. Roselyne Raelly
Director Human Resource
(Nov. 2008 to date)

Ms. Wabei Mangambwa
Director Investigation
(2004 - Nov. 2008)

Dr. Samuel Bwalya
Director Research &
Planning

Ms. Inonge Wambulawae
Chief Internal Auditor

Mr. Kabaye Mwale
Director Finance
(Nov. 2008 to date)

Chairman's Statement

I am pleased to present the Zambia Revenue Authority Annual Report for the fiscal year ended 31st December 2008. The report briefly discusses the country's economic performance and operations of the Authority for the period under review.

The macroeconomic environment for the year under review remained fairly stable. The global economy suffered a serious financial crisis in 2008 which originated from the United States subprime crisis that unfolded in 2007 and resulted into a credit crisis and disruptions of major financial institutions in the United States, Europe and the whole World economy.

The global financial crisis led to the collapse of commodity prices in 2008 as copper prices declined to US$2,902 from the record high of US$8,985 per tonne in July 2008. Prices of other commodities such as oil also followed similar trends.

Consequently, the exchange rate of the Kwacha against major international currencies gradually depreciated. Against the United States Dollar, the rate rose from K3, 835 in December 2007 to K4, 882 in December 2008, representing a 27.3 percent depreciation. Further, the end year inflation attained increased to 16.6 percent against a target of 7.0 percent. Other key macroeconomic variables such as interest rates remained generally above the levels recorded in 2007, with nominal commercial bank base-lending rates averaging 26.6 percent at the end of 2008 compared to 24.4 percent in 2007. However, the flow of credit to the private sector increased to K77, 641 billion in 2008 from K52, 203 billion in 2007. Government domestic borrowing also increased but only marginally from 0.95 percent in 2007 to 1.4 percent of Gross Domestic Product (GDP) in 2008.

In terms of economic growth, the country attained a positive real GDP growth of 6.0 percent in 2008, falling marginally below the growth rate of 6.2 percent recorded in 2007. In nominal terms, GDP rose to K53, 706 billion in 2008 from K45, 784 billion in 2007. However, this growth rate is below the projected growth target of 7.0 percent. The growth in GDP is positive for the country and this trend needs to be strengthened even further in order to provide greater impetus towards the attainment of the country's Millennium Development Goals (MDGs) and help reduce poverty.

Most of the economic sectors continued to register steady positive growth and therefore sustaining the economic growth the country has recorded in the last decade. The transport, storage and communication; construction; and mining and quarrying sectors registered the highest growth rates estimated at 15.8 percent, 9.9 percent and 5.9 percent respectively in 2008. However, the growth rate of the construction sector was lower than the 20 percent recorded in 2007. This slowdown is partly attributed to widespread shortages and high prices of cement largely induced by limited cement production capacity in the country in 2008. The manufacturing sector grew by 3.7 percent, with much of the positive growth attributed to growth in the basic metal products (30.5%), paper and paper products (25.4%) and wood and wood products (13.5%) sub-sectors. The financial sector grew by 5.4 percent in 2008 compared to 4.1 percent in 2007 while the textile sub-sector posted a negative growth of 16.4 percent over the same period.

The economy registered rapid growth in social services, with community, recreation and culture services; education; and health posting growth rates of 32.2 percent, 24.4 percent and 19.5 percent respectively. Despite being one of the major contributors to GDP, agriculture, fishing and forestry sector stagnated in 2008, with real growth estimated at negative 0.1 percent in 2008.

In terms of sectoral contribution to GDP, the wholesale and retail trade, and agriculture, forestry and fishing sectors accounted for the largest share of the GDP estimated at 16.4 percent and 12.2 percent respectively. This was followed by construction (11.5%); manufacturing (10%); transport, storage and communications (9.1%); and community, social and personal services (8.8%). Meanwhile, mining and quarrying; real estate and business services; and financial institutions and insurance contributed 8.4 percent, 8.3 percent and 7.1 percent respectively in 2008. Restaurants, bars and hotels; and electricity, gas and water sectors contributed the lowest share to GDP estimated at 2.8 percent and 2.4 percent respectively.

This relatively strong macroeconomic performance enhanced revenue collection in the year under review. In 2008, the Authority collected revenues amounting to K9, 682.7 billion against the Parliamentary target of K9, 142.6 billion. This outturn was K540.1 billion above the Parliament target. This improvement in revenue collection enhanced the country's ability to finance its national development programmes. For instance, in the year under review, the share of the national budget financed from tax revenue increased from 64.8 percent in 2007 to about 66.4 percent in 2008.

Further improvements in the performance of the country's revenue system is expected to result from tax and customs modernisation reforms, further refinements in tax policy and sharpening of our tax compliance initiatives that are currently under way. The reforms and initiatives the Authority is undertaking are not only aimed at increasing revenue collection but also to improve service delivery and reduce the cost of compliance for our taxpayers. Improving service delivery by expeditious implementation of tax incentives and clearance of exports and imports across our borders is important in attracting and retaining private investment in the economy and thereby stimulating growth and employment. This underscores our resolve to ensure that the resources of the Authority are optimally allocated to address the challenges we face not only in revenue administration but in executing such non-revenue functions as trade facilitation, supply chain management, tax policy administration, and general service delivery to all our stakeholders. These initiatives that the Authority has continued to implement have started to yield positive results especially in the areas of revenue collection and service delivery.

The above, notwithstanding, the year under review was not without challenges. The global economy remained quite volatile and difficult to predict, and adversely affected the domestic macroeconomic fundamentals on which our revenue assumptions and performance are based. Nevertheless, the Authority rose to these challenges and delivered the necessary revenues needed by Government to finance its development programmes planned for 2008.

I therefore wish to commend the management and staff of the Authority for the outstanding revenue performance recorded in the year under review. I further wish to commend the Governing Board, the Government, and in particular the Ministry of Finance and National Planning, Cooperating Partners and all the compliant taxpayers whose decisions and actions enabled the Authority to execute its revenue and non-revenue function successfully during the year under review.

Caleb M. Fundanga (Dr.)
Acting Chairman of the ZRA Governing Board

Commissioner General's Statement

I am pleased to present an overview of the operations of the Zambia Revenue Authority, its audited financial statements, and a review of the performance of the revenue system in this 14th Annual Report of the Authority for the fiscal year ended 31st December 2008.

In the year under review, the Authority continued to embark on a determined programme to modernize its tax administration system to strengthen revenue administration, improve service delivery and enhance automation of business processes to increase operational efficiency.

The modernisation programme, which started in 2006, is now in its implementation stage. In 2008, the Authority embarked on initiatives that helped to reduce non-compliance, speed up customs clearance processes and reduce smuggling at the borders. The key milestones achieved in this area include the installation and enhanced use of mobile scanners at Chirundu and Livingstone Border Posts and fast-tracked clearance of goods for accredited exporters and importers through the pre-clearance programme.

I am pleased to report that our revenue system remained buoyant during the year under review. The Authority has progressively and consistently delivered tax revenue to support Government operations. In 2008, the Authority collected K9, 682.7 billion against a parliamentary target of K9, 142.6 billion, thereby recording a surplus of K540.1 billion. This surplus was 5.9 percent above the 2008 parliament target and exceeds the surplus recorded in 2007 by 0.9 percentage points. Revenues collected in 2008 were K1, 489.6 billion or 18.2 percent higher than K8, 193.1 billion collected in 2007. This favourable revenue performance culminated from increased collections from PAYE, withholding tax, mineral royalty, excise duty, trade taxes and medical levy. In addition, initiatives have been put in place to sustain this performance and significant additional revenue gains are expected from compliance initiatives under domestic VAT and implementation of an advance income tax to capture high-value informal sector activities in the tax net.

In a bid to improve and standardize service delivery, the Authority developed service standards with active participation of stakeholders from private sector and non-governmental organisations. These standards are summarized in the Taxpayer Charter, which was launched in March 2008. This initiative has helped ZRA to commit to service excellence, and notable improvements have since been recorded in such areas as taxpayer registration and customer service. Furthermore, the Authority developed and began to implement the Corporate Social Responsibility (CSR) Policy in order to enhance its corporate image and better manage public confidence in the revenue system.

Achieving success in all these areas testifies our commitment to our vision and tremendous collective effort to achieve our objectives set for 2008. I, therefore, wish to thank management and staff of the Authority for these achievements and indeed the ZRA Governing Board for their expeditious guidance and leadership and the Ministry of Finance and National Planning for their unwavering support during the year under review.

Chriticles P. Mwansa
Commissioner General

Our Priorities for the Year 2008

Priorities for the Authority in 2008 emphasized on implementing activities stated in the Corporate Plan and managing strategic risks that pose a threat to the achievement of corporate objectives. Other priority areas were the implementation of the modernisation programme, tax policy support to Government, and provision of taxpayer education and advisory services. The other areas that the Authority prioritized during the year under review were the implementation of the Taxpayer Charter; border administration and trade facilitation; Information Communication Technology (ICT) and business systems; VAT administration; taxation of the informal sector and Corporate Social Responsibility (CSR).

Performance of the Corporate Plan

The Corporate Plan is a logical plan that helps to stir the organisation towards achieving its vision and objectives and runs for a period of three years. The Plan sets the key strategic objectives and priorities that management seeks to accomplish in each year of the three year plan. The year under review coincides with the mid-term review of the Corporate Plan. It is therefore important that a summary review of the Corporate Plan is provided in this annual report, especially in respect of the progress made in the first two years of the Corporate Plan. Each of the seven strategic objectives is assessed in terms of the number of planned actions that have successfully been implemented. The seven strategic objectives identified in the Corporate Plan are itemized as follows:

- To assess, charge, levy and collect all revenue due to the Government through effective enforcement and compliance strategies;
- To design and implement business strategies that will ensure that all revenue collected is as soon as reasonably practicable credited to the Treasury;
- To increase and sustain the growth and productivity of revenue by developing systems and procedures that encourage investment and growth of the economy;
- To improve performance by attracting, retaining and motivating human resource;
- To promote good governance through the design and implementation of policies, systems and procedures;
- To improve service delivery by implementing the risk management process; and
- To improve operational efficiency by creating, strengthening and streamlining inter-institutional linkages and partnerships.

The strategic objectives are listed according to priority or importance, and are closely tied to our mission, vision and mandate. These objectives and indeed their respective planned actions are ranked based on the risk management process and are linked to corporate risks summarized in the corporate risk register.

Table 1 below shows the overall performance of the Corporate Plan, comparing performance in 2007 and 2008 by strategic objectives. The number of strategic actions for each strategic objective is shown in column two and the percentage of those that have been fully implemented in 2007 and 2008 are shown in columns three and four respectively. There are eighty three (83) strategic actions identified of which 26.5 percent are under the first objective, 18.1 percent under the fourth objective and 20.5 percent under the seventh objective. The rest of the actions are distributed across the remaining four objectives as shown in the Table 1 below.

Table 1: Performance of planned activities in 2007 and 2008

Strategic objective	Total number of planned actions	Percent of planned actions completed 2007	Percent of planned actions completed 2008
No.1	22	36%	67%
No.2	9	22%	67%
No.3	6	17%	50%
No.4	15	60%	86%
No.5	7	29%	71%
No.6	7	43%	71%
No.7	17	18%	65%
Total	83	34%	68%

In the first year of the Corporate Plan, performance was less than expected with only 34 percent of the total planned actions in 2007 fully implemented due to resource and technological constraints. In 2008 performance significantly improved with the number of planned actions implemented doubling to 68 percent. Specifically, in 2008, the best performance was achieved on strategic objectives 4, 5 and 6, which scored 86 percent, 71 percent and 71 percent respectively. Significant improvement in performance was recorded under strategic objective 7 followed by strategic objective 2. Strategic objective 3 recorded the least improvement in performance between 2007 and 2008. Thirty two (32) percent of planned actions in 2008 were rated partially done and are expected to be completed in 2009. Despite these constraints, the overall performance of the Corporate Plan during the year under review was satisfactory.

Risk Management Process

Managing strategic risks that pose a threat to the achievement of our corporate objectives is important to ensure smooth implementation of the Corporate Plan. The Authority uses the risk management process for planning and for ensuring that risk exposure for the institution is maintained at a tolerable level.

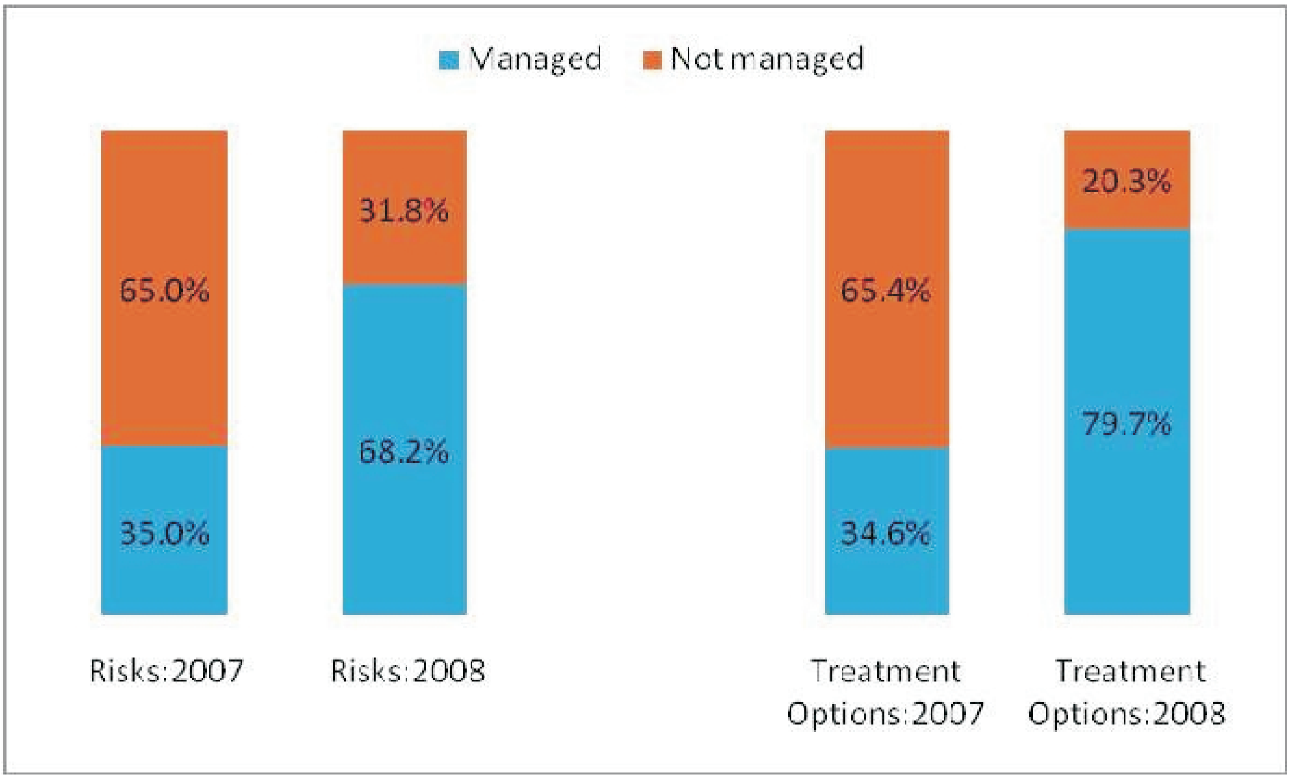
The Authority derives a corporate risk register that shows the risks that need to be mitigated to ensure smooth execution of the Corporate Plan. Each strategic objective and planned action has associated risks and treatment options. Figure 1 below shows the percentage of corporate risks that were managed in 2007 and 2008.

There were 44 corporate risks and 192 treatment options associated with activities planned for 2008 compared to 40 risks and 78 treatment options in 2007. Of these, 68 percent of the risks were managed and only 32 percent were either partially or totally unmanaged in 2008. This compares favourably with achievements made in 2007 when only 35 percent of the corporate risks were adequately managed. The number of risk treatment options successfully implemented also increased to 80 percent in 2008 from 35 percent in 2007. This was a significant improvement in corporate risk management in 2008 compared to 2007.

Modernisation Programme

The modernisation programme, which started towards the end of 2006, aims to strengthen the administration of all domestic taxes by functionally reorganising tax administration systems and procedures focused on a taxpayer rather than on tax types. The first component of the reforms involved a merger of the VAT and Direct Taxes Divisions to form the Domestic Taxes Division whose organisational structures were developed and implemented in 2006. However, functional integration was more challenging to implement and only started to be implemented later in 2008 following the launch of the Domestic Taxes headquarters and the Large Taxpayer Office in the same year. In addition, the functional structure for the Field Delivery Department was developed and implemented during the year under review to complete the major functional reorganisation of the Domestic Taxes Division.

Figure 1: Percentage of corporate risks managed in 2007 and 2008



By the end of the year, the modernisation efforts were redirected towards reviewing and re-engineering business processes in the Domestic Taxes Department at Headquarters and the Large Taxpayer Office including a review of tax legislations. Most modernisation reform initiatives planned in 2008 were successfully completed. Business process re-engineering commenced for the Large Taxpayer Office and is expected to be completed in 2009. The movement of domestic excise from the Customs Services Division is planned to be completed in 2010. Overall, the implementation of the modernisation programme significantly improved in 2008 compared to 2007.

Tax Policy Support to the Government

In 2008, the Authority continued to provide support to the Government in all its programmes on tax policy issues. The Authority continued to provide tax policy advice to the Government and responded to several Parliamentary and ministerial queries on tax matters. In addition the Authority provided technical input in policy discussion spearheaded by such institutions as the Bank of Zambia (BOZ), Zambia Development Agency (ZDA), Anti Corruption Commission (ACC), Zambia Police, the Judiciary, and the private sector. Further, the Authority continued to collaborate with bilateral and multilateral organisations such as the International Monetary Fund (IMF), World Customs Organisation (WCO), World Trade Organisation (WTO), COMESA, SADC and the European Union (EU) on matters of tax policy and administration.

As a stakeholder in tax policy formulation the Authority continued to submit tax policy proposals to the Ministry of Finance and National Planning aimed at addressing tax administration challenges. In 2008, the Authority submitted tax policy changes in the areas of Income Tax, VAT and Customs. Overall the tax reform process in 2008 resulted in three bills containing 59 tax measures being introduced and passed by Parliament.

Taxpayer Education and Advisory Services

Taxpayer education and advisory services are an important component of the overall tax compliance strategy. In addition to being an effective mechanism for improving service delivery taxpayer services are critical in streamlining revenue collection and compliance.

In this respect, the Authority made two important innovations to improve taxpayer services as well as improve interaction with taxpayers. First, the Customer Service Centre in Lusaka was refurbished, reorganised and integrated within the Domestic Taxes Division and further reforms to taxpayer service delivery are currently underway within the broader modernisation programme. Secondly, the Authority revised and launched the Taxpayer Charter in March 2008 in an effort to improve and standardize the quality of services provided to our clients. The Charter was developed with active participation of different stakeholders and the Authority has partnered with Zambia Institute of Public Policy Analysis (ZIPPA) in the monitoring of our performance against the service standards set out in the Taxpayer Charter.

In terms of provision of taxpayer education and advisory services, the Authority continued to disseminate tax information to taxpayers through the Customer Service Centre and district offices, workshops, print and electronic media and other gatherings where the Authority was invited to present lectures on tax policy and administration. During the year under review, tax information was provided to over 20,000 clients who visited the Centre. Taxpayers also download taxpayer information from the ZRA Website, which also hosts the PAYE and the motor vehicle clearance tax calculators.

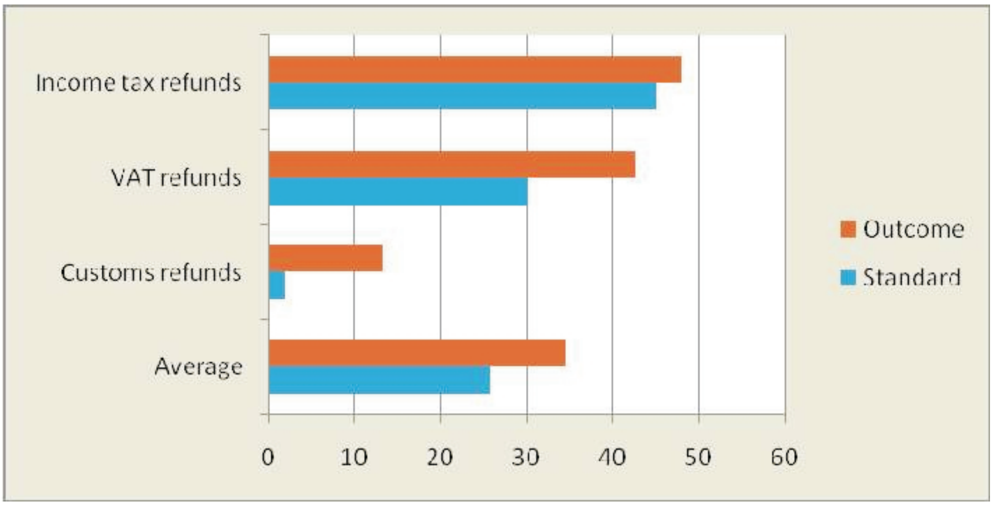
In 2008, 18,428 taxpayers were registered compared to 12,769 in 2007. This improvement in taxpayer registration is attributed to a number of factors including the decentralization of issuance of Taxpayer Identification Numbers (TPIN) to local tax offices and an increase in demand for taxpayer registration and clearance certificates in formal business transactions in the economy.

Taxpayer Charter

Service standards in the Taxpayer Charter can be divided into two broad categories, namely efficiency standards and customer service standards. Efficiency standards are those relating to processing and payment of Tax Refunds while Customer Service Standards relate to those standards on fairness, courtesy, clarity of tax information, and confidentiality. Performance against these standards as set out in the Taxpayer Charter is summarized in Figures 2 and 3 and captures the period from March to December of 2008.

However, significant improvement in service delivery occurred in the second category of service standards. As shown in Figure 3, with the exception of customer feedback all standards performed above 78 percent with tax registration, issuance of tax clearance certificates and the time it takes to attend to customers performing above their respective standards.

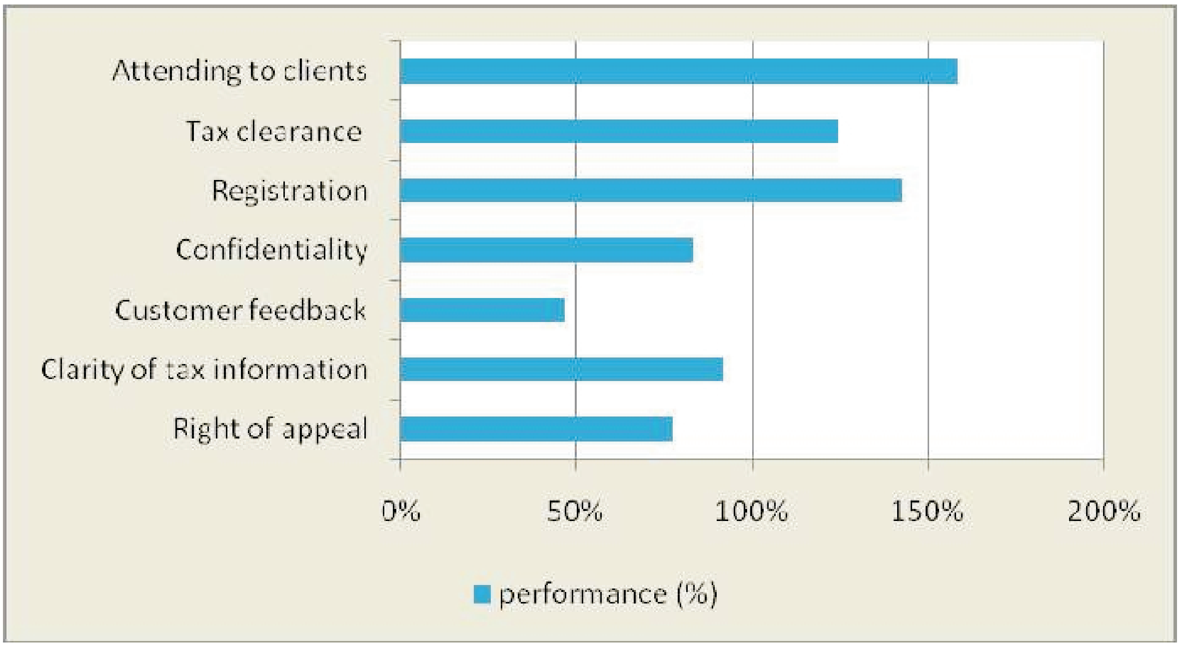
Figure 2: Efficiency of tax refunds processing system (days)



While service outcomes relating to tax refunds fell short of the standards, improvements were made in Income Tax and VAT refunds, which collectively scored an average performance rating of 65 percent. Some of the reasons for this performance include submission of incomplete tax refund claims and the ring-fencing circle for tax refunds. Processing of customs refunds performed poorly compared to the other tax refunds. In a bid to improve the payment of tax refunds the Authority commenced a tax refund review.

Collectively, average performance against customer service standards was 104 percent. This performance was quite satisfactory in the first three quarters following the launch of the Charter and additional efforts are needed to improve performance in areas of tax refunds, customs clearance and customer feedback.

Figure 3: Effectiveness of taxpayer registration and advisory services



Border Administration and Trade Facilitation

To streamline border operations, in 2008, the Authority, with financial support from Government, acquired mobile container scanners for Chirundu and Livingstone border posts. Following the launch of mobile container scanners the Authority has recorded improvements in the clearance time of commercial imports at Chirundu and Livingstone. For instance, at Chirundu an average of 52 trucks were scanned daily in 2008, taking less than 5 minutes to scan one truck. This resulted in 14 seizures while increasing the number of genuine declarations.

The other area of priority in border administration during the year was the implementation of the Customs Accredited Clients Programme that uses risk profiling to identify and reward tax compliant importers and exporters through speedy clearance of their consignment. By the end of 2008, a total of 14 clients were enrolled on the Programme.

The other milestone achieved in 2008 in terms of border administration was the migration of border services at Chirundu border post to the new commercial and passenger terminals. The new border infrastructure, also houses allied border agencies such as the Immigration Department, Zambia Bureau of Standards (ZABS), Drug Enforcement Commission (DEC). This has improved coordination amongst border agencies leading to improved service delivery for both commercial and passenger terminal users.

Information Communication Technology

During the year under review, the Authority enhanced the use of Information Communication Technology (ICT) in tax administration. To improve data and voice communication across stations, the Authority started to utilize optic fibre technology at Kariba and other stations in 2008. In addition, the Automated System for Customs Data (ASYCUDA++) was centralized to enable outer stations to access the System using a Wide Area Network (WAN). This improved the management of transits, data storage and monitoring of clearance activities centrally. Work on the automation of the interface between the Integrated Tax Administration System (ITAS) and ASYCUDA++ continued in 2008 while the upgrading of the Systems Applications and Products (SAP) software, including the human resource and payroll modules was undertaken.

Enhancing VAT Administration

The Authority focused on the effective administration of the domestic VAT system which depends on the issuance and retention of transaction supporting documents such as invoices and receipts. This was from a backdrop of retailers and consumers having continued to pose a huge challenge in the collection of domestic VAT and consequently engaging in tax evasion. In 2008, the Authority embarked on a strategy to educate and raise public awareness on the need to demand for tax receipts and invoices on all purchases of goods and services. In this regard, the Authority launched a VAT Campaign Raffle to encourage the public to demand for tax receipts on purchases of goods and services. This was to improve the documentation of transactions for tax audits by the Authority and thereby ensure that taxes paid on the purchase of goods are credited to the Treasury.

Taxation of the Informal Sector

Increasing the tax base by capturing the informal sector was a key priority for the Authority in 2008. The Authority implements four tax types targeted at the informal sector. These being;

- Base Tax charged at K150, 000 per annum for marketeers;
- Presumptive Tax on minibuses and taxis which ranges from K600, 000 to K7, 200, 000 per annum;
- Turnover Tax charged at 3 percent for businesses with annual turnover of less than K200 million; and
- Advance Income Tax (AIT) charged on all commercial imports by unregistered traders.

Table 2 shows the performance of presumptive taxes in 2007 and 2008. In 2008, Turnover Tax increased to K23.12 billion from K18.75 in 2007, while presumptive taxes increased by 26 percent. During the same period, base tax declined by 25 percent, from K38.13 million in 2007 to K28.89 million. However, AIT increased to K60.8 billion in 2008 from K12.33 billion in 2007. Overall, revenue collection from these taxes increased to K86.24 billion in 2008 from K32.94 billion in 2007.

Table 2: Performance of taxes imposed on the informal sector (K'bn)

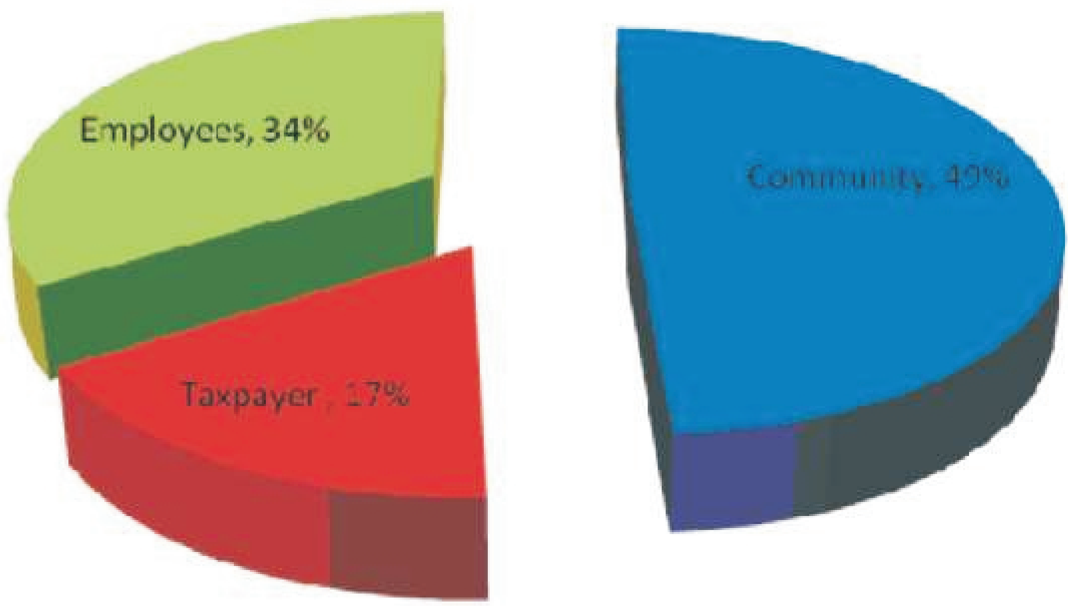
Tax Type	2007	2008
Turnover tax	18.75	23.12
Presumptive tax on taxis and mini buses	1.82	2.29
Base tax	0.04	0.03
Advance Income Tax	12.33	60.80
Total	32.94	86.24

Corporate Social Responsibility

In 2008, the Authority started to implement the Corporate Social Responsibility (CSR) programmes, which as outlined in the CSR Policy embraces initiatives targeted at local communities, employees of the Authority, taxpayers and the environment. To implement these programmes, the Authority allocated and spent K159 million on CSR activities in 2008.

Figure 4 shows the distribution of CSR expenditures by activity. Expenditures on local community initiatives accounted for the largest share of CSR budget at 49 percent followed by staff welfare at 34 percent and taxpayer related programmes at 17 percent. Although the Authority actively participated in the Keep Zambia Clean and Health Campaign and successfully adopted two roads, one in Lusaka and another in Kitwe, expenditure was deferred to the 2009 budget. These activities are aimed at improving the corporate image and public confidence of the Authority.

Figure 4: Expenditure on Corporate Social Responsibilities in 2008



Operational Funding

As a grant-aided institution the performance of the Authority largely depends on funding support from Government for operations and for infrastructure development. In 2008, Government funding was 2.2 percent of total revenue collections compared to 2.4 percent in 2007. As depicted in Table 3 the Authority operated with a budget of K236.7 billion of which K210.8 billion was funding from Government and the remaining income represented funds generated from other sources largely from ASYCUDA processing fees.

In common with similar service organizations, staff related costs account for the larger share of recurrent expenditure. The classification of staff costs includes emoluments, gratuity provisions, training and staff welfare. For both 2008 and 2008, these were at 67 percent of total income. In nominal terms, they increased by 11.4 percent. Administrative costs in 2008 were up by 26 percent, while operational expenses increased by 39 percent compared to last year. These increases were in line with stepped up compliance and enforcement activities undertaken during the year.

Table 3: Income and operating expenses for 2008 and 2007 in K'000

	2008	2007
INCOME		
Government Funding	210,790,000	197,000,854
ASYCUDA processing fees	21,476,561	11,910,285
Other Income	3,441,946	3,127,742
Amortisation of capital grant	1,038,245	-
Total Income	**236,746,752**	**212,038,881**
Expenditure		
Employee benefits expenses	(156,800,042)	(140,766,142)
Administrative Expenses	(33,863,86)	(26,858,518)
Operational Expenses	(25,433,157)	(18,356,199)
Depreciation	(5,942,660)	(3,609,309)
Total Expenditure before exceptional items	**(222,039,721)**	**(189,590,168)**
Exceptional Items:		
Depreciation write back	-	6,064,974
Impairment allowance	-	(5,338,835)
Total Expenditure	**(222,039,721)**	**(188,864,029)**
Surplus of income over expenditure (excess of expenditure over income) for the year	14,707,032	23,174,852

Compared to the previous year, Government funding to the Authority increased by K13.8 billion or 7 percent, from K197.0 billion in 2007 to K210.8 billion in 2008. Meanwhile, ASYCUDA processing fees, which contributed K21.4 billion to the Authority's income in 2008, increased by 80.3 percent compared to 2007. Other income increased by 10 percent, from K3.1 billion in 2007 to K3.4 billion in 2008, of which proceeds from cigarette stamps sales at K1.3 billion was the highest followed by sundry income at K1.0 billion. Others were interest on income at K357.3 million, gains on disposal of property at K290.4 million and rental income at K195.6 million.

The Government funding received is applied to both recurrent/operational and capital expenditure. The surplus of income over expenditure thus represents the balance that is applied to capital and other non recurrent expenditure as adjusted for non cash items. The detailed analysis of the application of the surplus is given in the statement of cash flows. Cumulatively, this represents Capital Fund as given in the Statement of Changes in Capital and Reserves on page 38. Income and expenditure is accounted for under the accruals basis of accounting.

Economic Performance

Gross Domestic Product

Zambia's economy continued to grow in 2008. The Gross Domestic Product (GDP) grew to K53, 706 billion from K45, 784 billion in 2007. In real terms the growth in GDP was 6 percent in 2008 and lower than 6.2 percent attained in 2007.

The sub-sectors that grew the most in 2008 were transport, storage and communication; community, social and personal services; and construction. Other sub-sectors that recorded positive but moderate growth were mining and quarrying; manufacturing; and wholesale and retail trade. Meanwhile, negative growth was recorded in the agricultural sector. In terms of industry shares of GDP by economic activity, the wholesale and retail trade; and the agriculture, forestry and fishing sectors had the largest share accounting for 16.4 percent and 12.2 percent of GDP respectively. This was followed by construction (11.5%); manufacturing (10%); transport, storage and communications (9.1%); and community, social and personal services (8.8%). Meanwhile, mining and quarrying; real estate and business services; and financial institutions and insurance had a share of 8.4 percent, 8.3 percent and 7.1 percent respectively. Restaurants, bars and hotels; and electricity, gas and water sectors had the lowest shares of GDP estimated at 2.8 percent and 2.4 percent respectively.

Interest Rate

In 2008, the commercial bank lending rates were relatively higher than those attained in 2007. Commercial banks average lending rates increased from an average of 24.4 percent during the first quarter of the year to an average of 26.8 percent during the last quarter of the year. The higher interest rates were partly attributed to the rising rates of inflation during the year as well as the increase in Government borrowing from the domestic market which increased from 0.95 percent of GDP in 2007 to 1.4 percent of GDP in 2008.

Exchange Rate

The Kwacha to US dollar exchange rate opened the year under review at K3, 792.78 and maintained almost the same level until September 2008 when it depreciated to above K4, 000 per US Dollar. It reached a peak of K4, 882.97 per US Dollar in December 2008, a situation that contributed to inflationary pressures during the year under review. The volatility and depreciation of the Kwacha against major international currencies in the second half of the year was partly attributed to the global financial crisis that deepened around August 2008. The performance of inflation, interest rates and exchange rates in 2008 is depicted in Figure 5.

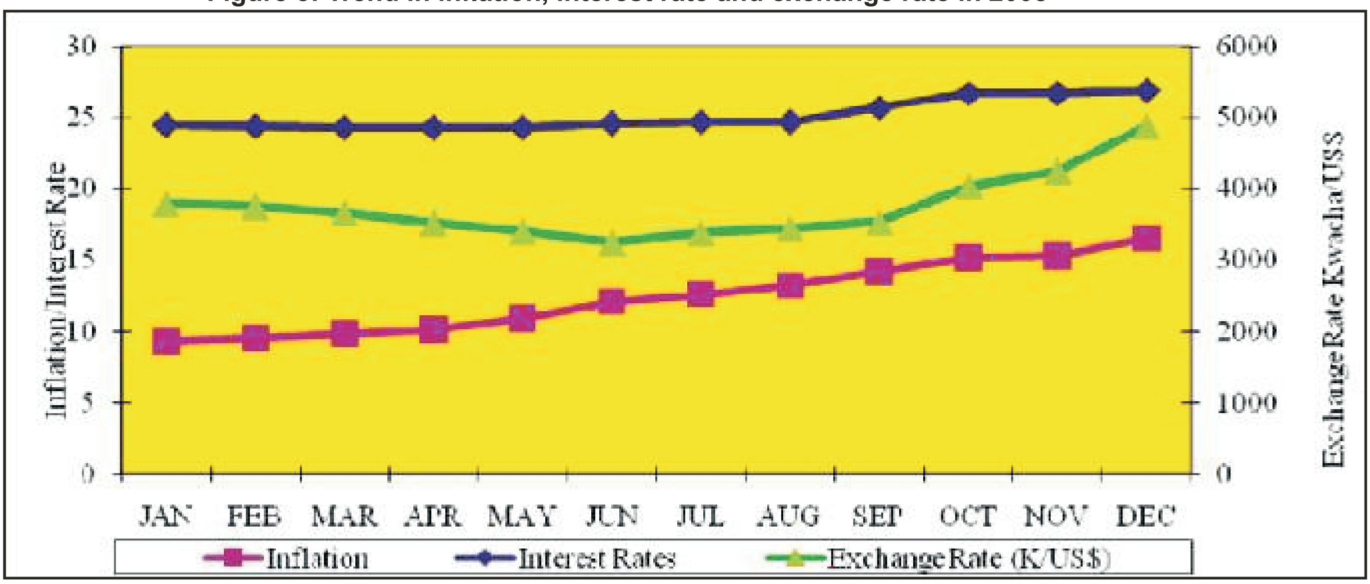
Inflation

The year under review started with an inflation rate of 9.3 percent and closed at 16.6 percent which was 9.6 percentage points above the year-end target of 7 percent. The underlying factors that contributed to the double digit end year inflation were the rising cost of food, beverages and tobacco; rent and household goods. Other increases recorded were in the areas of household energy, medical care and transport.

Imports and Exports

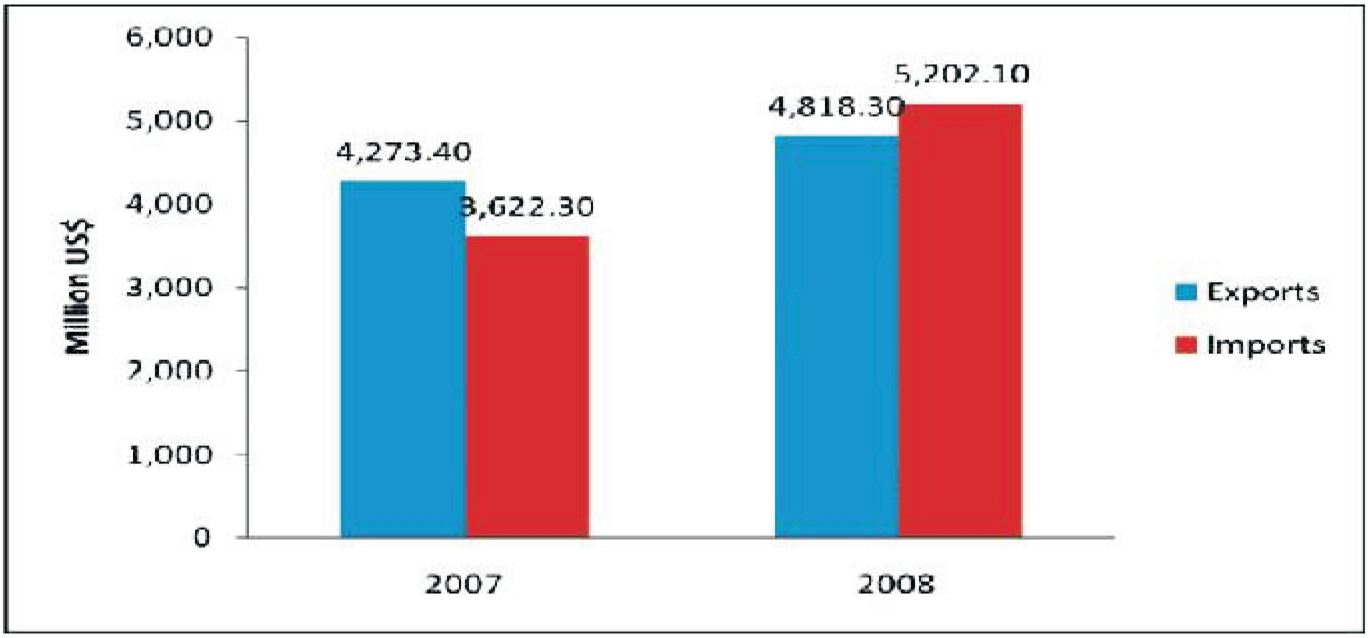
In 2008, total exports from Zambia to the rest of the world grew modestly from a value of US$4, 273.40 million in 2007 to US$4, 818.30 million while imports grew from US$3, 622.30 million in 2007 to US$5, 202.10 million thereby posting a trade deficit of US$383.80 million (see Figure 6). The marginal growth in exports is attributed to the global financial crisis which adversely affected the production and exports of copper and other base minerals especially in the second half of the year.

Figure 5: Trend in inflation, interest rate and exchange rate in 2008



Source: BoZ

Figure 6: Value of Zambia's import and exports in 2007 and 2008 (in millions US$)



Source: Budget Speeches 2008 and 2009

Commodity Prices

International commodity prices especially those of copper and oil affects the performance of the economy and inevitably revenue collection. Low international prices of copper adversely affect its production and tax revenue associated with it. In 2008, the average price of copper was lower than the average price in 2007. As depicted in Table 4, the average price of copper was US cents 315.39 per pound in 2008 compared to US cents 323 per pound in 2007. Similarly, the minimum price of copper in 2008 was also far below the minimum price in 2007. However, the price of cobalt fetched a slightly higher average price of US$31.18 per pound in 2008 compared to US$29.40 per pound the previous year although the minimum price reached was also far below the level reached in 2007. The average and maximum prices of crude oil in 2008 were higher than those recorded 2007 but the minimum price was lower than the minimum price recorded in 2007.

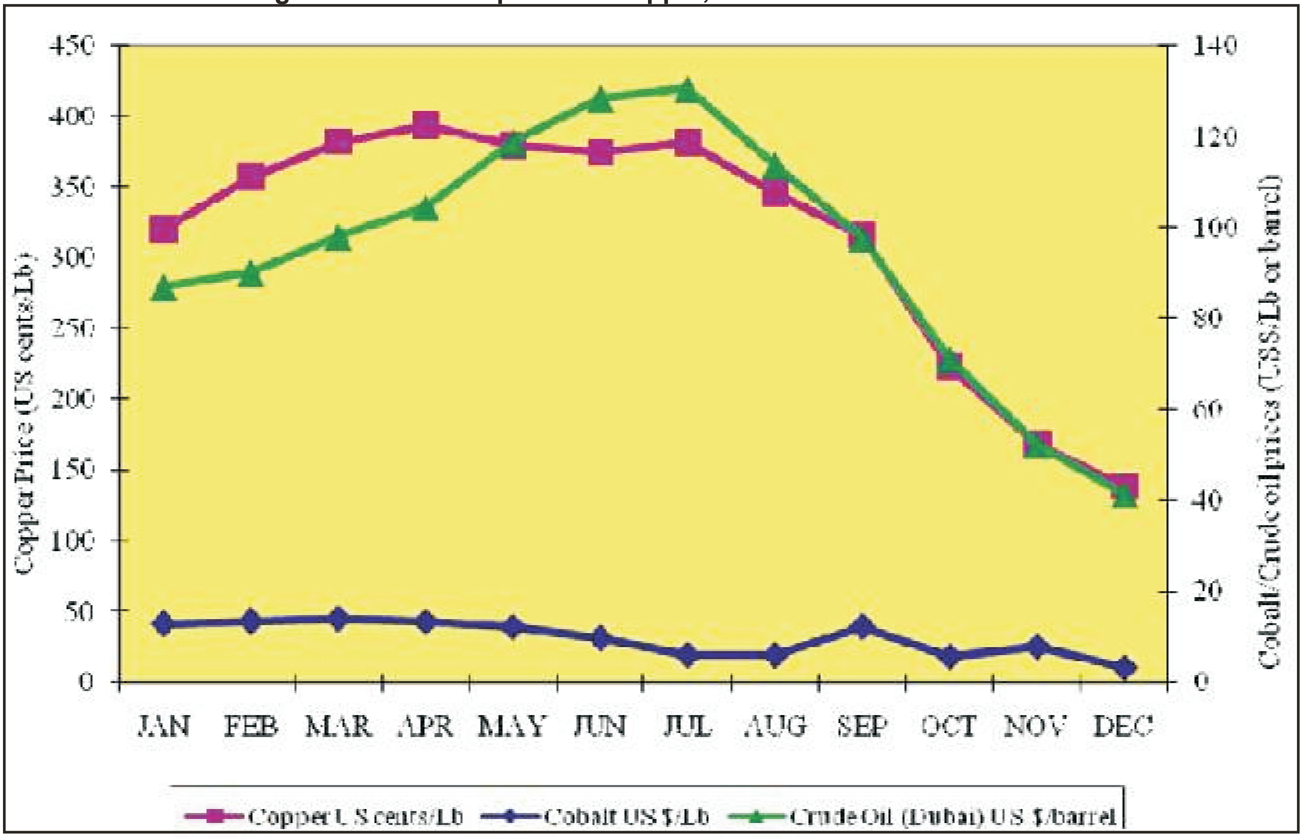
Table 4: Summary of commodity prices in 2007 and 2008

Prices	**Copper price US cents per pound**		**Cobalt price US$ per pound**		**Oil price US$ per barrel**	
Year	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Average price	323.09	315.39	29.40	31.18	68.77	94.53
Maximum price	362.79	393.95	54.61	44.95	86.41	130.65
Minimum price	254.47	139.05	20.90	10.41	52.68	41.48

Source: BoZ

Figure 7 shows the monthly trend in prices of Copper, Cobalt and Crude Oil in 2008. The maximum prices of Cobalt and Copper were reached in March and April respectively while that of Crude Oil was reached in July. However, the prices of Cobalt and Copper started to fall reaching their lowest levels in December.

Figure 7: Trends in prices of copper, cobalt and crude oil in 2008



Tax Revenue Collection in 2008

In 2008, the Authority collected total revenue amounting to K9, 682.7 billion against a parliament target of K9, 142.6 billion, thereby registering a surplus of K540.1 billion or 5.9 percent above target. Table 5 shows the performance of the various taxes against their targets in 2008. The total tax revenue collected in 2008 was K1, 489.6 billion above that collected 2007. The increase in revenue collection was despite the volatility in macroeconomic factors and declining commodity prices, especially in the second half of the year.

Performance of Income Tax

In 2008, income tax revenue was 13.1 percent above target. The total revenue outturn was K4, 698.8 billion against the parliament target of K4, 153.4 billion. Of the total income tax, K1, 352.7 billion came from company tax, K126.1 billion from windfall tax, K2, 531.2 billion from PAYE, K450.7 billion from withholding tax and K238.1 billion from mineral royalty. Overall, the positive performance of income taxes was driven by increased compliance and enforcement activities including taxpayer education. In addition, the performance of company tax was boosted by the collection of taxes arrears and taxes from the mining sector.

Table 5: Tax revenue performance (K' billions) in 2008

Tax Types	2008 Actual outturn	2008 target (Parliament)	Variance of actual vs target	Percent variance of target
Total revenue	**9,682.7**	**9,142.6**	**540.1**	**5.9**
Tax revenue	**9,670.1**	**9,133.6**	**536.5**	**5.9**
Income Tax	**4,698.8**	**4, 153.4**	**545.4**	**13.1**
Company Tax	***1,352.7***	***1,352.0***	***0.7***	***0.1***
Windfall Tax	***126.1***	***-***	***126.1***	
Personal Income Tax	***2,981.9***	***2,729.4***	***252.5***	***9.3***
Pay As You Earn (PAYE)	*2,531.2*	*2,352.3*	*178.9*	*7.6*
Withholding Tax	*450.7*	*377.1*	*73.6*	*19.5*
Mineral Royalty	***238.1***	***72.0***	***166.1***	***230.6***
Domestic Goods & Services	**937.7**	**1,601.0**	**(663.3)**	**(41.4)**
Excise Duty	*1,368.4*	*1,243.0*	*125.4*	*10.1*
Domestic VAT	*(430.7)*	*358.0*	*(788.7)*	*(220.3)*
Trade Taxes	**4, 033.7**	**3,379.2**	**654.5**	**19.4**
Import VAT	*2,640.7*	*2,283.0*	*357.7*	*15.7*
Import Duty	*1,202.6*	*945.2*	*257.4*	*27.2*
Export Duty	*190.4*	*151.0*	*39.4*	*26.1*
Medical Levy*	**12.6**	**9.0**	**3.6**	**39.9**

** Note that Medical Levy is non-tax revenue*

The favourable tax revenue performance in 2008 was largely attributed to increased compliance and enforcement activities. Another factor that contributed to high tax revenue collection was the introduction of a new tax regime for the mining sector in April 2008.The total tax revenue outturn would have been higher had all the mining companies paid the projected K917.3 billion under the new tax regime. However, only K319.4 billion was collected.

Like company tax, the performance of PAYE was on account of improved compliance and increased enforcement activities which resulted in the collection of substantial tax arrears. Meanwhile, the performance of withholding taxes was driven mainly by improved compliance and high volumes of transactions in property that resulted in high property transfer tax payments. The performance of mineral royalty was largely attributed to increased compliance, mineral production and favourable copper prices during the first half of the year. In addition, the increase in mineral royalty rate from 0.6 percent to 3 percent of the gross value also increased the outturn. However, the last quarter saw a reduction in payments of mineral royalty due to the fall in copper production as a result of the drop in commodity prices on the international market.

Performance of Taxes on Domestic Goods and Services

Total collections from taxes on domestic consumption of goods and services amounted to K937.7 billion and were below target by K663.3 billion or 41.4 percent. Within this category, excise duty contributed K1, 368.4 billion, exceeding its target by 10.1 percent while domestic VAT contributed a negative collection of K430.7 billion. It is important to note that hydrocarbons are a major contributor to excise duty. The performance of excise duties was despite the reduced contribution of excise duty from hydrocarbons as a result of reductions in excise duty rates on petrol and diesel pursuant to the Customs and Excise (Excise duty) (Suspension) Regulations of 2008 (Statutory Instrument Number 100 of 2008). However, the excise duty contribution from motor vehicles, beer, mobile phone talk time and mineral water was strong and resulted in the positive growth of total excise duty collection. On the other hand the performance of domestic VAT was affected by the higher than projected level of VAT refunds. Like the year before, this performance was below target.

Performance of Medical Levy

Medical levy collection stood at K12.6 billion in 2008, which was K3.6 billion or 39.9 percent above target. The performance was mainly on account of increased interest payments on savings in commercial banks.

Performance of International Trade Taxes

A total of K4, 033.7 billion was collected in trade taxes during the period under review and was above target by K654.5 billion or 19.4 percent. This performance was in part attributed to the appreciation of the Kwacha, especially in the first half of the year that led to an increase in the volume of imports of goods that attract duty. Most of the revenue collection from trade taxes came from import VAT, which contributed 65.5 percent or K2, 640.7 billion. Import duties contributed 29.8 percent while export duties contributed 4.7 percent. The major revenue drivers of import VAT were petroleum products, motor vehicles, copper concentrates and sulphur. The favourable performance of customs duties was attributed to importation of hydrocarbon oils, motor vehicles, and parts and accessories for motor vehicles. The performance of export duty was driven by increased exports of copper concentrates. However, there was a reduction in cotton seed and scrap metal exports as the local demand for these products increased.

Contribution of Tax Types to Total Revenue and GDP

In the year under review income tax contributed 48.5 percent of total revenue collected, followed by trade taxes (41.7 %), Tax domestic goods and services(9.7 %), mineral Royalty (2.5%) and windfall tax (1.3%) which contributed 41.7 and 9.7 percent respectively (see Table 6).

Table 6: Percentage share of tax collection in 2008 and 2007

Tax Type	**2008**	**2007**
Income Tax	**48.5**	**47**
Company Tax	***14.0***	***15***
Windfall Tax	***1.3***	***n/a***
Personal Income Tax	***30.8***	***31***
Pay As You Earn (PAYE)	*26.1*	*27*
Withholding Tax	*4.7*	*4*
Mineral Royalty	***2.5***	***1***
Domestic Goods & Services	**9.7**	**15**
Excise Duties	*14.1*	*15*
Domestic VAT	*(4.4)*	*0*
Trade Taxes	**41.7**	**38**
Import VAT	*27.3*	*27*
Import Duty	*12.4*	*11*
Export Duty	*2.0*	*0*

Within the income tax category, the share of company tax and PAYE marginally declined while the share of mineral royalty and withholding tax increased.

In the domestic goods and services tax category, the contribution of excise duty reduced marginally from 15 percent in 2007 to 14.1 percent in 2008, while the share of domestic VAT declined from zero percent in 2007 to negative 4.4 percent in 2008. Consequently total VAT declined to 22.9 percent in 2008 from 27 percent in 2007. The share of import duty and export duty increased in 2008 while that of import VAT remained relatively the same at 27 percent.

The share of tax revenue to GDP measures the responsiveness of the tax system to growth in the economy. In 2008, tax revenue as a share of GDP increased to 18 percent from 17.9 percent in 2007. Specifically, income tax as a percentage of GDP increased marginally to 8.7 percent in 2008 from 8.4 percent in 2007, while Taxes on domestic goods and services declined to 1.7 percent from 2.7 percent. On the other hand trade taxes increased to 7.5 percent from 6.8 percent (see Table 7).

Table 7: Tax revenue performance in 2008 and 2007 (K' billions)

	2008	**Percentage of GDP (%)**	**2007**	**Percentage of GDP (%)**	**Revenue Growth (%) (2007-2008)**
Total revenue	**9,682.7**	**18.0**	**8,194.01**	**17.9**	**18.2**
Tax revenue	**9,670.1**	**8.0**	**8,185.21**	**17.9**	**18.1**
Income Tax	**4,698.8**	**8.7**	**3,831.81**	**8.4**	**22.6**
Company Tax	*1,352.7*	2.5	*1,222.90*	*2.7*	*10.6*
Windfall Tax	*126.1*	0.2			
Pay As You Earn (PAYE)	*,531.2*	4.7	*2,197.80*	*4.8*	*15.2*
Withholding Tax	*450.7*	0.8	*343.60*	*0.8*	*31.2*
Mineral Royalty	*238.1*	.0	*67.51*	*0.1*	*252.7*
Domestic Goods & Services	**937.7**	**1.7**	**1,232.77**	**2.7**	**(23.9)**
Excise Duty	*1,368.4*	2.5	*1,206.00*	*2.6*	*13.5*
Domestic Value-Added Tax (VAT)	*(430.7)*	(0.8)		*0.1*	*(1,708.9)*
Trade Taxes	**4, 033.7**	**7.5**	**3,120.63**	**6.8**	**29.3**
Import VAT	*2,640.7*	4.9	*2,204.04*	*4.8*	*19.8*
Import Duty	*1,202.6*	2.2	*914.30*	*2.0*	*31.5*
Export Duty	*190.4*	0.4	*2.30*	*0.0*	*178.8*
Total GDP	**53,706.0**		**45,784.00**		**17.3**
Medical Levy	**12.6**	**0.0**	**8.80**	**0.0**	**43.2**
Revenue as % of GDP	**18.0**		**17.9**		

Tax Refunds

A total of K2, 881.4 billion was paid out in tax refunds in the year under review. The bulk of the refunds were on domestic VAT which accounted for 97.2 percent. The rest of the tax types accounted for the remainder of the refunds. Overall, the tax refunds increased by 38.3 percent between 2007 and 2008 (see Table 8).

The most significant growth in tax arrears in 2008 was recorded under company tax and domestic VAT that recorded growth rates of 59 percent and 54 percent respectively. However, there was a reduction in the tax arrears under PAYE, self employed and Customs and Excise Tax categories in 2008, over that recorded in 2007, of 45 percent, 93 percent and 40 percent respectively. The current stock of tax arrears is a matter of concern and every effort is being made to ensure that these tax arrears are collected.

Table 8: Tax refunds in 2008 and 2007 (K 'billion)

Tax type	Gross collection in 2008	Gross collection in 2007	Refunds in 2008	Refunds in 2007
Direct Taxes	4, 736.7	3,856.8	25.3	15.8
Customs and Excise	5 ,457.7	4,386.1	55.7	57.6
Domestic VAT	2, 369.7	2,033.0	2, 800.5	2,009.5
Total	12, 564.1	10,275.9	2, 881.4	2,082.8

Tax Arrears

In 2008, the stock of tax arrears stood at K4, 191 billion compared to K3, 452 billion at the end of December 2007 The bulk of the tax arrears were under company tax (48%), followed by domestic VAT (37%) and PAYE (10%) Overall, tax arrears increased by 21 percent between 2007 and 2008 (see Table 9 below).

Table 9: Tax arrears (K'bn)

Tax Type	2008	2007
Company tax	2,020	1,271
Back Duty	-	9
Self Employed	6	82
Withholding Tax	7.4	-
PAYE	445	815
Domestic VAT	1,554	1,009
Customs and Excise	159	266
Total	4,191	3,452

Compliance Initiatives

In 2008, the Authority employed several compliance strategies in order to achieve its revenue collection and service delivery goals. These compliance strategies included provision of taxpayer education and advisory services, tax audits, debt management, litigation, investigation and prosecutions activities. Some of these strategies have already been reviewed in previous sections of this report. This section reviews three main compliance strategies aimed at increasing taxpayer registration and deterring tax evasion and tax avoidance.

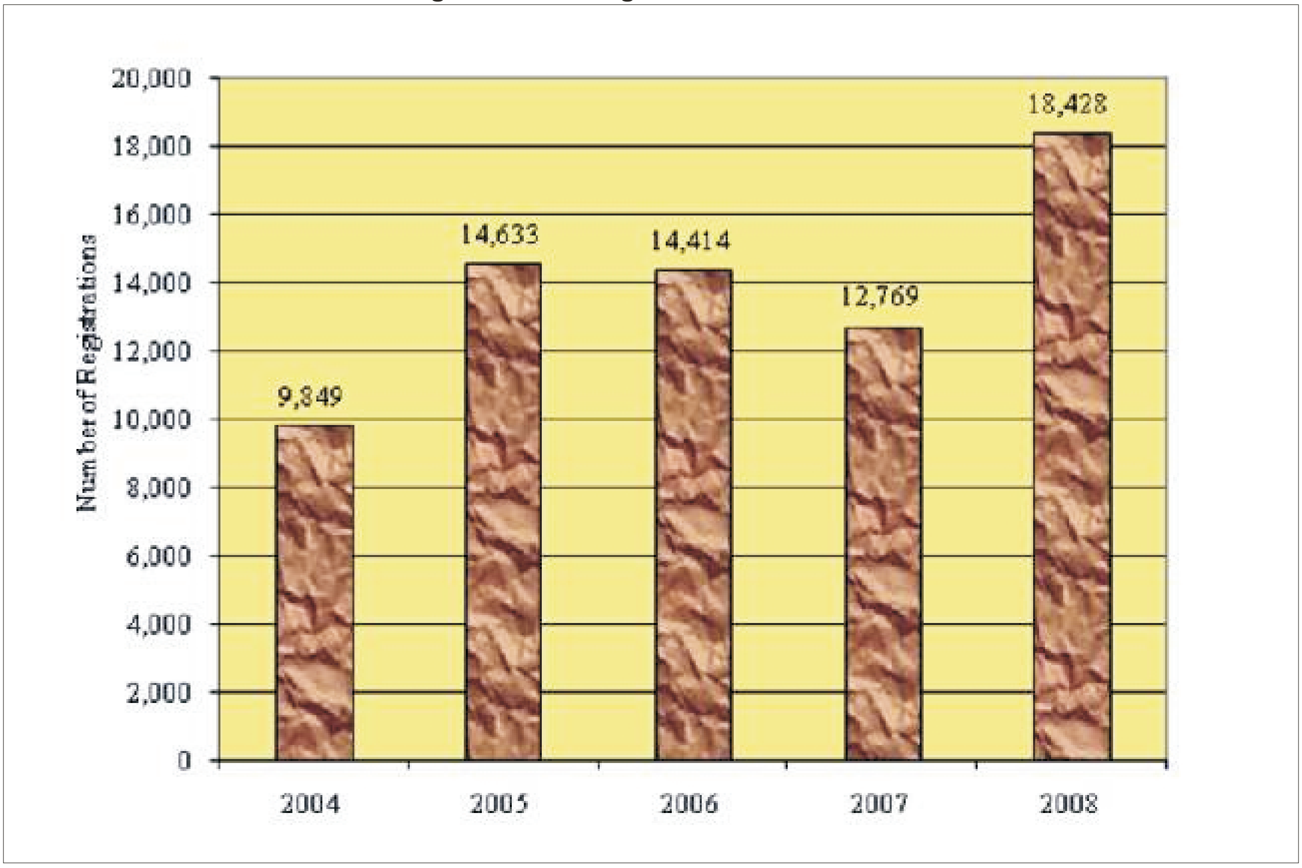
Taxpayer Education and Registration

One of the priorities in 2008 was to increase taxpayer registration in order to broaden the tax base. A total of 18,428 new taxpayers where registered in 2008 compared to 12,769 in 2007, representing an increase of 44 percent. As depicted in Figure 8, the number of TPINs issued to new taxpayers increased significantly in 2008.

Several initiatives contributed to this performance, the major ones; being taxpayer education campaigns undertaken under the VAT cash receipt raffle, the increase in the number of local tax offices that are able to issue of TPINs and the increase in the demand for taxpayer registration and tax clearance certificates as requirements in formal business transaction in the economy.

However, while tax registration certificates issued in 2008 exceeds those issued in 2007, only 2,897 Tax Clearance Certificates were issued in 2008 compared to 4,494 in the previous year.

Figure 8: TPIN registrations from 2005 to 2008



Debt Management

Table 10 shows the performance of debt collection efforts in 2008 and 2007. In 2008, a total of 2,980 debt related cases valued at K285.0 billion were received by the Debt Collection Unit (DCU). However, as at the end of December 2008, the total number of cases decreased to 982 valued at K103.0 billion. When compared to the previous year, the number of debt related cases decreased by 74 percent while the value increased by 49 percent to K285.0 billion from K191.6 billion in 2007.

Table 10: Debt collection results in 2007 and 2006

Cases and Values	2008	2007
Number of cases	2,980	11,310
Value of cases received (K' bn)	285.0	191.6
Number of cases finalised	2,101	8,243
Value of debt finalised (K' bn)	265.0	119.0
Number of cases on hand at 31/12	982	1,334
Value of cases on hand at 31/12 (K' bn)	103.0	117.0
Number of cases referred back to Divisions or Stations	1,522	1,733
Value of cases referred back to Divisions (K' bn)	147.0	27.8
Total collections (K' bn) (cumulative)	489	519
Ratio of value of debt finalised against value of cases received (as percentage)	92.98	62.11

As at December 2008, the value of debt cases on hand was K103.0 billion compared to K117.0 billion in 2007. The ratio of the value of debt finalised to the value of cases received increased to 92.9 percent in 2008 from 62.11 in 2007. The improvement in debt collection in 2008 is attributed to improvements in debt administration resulting from the transfer of the Debt Collection functions from the Finance Department to the Domestic Taxes Division.

Investigations

The Investigations Division was mandated to enhance tax compliance by conducting investigations and ensuring that those evading taxes are prosecuted. As depicted in Table 11, the number of cases investigated during the year under review reduced to 61 in 2008 from 75 in 2007, representing a reduction of over 18 percent. The revenue recovered in 2008 on completed investigations was K11, 837 million compared to K15, 175 million in 2007. Of the number of cases investigated and completed in 2008, income tax related cases had the highest value of K 6, 849 million followed by VAT of K3, 840 million. The least contributor was customs and excise cases at K1,1 48 million

Table 11: Value of cases investigated and completed in 2008 and 2007 (K' million)

Year	No of cases	VAT	Customs and Excise	Income Tax	Total
2008	61	3,840	1,148	6,849	11,837
2007	75	7,752	1,016	6,407	15,175

To further improve the performance of enforcement of tax laws, and in particular investigation of tax evasion cases, the Authority has reorganised its investigation functions, which are now integrated with the Domestic Taxes and Customs Services Divisions. Further, in a bid to expedite investigations, partnership and information sharing with such relevant authorities as the Zambia Police; Anti-Corruption Commission; Task Force on Corruption and Drug Enforcement Commission was further strengthen in 2008. It is hoped that these partnerships will improve the quality of investigations on tax related offences, increase the number of convictions and subsequently voluntary compliance.

Prosecutions

Table 12 summarizes prosecution activity by revenue source in 2008. The number of cases in court increased to 28 in 2008 from 24 in 2007. The value of total cases taken to court decreased to K3, 425 million in 2008 from K5, 755 million in 2007 of which half were customs and excise related cases and 30 percent were VAT cases. Income tax related cases accounted for 17 percent of the total value of all the cases in 2008. None of these cases resulted into imprisonment but they all attracted fines of varying degrees.

Litigation

In the recent past, taxpayers have demonstrated increased awareness of their rights. In 2008, there was a marginal increase in the amount of tax related litigation recorded compared to the previous year. The total number of tax related court cases involving the Authority and its clients increased to 95 in 2008 to 90 in 2007. The number of tax related litigations between 2007 and 2008 is shown in Table 14.

Table 12: Type of sentences by tax type and values in 2008

Tax type / Type of sentence	No	Customs and Excise (K'M)	Value Added Tax (K'M)	Income Tax (K'M)	Total (K'M)
Tax only	1	105	0	0	105
Prison	0	0	0	0	0
Fine	10	396	252	100	748
Acquittal	0	0	0	0	0
Total	11	501	252	100	853
Cases in Court					
Year end - 2008	17	1,307	790	475	2,572
Total	28	1,808	1,042	575	3,425

Table 13 summarizes prosecution activity by market segments. The number of prosecutions in 2008 reduced to 11 from 15 in the previous year. General traders continued to lead the category of tax offenders prosecuted in 2008, representing over 45 percent of the total prosecutions

Most tax related cases are either in the High Court or in the Revenue Appeals Tribunal (RAT) and only a few cases are in the Supreme Court. In 2008, the number of taxpayers who appealed to the RAT against decisions made by the Authority in relation to tax assessments, application of customs tariffs, liability in respect of VAT on goods and services, among others, reduced to 34 in 2008 from 41 in 2007. The number of court cases successfully defended by the Authority stood at 53 percent or 8 out of 15 cases concluded in 2008.

Table 13: Prosecution activity by market segment in 2008 and 2007

Case segment	Number of prosecutions in 2008	Number of prosecutions in 2007
Brewery	0	1
Cross-border traders	2	3
General trading	5	7
Clearing Agents	3	1
Manufacturing	1	0
Cleaning	0	2
Impostor	0	1
Total	11	15

Table 14: Tax related litigations in 2008 and 2007

Activity by quarter	Number of cases in 2008	Number of cases in 2007
Cases in Magistrates Court	0	0
Cases in High Court	54	41
Cases in Supreme Court	7	8
Revenue Appeals Tribunal (RAT)	34	41
Total cases	95	90

Corporate Governance

Corporate Plan

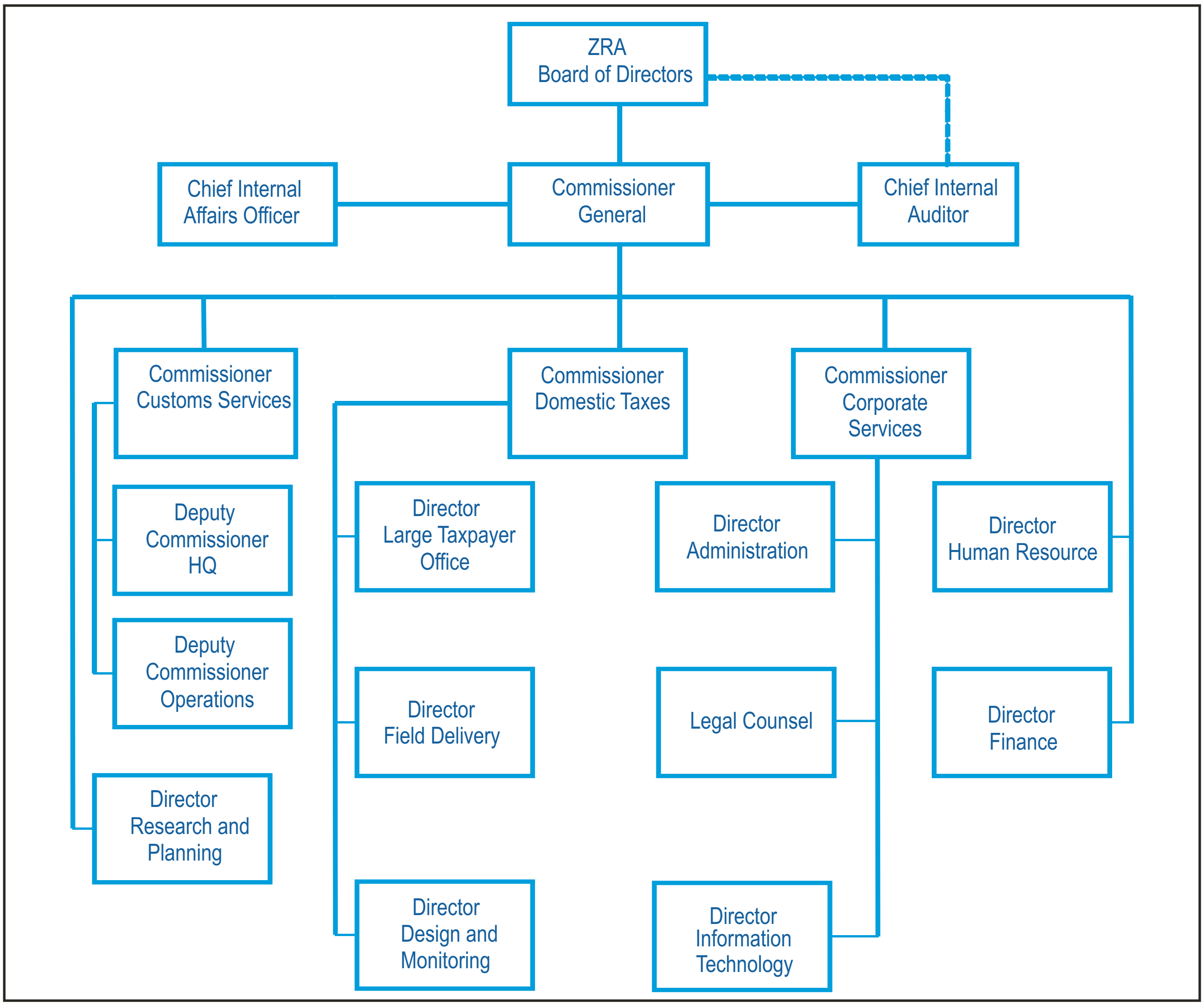
The Authority has in place a Corporate Plan whose performance is monitored by the Director of Research and Planning on behalf of the Commissioner General. Routinely the Senior Management Members (SMM) reviews the progress of implementation of the Plan. By the end of 2008, the Plan had run for two years and had one year to completion. In order to uphold the tenets of good corporate governance, the Authority ensured that all activities it implemented in 2008 were in conformity with the Corporate Plan.

Corporate Structure

The Authority is headed by the Commissioner General who is supported by three Commissioners responsible for Customs Services; Domestic Taxes and Corporate Services. Subsequent to the year-end, the Governing Board of ZRA at its 134th meeting, on 18th November 2008, resolved to approve some changes to the structure. The proposed changes lead to a merger of Administration and Legal and Corporate Services Divisions. The new Division resulting from the merger was named Corporate Services Division headed by a Commissioner. Further, the Director Human Resources and Director Finance who previously reported to the Commissioner Corporate Services now report directly to the Commissioner General. Other changes made were the re-integration of the investigations functions back into the respective operating divisions, leading to the dissolution of the Investigation Division. The new structure is shown in Figure 9.

The Commissioner Domestic Taxes is supported by three Directors; namely Director Design and Monitoring, Director Large Taxpayer Office, and Director Field Delivery. The Commissioner Customs Services is supported by Deputy Commissioner Headquarters and Deputy Commissioner Customs Operations. The Corporate Services Division has three Directors, Director Information Technology, Director Administration, and the Legal Counsel. Other directors reporting directly to the commissioner general are the Chief Internal Auditor and Director Research and Planning. The Chief Internal Affairs officer also reports directly to the Commissioner General.

Figure 9: Organisational chart



Committees of the Board

To improve the governance of the Authority and provide oversight the Board has put in place the following Committees: Audit Committee; Finance Committee; and the Legal, Staff and Disciplinary Committee.

The Audit Committee reviews the financial reports and other financial information generated by the Authority and disseminated to Government or the public. The Audit Committee also reviews the Authority's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established. Further the Committee oversees the Authority's auditing, accounting and financial reporting processes to ensure that they are consistent with the Authority's policies, procedures and practices at all levels. The Audit Committee met five times in 2008.

The Finance Committee receives and considers reports from the Management Tender Committee in respect of procurements made by the Authority and assesses compliance with budgeted expenditure. The Finance Committee met four times in 2008, as many times as they met in 2007.

The Legal, Staff and Disciplinary Committee considers the establishment and reviews the policies of the Authority; disciplinary cases and appeals; the establishment and review of management appraisal systems; the determination and review of conditions of service of the staff of the Authority. In 2008 the Legal, Staff and Disciplinary Committee met four times compared to five times in 2007.

Internal Scrutiny

Internal Audit

The Internal Audit Division plays the role of reviewing and confirming the reliability of internal controls, risk management and governance processes within the Authority. The Division also assesses, on a regular basis, the level of implementation of various recommendations agreed in prior audit reports. As shown in Table 15 the Internal Audit Division undertook a total of 33 process audits compared to 32 in 2007. Of the total number of process audits, 63 percent were finalised compared to 41 percent in 2007.

In addition, a total of 7 special reviews and investigations were undertaken and all of them were finalized within the year. The 28 finalised audit reports referred to above were all submitted to and considered by the Audit Committee of the Board during its meetings in 2008. Further, during the year under review, the Internal Audit Division successfully implemented the automation of audit management working papers on Team-Mate software. In order to enhance capacity the audit staff were trained in courses intended to build their capacity in risk based auditing; risk management; auditing in public service institutions; and fraud and corruption awareness.

Internal Affairs Unit

In 2008, the Internal Affairs Unit which is mandated to investigate all matters pertaining to corruption, fraud and other malpractices involving the Authority's employees recorded more cases of fraud and misconduct. A total of 25 cases were recorded in 2008 compared to 17 in 2007 (see Table 16).

Table 16: Cases of fraud and misconduct by employees in 2008 and 2007

Type of offence	2008	2007
Fraud	4	5
Code of conduct	6	3
Theft	2	4
Bribery	7	1
Abetting smuggling	4	3
Other	2	1
Total cases investigated	25	17

The largest numbers of cases investigated were of bribery followed by the violation of the Code of Conduct. Others were fraud and abetting smuggling. Of the total cases recorded in 2008, 6 cases resulted in dismissals, while 5 cases were referred to the Anti Corruption Commission (ACC) and 3 cases were referred to the Zambia Police. Meanwhile, the Authority received one referral case from ACC to deal with administratively. None of the cases resulted in custodial sentences or convictions in 2008 compared to 3 employees in 2007.

Table 15: Audits and investigations undertaken in 2008 and 2007

Audits and Investigations	2008	2007
Number of process audits	33	32
Number of process audits finalized	21	13
Number of special reviews and investigations undertaken	7	6
Number of special reviews and investigations finalized	7	5

Zambia Revenue Authority Integrity Committee

The ZRA Integrity Committee (ZRAIC) Secretariat which was launched in 2007 continued with its effort of preventing corruption and maladministration within the Authority as well as addressing complaints of unethical conduct by staff. A total of 13 complaints were received by the Secretariat during 2008. Most of these cases were resolved internally while a couple of them were referred to the ACC for investigation.

The ZRAIC also continued to implement its integrity programmes and reporting its performance on a quarterly basis to the ACC in accordance with the ACC guidelines. In order to improve customer feedback from clients throughout the country, the ZRAIC embarked on the distribution of suggestion boxes to local tax offices and border posts. Other integrity awareness campaigns included publication and distribution of the Code of Ethics, posters and publication of information aimed at creating public awareness on the Authority's policies regarding corruption and unethical behaviour of its staff, and the Taxpayer Charter were produced and distributed to all stations. The ZRAIC Secretariat is fully integrated with the structures of the Authority and is now run by a full-time Ethics Officer.

Finance Department

In the year under review the Authority initiated a project aimed at resolving the concerns of delayed tax refunds to taxpayers. The project objective is to establish an integrated refund system for customs and domestic taxes. The full implementation of this integrated refund system is planned for the second quarter of 2009 and will be rolled out to all ZRA stations. Expected benefits of this new system are the following:

a) the simplification of work, through automation and reduced costs related to refund processing;
b) strengthening of internal and security controls in refund processing thus minimise the possibility of errors and duplications;
c) quick processing of refunds within the Taxpayer Charter time frames;
d) enhanced flexibility allowing for information sharing between Divisions; and
e) timely production of reports and documents for decision making by management.

External Scrutiny

Parliamentary Committees

In 2008, the Authority held a tax sensitization workshop for Members of Parliament drawn from the following select Committees: Public Accounts; Estimates; and Economic Affairs. At this workshop, the Authority sensitized the Members of Parliament on Zambia's tax administration system. Furthermore, the Authority made formal submissions to Parliament and attended public hearings of the Joint Committee of Public Accounts and Audit and the Joint Expanded Committee on Estimates. The Authority also responded to all parliamentary queries received through the Ministry of Finance and National Planning.

External Audit

In 2008, the Authority's financial statements and revenue collection activities were subjected to external audits by an independent private audit firm and the Office of the Auditor General. Apart from auditing revenue collection for 2007 the Office of the Auditor General also reviewed the Authority's audited financial statements for the period 2003 to 2006.

Managing Our Resources

Staffing

The staff complement in 2008 stood at 1,246 employees against the approved establishment of 1,380. This staff complement represents a 3.7 percent increase over the period 2007 to 2008. The increase is as a result of recruitment in the Customs Services, Investigations, Corporate Services, and Administration and Legal Divisions. Table 17 below shows the staffing position in 2008 and 2007.

For instance, in 2008, 36.2 percent of the workforce was in the technical staff category compared to 34 percent in 2007. The middle management category comprised 11.2 percent of the total workforce in 2008 compared to 11 percent in 2007 while support staff and senior management comprised 51.4 percent and 1.3 percent of the workforce respectively.

Table 17: ZRA staff complement by Division / Unit as at end 2008 and 2007

	2008		2007	
Division / Unit	**Actual**	**Approved**	**Actual**	**Approved**
Commissioner General's Office	8	10	10	10
Investigation Division	29	36	26	37
Research and Planning Division	12	19	17	19
Domestic Taxes Division	398	427	434	427
Customs Services Division	474	474	469	474
Corporate Services Division	109	130	106	132
Administration and Legal Division	201	265	125	265
Internal Audit Division	15	19	15	16
Total	1,246	1,380	1, 202	1, 380

Table 18 shows the staffing complement broken down by classification and gender in 2008 and 2007. In 2008, just like the year before, female employees represented about one-third or 31.9 percent of the total workforce in Authority. However, the number of female employees increased marginally to 397 in 2008 to 387 in 2007 while that of men also increased to 849 from 815 over the same period. The shares of workforce classification to the total workforce remained relatively the same in 2008 and 2007.

Staff Separations

In 2008, the Authority separated with 75 employees against 111 in 2007 while 19 employees resigned compared to 34 in 2007 (see Table 19). Twelve employees were separated on account of expiry of contracts of employment which was much less than the number in 2007. In the year under review, 5 employees went on normal retirement compared to 8 in 2007. Other

Table 18: ZRA employees by classification and gender in 2008 and 2007

	2008		2007	
Classification (Full time)	**Male**	**Female**	**Male**	**Female**
Senior Management ZRA00	1	0	1	0
Senior Management ZRA01	2	1	2	2
Senior Management ZRA02	9	3	9	3
Middle Management ZRA03 –04	112	27	102	30
Technical Staff ZRA0 5 – 06	322	129	295	117
Support Staff ZRA07 –10	403	237	406	235
Total	849	397	815	387

separations included 5 employees whose contracts of employment were terminated while two were discharged on medical grounds. Fifteen employees were dismissed in 2008 compared to eleven in 2007 while deaths rose to 15 in 2008 from 11 in 2007.

Staff Development Activities

The Authority continued to attach great importance to staff development issues. In this regard, in 2008, the Authority offered training opportunities to 545 members of staff compared to 793 trained in 2007. In all, a total of 287 members of staff were formally trained while 258 were trained informally through workshops, seminars and other tailor made courses (see Table 20).

Table 19: General staff turnover by type of separation in 2008 and 2007

Type of Separation	Number in 2008	Number in 2007
Dismissal	15	11
Termination of contract of employment	3	3
Expiry of contract of employment	12	41
Termination of employment	2	2
Expiry of short contract	2	0
Resignation	19	34
Retirement	5	8
Redundancy	0	0
Medical discharge	2	1
Death	15	11
Total	75	111

Table 20: Staff development in 2008

Type of Training	Number of staff trained
Operational Risk and Change Management	21
ASSYCUDA technical and web applications	2
Microsoft Net	3
Scanner Training	20
Tax analysis and tax administration	2
Basic Customs	31
Security Awareness	19
VAT I	11
VAT II	48
COBBIT Framework	41
Advanced Excel	12
Audit Command Language	16
Fraud & Risk Management	10
Risk Based Operational Auditing	2
ITAS Data Mining Oracle Discoverer	7
Fire Safety and First Aid	16
Tax Inspectors	20
Taxation of international transactions	2
Auditing in Public Service	4

Financial and Asset Management

In the year under review, the Authority disbursed a substantial amount of money towards the refurbishment and rehabilitation of infrastructure and equipment at various stations. Table 21 shows the breakdown of the major projects undertaken and the contracts in the year under review.

Table 21: The value of major projects undertaken in 2008 (Kwacha)

Project Name	Value	Amount Paid	Amount Outstanding	Status
Refurbishment of offices at Vic-Falls Border Post	310,150,496.52	193,115,878.91	117,034,617.61	Carried over from 2007
Refurbishment of offices and creation of ASYCUDA Hall at Kazungula Border Post	311,610,823.38	194,576,205.77	117,034,617.61	Carried over from 2007
Construction of generator houses and generator set installation at Kasama and Kariba	406,215,337.50	247,224,949.00	158,990,388.50	Completed
Construction of generator houses and generator set installation at Ndola and Mansa	300,787,170.60	120,314,868.00	180,472,302.60	On going
Construction of concrete scanning area at Chirundu Border Post	330,783,222.00	157,719,508.11	173,063,713.89	Completed
Construction of concrete scanning area at Livingstone	204,502,200.00	194,277,090.00	10,225,110.00	Completed
Aluminium partition works on 5th and 6th floors at Revenue House	294,467,995.50	263,248,690.46	31,219,305.04	Completed
Supply, installation and commissioning of water reticulation system at Kazungula	180,650,695.30	-	180,650,695.30	Completed
Construction of new pump house at Kazungula	12,731,265.60	10,423,618.00	2,307,647.60	Completed
Rehabilitation of Lusaka International Airport Flats	210,971,250.00	201,053,250.00	9,918,000.00	Completed
Rehabilitation of ZRA Training Centre-Chelstone - Lusaka	296,271,738.00	281,458,151.10	14,813,586.90	Completed
Refurbishment of Lusaka Show grounds Stand	52,353,352.00	52,353,352.00	-	Completed
Refurbishment of Ndola International Trade Fair grounds Stand	51,861,831.00	51,861,831.00	-	Completed
Remodelling of 3rd Floor-Revenue House	238,006,660.50	210,662,003.71	27,344,656.79	Completed
Refurbishment of International Airport Customs Offices	148,817,968.32	123,349,438.68	25,468,529.64	Completed
Revenue House rehabilitation and painting	204,502,200.00	190,501,263.20	14,000,936.80	Completed
Refurbishment of Livingstone Port Office	590,712,567.50	531,641,310.75	59,071,256.75	Completed
Refurbishment of Station Manager's house at Kazungula	49,058,152.50	10,038,765.90	39,019,386.60	On going
Total	4,194,454,926.22	3,033,820,174.59	1,160,634,751.63	

A total of K4.19 billion was committed for major projects in 2008. Of this amount, K3.033 billion was paid in full by the end of 2008, leaving a balance of K1.16 billion to be paid in 2009. This expenditure represents 72.3 percent fund utilization on projects undertaken in 2008 compared to 41 percent in the previous year.

In 2008, the Authority prioritized the acquisition of new office equipment and other operational assets such as computers and motor vehicles. In this respect, a total of K6.95 billion was spent on the acquisition of new assets compared to K10.77 billion in 2007. Out of K6.95 billion, K2.3 billion was spent on office equipment while K1.8 billion was spent on the acquisition of office furniture. A further K2.9 billion was spent on the purchase of 29 new motor vehicles.

With respect to asset disposal, the Asset Disposal Committee (ADC) has the responsibility of managing the disposal of obsolete, redundant and unserviceable assets including property seized from defaulting tax payers. The asset accounting function is centrally controlled, although the day-to-day management of such assets is decentralised to local tax offices and border posts. In 2008, a total of K252 million was raised from asset disposal compared to K272 million in 2007.

Financial Statements

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ZAMBIA REVENUE AUTHORITY

STATEMENT OF RESPONSIBILITIES OF THE GOVERNING BOARD

The Zambia Revenue Authority Act Cap 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 and to enable them to ensure that the financial statements comply with International Financial Reporting Standards;
- 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.

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 financial statements and their report appears on page 2 and 3.

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 safeguard, 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 controls, procedures and systems has occurred during the year under review.

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

Signed on behalf of the Board by:

______________________)
CALEB M. FUNDANGA (DR.)) **ACTING CHAIRMAN - GOVERNING BOARD**
)
)
)
______________________)
MRS S. MWAANZA) **MEMBER - GOVERNING BOARD**

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REPORT OF THE INDEPENDENT AUDITOR

To the Governing Board of
Zambia Revenue Authority

Report on the financial statements

We have audited the accompanying financial statements of the Zambia Revenue Authority, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in capital funds and reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Governing Board's responsibility for the financial statements

The Governing Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Zambia Revenue Authority Act Cap 321 of Laws of Zambia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly the financial position of Zambia Revenue Authority as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Zambia Revenue Authority Act Cap 321 of the Laws of Zambia.

Report on other legal requirements

The Zambia Revenue Authority Act Cap 321 of the Laws of Zambia requires that in carrying out our audit, we consider and report to you on the following matter: we confirm that, in our opinion, the accounting and other records and registers have been properly kept in accordance with the Act.

Deloitte & Touche

DELOITTE & TOUCHE

30th June 2009

ZAMBIA REVENUE AUTHORITY

INCOME STATEMENT

for the year ended 31 December 2008

K'000

	NOTES	2008	2007
INCOME			
Government funding		**210,790,000**	197,000,854
Asycuda processing fees		**21,476,561**	11,910,285
Other income	2	**3,441,946**	3,127,742
Amortisation of capital grant	3	**1,038,245**	-
		236,746,752	212,038,881
EXPENDITURE			
Employee benefits expenses		**(156,812,143)**	(140,766,142)
Administrative expenses		**(33,889,059)**	(26,858,518)
Operational expenses		**(25,433,157)**	(18,356,199)
Depreciation expense	6	**(5,942,660)**	(3,609,309)
		(222,077,020)	(189,590,168)
Exceptional items:			
Depreciation write back	6	**-**	6,064,974
Impairment allowance	6	**-**	(5,338,835)
		(222,077,020)	(188,864,029)
SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR	4, 5	**14,669,733**	23,174,853

ZAMBIA REVENUE AUTHORITY

BALANCE SHEET
at 31 December 2008

K'000

	NOTES	2008	2007
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	**112,361,770**	57,685,127
Employee loans and advances	9	**4,218,014**	5,124,352
		116,579,784	62,809,479
Current Assets			
Inventories	8	**1,965,614**	725,719
Receivables	9	**5,234,233**	2,984,326
Bank and cash balances	10	**22,529,631**	33,434,123
Customs deposits accounts	12	**3,099,959**	4,692,380
Tax refunds accounts	13	**40,070,000**	48,188,412
		72,899,437	90,024,960
TOTAL ASSETS		**189,479,222**	152,834,439
CAPITAL FUND, RESERVES AND LIABILITIES			
Capital fund and reserves			
Capital fund		**29,912,440**	14,189,987
Revaluation reserve		**30,579,502**	-
Capital reserves		**650,491**	650,491
		61,142,433	14,840,478
Non-Current Liabilities			
Deferred liabilities	16	**19,234,500**	18,515,066
Capital grants	3	**18,961,755**	20,000,000
		38,196,255	38,515,066
Current Liabilities			
Trade payables	14	**8,959,183**	11,412,566
Other payables	15	**37,961,765**	35,185,539
Bank overdrafts - unsecured	11	**49,626**	-
Customs deposits accounts	12	**3,099,959**	4,692,380
Tax refunds accounts	13	**40,070,000**	48,188,412
		90,140,534	99,478,897
TOTAL CAPITAL FUND, RESERVES AND LIABILITIES		**189,479,222**	152,834,439

The responsibilities of the Authority's Governing Board with regard to the preparation of the financial statements are set out on page 33.The financial statements on pages 36 to 61 were approved by the Governing Board on **30 June 2009** and were signed on its behalf by:

CALEB M. FUNDANGA (DR.)) **ACTING CHAIRMAN - GOVERNING BOARD**

MRS S. MWAANZA) **MEMBER - GOVERNING BOARD**

STATEMENT OF CHANGES IN CAPITAL FUND AND RESERVES
for the year ended 31 December 2008

K'000

	Capital (deficit) fund	Revaluation reserve	Capital reserves	Total
Balance at 1 January 2007	(9,500,536)	515,670	650,491	(8,334,375)
Surplus of income over expenditure for year	23,174,853	-	-	23,174,853
Amortisation of revaluation reserve	515,670	(515,670)	-	-
Balance at 31 December 2007	**14,189,987**	**-**	**650,491**	**14,840,478**
Surplus of income over expenditure for year	14,669,733	-	-	14,669,733
Revaluation surplus	-	31,632,222	-	31,632,222
Amortisation of revaluation reserve	1,052,720	(1,052,720)	-	-
Balance at 31 December 2008	**29,912,440**	**30,579,502**	**650,491**	**61,142,433**

Capital fund

The Capital fund represents surplus income which the Authority has retained from Government funding for operations and the acquisition of property, plant and equipment.

Capital reserves

Capital reserves represent the cost of property, plant and equipment transferred to the Authority by the former Customs and Excise Department and the Department of Direct Taxes.

ZAMBIA REVENUE AUTHORITY

CASH FLOW STATEMENT
for the year ended 31 December 2008

K'000

	NOTES	2008	2007
OPERATING ACTIVITIES			
Surplus of income over expenditure		**14,669,733**	23,174,853
Adjusted for:			
Amortisation of deferred income	3	**(1,038,245)**	-
Depreciation	6	**5,942,660**	3,609,309
Impairment allowance	6	**-**	5,338,835
Write back of depreciation	6	**-**	(6,064,974)
Gain on disposal of property, plant and equipment	6	**(290,413)**	(424,494)
Operating cash flows before movement in working capital		**19,283,735**	25,633,529
(Increase) decrease in inventories		**(1,239,895)**	690,054
(Increase) decrease in receivables		**(1,343,568)**	10,547,727
(Decrease) increase in trade payables		**(2,453,383)**	602,939
Increase (decrease) in other payables		**2,776,226**	(22,881,729)
Increase in deferred liabilities		**719,434**	3,023,912
Cash generated from operations		**17,742,550**	17,616,432
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	**(29,303,005)**	(7,228,032)
Proceeds from disposal of property, plant and equipment		**606,337**	424,492
Capital grant	3	**-**	20,000,000
Net cash used in investing activities		**(28,696,668)**	13,196,460
Net cash (outflows) inflows		**(10,954,118)**	30,812,892
Net cash and cash equivalents at beginning of year		**33,434,123**	2,621,231
Net cash and cash equivalents at end of year		**22,480,005**	33,434,123
Comprising:			
Bank and cash balances	10	**22,529,631**	33,434,123
Bank overdraft - unsecured	11	**(49,626)**	-
		22,480,005	33,434,123

ACCOUNTING POLICIES

1. GENERAL INFORMATION

The Zambia Revenue Authority (the "Authority") was established by the Zambia Revenue Authority Act Cap 321 of the Laws of Zambia (the "Act"), to carry out the affairs of the former Customs & Excise Department and the Department of Income Taxes. The Act, which came into effect on 1 April 1994, also transferred assets and liabilities of those former departments to the Authority. The address of the Authority's office and principal place of business are disclosed in note 1 to the financial statements.

2 ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standard and Interpretations adopted in the current period

The following new Interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008); and
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Authoritying Requirements and their interaction (effective 1 January 2008).

Adoption of these Interpretations and the revised Standard has not led to any changes in the Authority's accounting policies.

2.2 New and revised Standards and Interpretations in issue not yet adopted

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);

- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009);

- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009);

- IFRS 3, Business Combinations – Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009);

- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);

- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);

- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);

- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009);

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

2.2 New and revised standards and interpretations in issue not yet adopted (Continued)

- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);
- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. The directors are currently assessing the impact and expected timing of adoption of these amendments on the Authority's results and financial position.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below:

3.3 Revenue recognition

3.3.1 Government Authoritying

Income represents the revenue grants receivable from the Government of the Republic of Zambia during the year and is accounted for on an accruals basis.

3.3.2 Interest income and expense

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.3.3 Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

3.3.4 Asycuda processing fees

Revenue represents the amount receivable from customers in respect of clearing services provided during the period.

When the outcome of a transaction involving the rendering of service can be estimated reliably, revenue is recognised when the following are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and

When the above conditions are not met, revenue arising from rendering of service should be recognised only to the extent of the expenses recognised that are recoverable.

ACCOUNTING POLICIES (Continued)

3.4 Translation of foreign currencies

In preparing the financial statements, transactions in currencies other than the Authority's functional currency (Zambian Kwacha) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 profit or loss in the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings.

3.5 Retirement benefits

The Authority provides for retirement benefits for employees on non-fixed term contracts as provided for in line with the Authority's conditions of service.

On 1 February 2000, the National Pension Authority (NAPSA) also came into effect. Membership is compulsory and monthly contributions by both employer and employees are made. The monthly contribution by the employer is accounted for in the income statement as it arises.

Employees on fixed term contracts are entitled to end of contract gratuity. Provision is made for past service on the basis of past conditions of service and earnings.

3.6 Property, plant and equipment

Leasehold buildings are stated in the balance sheet at cost or valuation. Valuations are performed as and when the Governing Board deems it necessary to do so but with sufficient regularity such that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the balance sheet date.

The surplus arising on revaluation of tangible assets is credited to a non-distributable reserve. Decreases that offset previous revaluations of the same asset are charged against the revaluation reserve. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to revenue reserves. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to revenue reserves.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Authority's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Equipment, motor vehicles and furniture and fittings are stated in the balance sheet at cost less depreciation.

ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment (continued)

Depreciation

Depreciation is charged so as to write off the cost or valuation of assets, other than assets under construction, over their estimated useful lives, using the straight-line method at the following annula rate;

Leasehold land and buildings	2%
Office equipment, Furniture, fixture and fittings	20%
Motor vehicles	25%

Capital work in-progress is not depreciated.

The 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 the income statement.

3.7 Impairment of tangible assets

At each balance sheet date, the Authority reviews the carrying amounts of its long term and other 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 immediately in the income statement, 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.

3.8 Financial instruments

3.8.1 Financial assets

(i) Recognition

The Authority initially recognises loans and advances issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

(ii) Classification

The Authority classifies its financial assets into the following categories: loans, advances and receivables; and cash and cash equivalents. Management determines the appropriate classification of its investments at initial recognition.

ACCOUNTING POLICIES (Continued)

3.8.1 Financial assets (continued)

(ii) Classification (continued)

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Authority intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.8.2 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

3.8.3 Impairment of financial assets

The Authority assesses at each balance sheet date whether there is objective evidence that a financial asset or Authority of financial assets is impaired. A financial asset or a Authority of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or Authority of financial assets that can be reliably estimated.

The criteria that the Authority uses to determine that there is objective evidence of an impairment loss include:

- Breach of loan covenants or conditions;
- Cash flow difficulties experienced by the employee especially where they have left employement.

For certain categories of financial asset, such as other receivables, assets that are assessed not to be impaired individually are subsequently 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 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Derecognition 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.

ACCOUNTING POLICIES (Continued)

3.8.4 Financial liabilities

The Authority's principal financial liabilities are reAuthoritys to customer rent received in advance and other payables. Financial liabilities are initially measured at fair value, net of transaction costs. These are subsquently measured at amortised costs.

Financial liabilities are classified in accordance with the substance of the contractual arrangement.

Derecognition of financial liabilities

The Authority derecognises financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or expire.

3.9 Provisions

Provisions are recognised when the Authority has a present obligation as a result of a past event, and it is probable that the Authority will be required to settle that 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 balance sheet date taking into account the risk and uncertainties surrounding the obligation.

Where a provision is measured using cash flows estimated to settle the present obligation, it's carrying amount is the present value of the cash flows. When some or all of the economic benefits required to settle a provision are expected to be recorded 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 receivables can be measured reliably.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

3.10 Capital grants

Capital grants represent the value of assets vested in the Authority by the Government without charge to the Authority. Capital grants are deferred and credited to the income statement in equal annual instalments over the expected useful lives of the related assets.

4.0 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Authority's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the financial statements are disclosed below:

a) *Impairment losses on loans and advances*

The Authority reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Authority makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a authority, or local economic conditions that correlate with defaults on assets in that group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) *Estimates of asset lives, residual values and depreciation methods*

Property, plant and equipment are depreciated over their useful life taking into account residual values. Useful lives and residual values are assessed annually. Useful lives are affected by technology innovations, maintenance programmes and future productivity. Future market conditions determine the residual values. Depreciation is calculated on a straight line bases which may not represent the actual usage of the asset.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

K'000

1 ESTABLISHMENT AND PRINCIPAL ACTIVITIES

The Zambia Revenue Authority (the "Authority") was established by the Zambia Revenue Authority Act Cap 321 of of the Laws of Zambia (the "Act"), to carry out the affairs of the former Customs & Excise Department and the Department of Income Taxes. The Act, which came into effect on 1 April 1994, also transferred assets and liabilities of those former departments to the Authority.

The principal business activities of the authority are;

- assess, charge, levy and collect all revenue due to the Government of the Republic of Zambia ("the Government") under such laws as the Minister of Finance and National Planning may, by enacted legislation or statutory instrument, specify; and
- ensure that all revenue collected is, as soon as reasonably practicable, credited to the Government Treasury.

The address of the Company's registered office and principal place of business is:

Zambia Revenue Authority
Kabwe Roundabout
P.O. Box 35710
LUSAKA

2 OTHER INCOME

	2008	2007
Cigarette stamps sales proceeds	**1,360,590**	1,374,450
Sundry income	**1,057,513**	697,207
Interest income	**357,356**	271,358
Gain on disposal of property, plant and equipment	**290,413**	424,494
Rental income	**195,575**	292,939
Write back of bad debt provision	**180,500**	-
Net exchange gains	**-**	67,294
	3,441,946	3,127,742

3 CAPITAL GRANTS

	2008	2007
At beginning of year	**20,000,000**	-
Grants received	-	20,000,000
Amortised to income statement	**(1,038,245)**	-
At year end	**18,961,755**	20,000,000

In December 2007, the Authority received a capital grant from 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 Chirundu and Livingstone border posts. The equipment was purchased and brought into use in June 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

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4	**SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR**	**2008**	2007
	Surplus of income over expenditure for the year is stated after crediting:		
	Interest income	**357,356**	271,358
	Write back of bad debt provision	**180,500**	-
	Net exchange gains	**-**	67,294
	and after charging		
	Employee gratuities and terminal benefits	**19,248,694**	16,295,476
	NAPSA employer's contribtion	**3,822,601**	3,755,807
	Bad debt provision	**-**	962,987
	Board fees and expenses	**113,620**	182,098
	Interest expense	**-**	115

Included in the employee gratuity and terminal benefit is the additional provision of the ZK16.7 billion and terminal benefit of ZK2.5 billion respectively.

5 TAXATION

The Zambia Revenue Authority is a statutory body exempt from income tax.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

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6 PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	Leasehold land & buildings	Plant & Office equipment	Motor vehicles	Furniture, fixtures and fittings	Capital work in progress	Total
At 1 January 2007	43,039,629	21,554,895	14,281,198	3,199,126	7,664,155	89,739,003
Additions	-	1,990,536	3,748,785	-	1,488,711	7,228,032
Disposals	-	(176,039)	(1,265,630)	(181,023)	-	(1,622,692)
At 31 December 2007	43,039,629	23,369,392	16,764,353	3,018,103	9,152,866	95,344,343
At 1 January 2008	43,039,629	23,369,392	16,764,353	3,018,103	9,152,866	95,344,343
Additions	-	21,573,225	2,474,532	1,251,350	4,003,898	29,303,005
Disposals	-	(110,730)	(1,583,662)	(21,935)	-	(1,716,327)
Transfers	2,724,312	767,923	-	-	(3,492,235)	-
Valuation	31,632,222	-	-	-	-	31,632,222
At 31 December 2008	**77,396,164**	**45,599,810**	**17,655,223**	**4,247,518**	**9,664,529**	**154,563,243**
Cost or valuation at 31 December 2008 is represented by:						
Cost	-	45,599,810	17,655,223	4,247,518	9,664,529	77,167,080
Valuation 2008	77,396,164	-	-	-	-	77,396,164
	77,396,164	**45,599,810**	**17,655,223**	**4,247,518**	**9,664,529**	**154,563,243**
DEPRECIATION						
At 1 January 2007	4,584,391	16,919,127	11,798,926	3,096,294	-	36,398,738
Charge for year	-	2,363,968	1,180,237	65,104	-	3,609,309
Write back of depreciation (ii)	(4,584,391)	-	(1,480,583)	-	-	(6,064,974)
Eliminated on disposal	-	(176,039)	(1,265,630)	(181,023)	-	(1,622,692)
Impairment allowance (i)	-	-	-	-	5,338,835	5,338,835
At 1 January 2008	-	19,107,056	10,232,950	2,980,375	5,338,835	37,659,216
Charge for year	-	3,662,675	2,147,150	132,835	-	5,942,660
Eliminated on disposal	-	(91,297)	(1,292,600)	(16,506)	-	(1,400,403)
At 31 December 2008	**-**	**22,678,434**	**11,087,500**	**3,096,704**	**5,338,835**	**42,201,473**
CARRYING VALUE						
At 31 December 2008	**77,396,164**	**22,921,376**	**6,567,723**	**1,150,814**	**4,325,694**	**112,361,770**
At 31 December 2007	43,039,629	4,262,336	6,531,403	37,728	3,814,031	57,685,127

Leasehold buildings were revalued on the basis of open market value for existing use at 31 December 2008 by BBA Property Consultants, registered valuation surveyors.

Exceptional items

(i) Impairment loss allowance

Prior to 2006 the Governing Board approved and authorised capital expenditure for construction of leasehold buildings and improvements to leasehold properties. However, although initial funding for related professional fees was made available no further funding has been forthcoming from Government to ensure completion of the projects. The Board believes that the related property may not be completed and brought into use and accordingly, an impairment allowance of **ZK5.3 billion** was raised in the Authority's books in the previous year.

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6 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(ii) Write back of depreciation

Following a review of the residual value of motor vehicles the depreciation charged in previous years on those assets was found to be excessive. The adjustment made to accumulated depreciation as at 31 December 2007 of ZK1,480 million had been accounted for as a credit to the income statement as per IAS 8.

In respect of leashold buildings the review indicated that residual values were in excess of current carrying amount. Accordingly, no depreciation was charged for the year.

The Authority holds title to Revenue House. However, the Government holds title to all other properties transferred to the Authority in 1994 and whose net book value is **K21 billion.**

Expenditure on refurbishment work being carried out on Revenue House and major border posts is shown initially as capital work in progress and is transferred to the relevant class of asset when commissioned and certificate of completion issued.

Included in office equipment and furniture, fixtures and fittings are assets valued at a net book value of **K197 million** received from the Department for International Development ("DFID") as a capital grant.

7 CAPITAL COMMITMENTS

	2008	2007
Approved by the Governing Board and contracted for	**1,750,000**	2,200,000

In the year under review the Authority embarked on several projects on refurbishment and rehabilitation of infrastructure at various stations.

8 INVENTORIES

Stationery and cigarette stamps	**1,850,967**	341,886
Uniforms	**78,956**	371,727
Other consumables	**35,692**	12,106
	1,965,614	725,719

The cost of inventories recognised as an expense during the period was **ZK684 million** (2007: ZK109 million).

9 RECEIVABLES

Receivables principally comprise amounts receivable in respect of employee loans and advances, other receivables and prepaid amounts in respect of operating costs.

The Governing Board consider that the carrying amount of receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

K'000

9 RECEIVABLES (CONT'D)

	2008	2007
Receivables at the balance sheet date were as follows:		
Employee's loans and advances	**6,000,361**	7,062,798
Other receivables	**3,255,913**	921,208
Prepayments	**195,972**	124,672
	9,452,246	8,108,678
Employee's loans and advances - included under non-current assets	**2,564,834**	(5,124,352)
Included under current assets	**12,017,081**	2,984,326

Employees' loans and advances

Total loan receivables (net of allowances) held by the Authority at 31 December 2008 amounted to **ZK6 billion** (2007: ZK7.1 billion), comprising loans and advances to employees.

Employees' loans and advances are considered to be non-derivative financial assets as they have fixed and determinable conditions attached to repayment, and are not quoted in an active market.

The annual interest rates on employees' loans, in line with conditions of service is 5%.

The make up of employee's loans and advances at the balance sheet date was as follows:

	2008	2007
Home ownership loan	**2,967,023**	2,774,598
Other loans	**(4,623,936)**	3,753,788
Vehicle ownership loan	**1,289,023**	1,171,643
Personal loan	**367,890**	325,756
	-	8,025,785
Allowances for doubtful debts	**(782,487)**	(962,987)
	(782,487)	7,062,798

Maturity analysis

	2008	2007
Amounts falling due within one year - included under current assets	**1,782,347**	1,938,445
Amounts falling due after more than one year - included under non-current assets	**(2,564,834)**	5,124,352

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

K'000

9	**RECEIVABLES (CONT'D)**	**2008**	2007
	Receivables at the balance sheet date were as follows:		
	Employee's loans and advances	**6,000,361**	7,062,798
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	(782,487)	7,062,798

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

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9 **RECEIVABLES (CONT'D)**	**2008**	2007
Movement in the allowance for doubtful debts		
At beginning of the year	**962,987**	-
(Credit) charge for the year	**(180,500)**	962,987
At year end	**782,487**	962,987

Ageing of impaired loan receivables

Of the total loans and other receivables, **ZK97 million** (2007: ZK158 million) which was impaired are more than 120 days.

The Authority has provided fully for receivables over 120 days because historical experience indicates that receivables that are past due beyond 120 days are generally not recoverable. Loan receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the employees, determined by reference to past experience.

All loans are monitored on a monthly basis and non performing loans are identified. The monthly repayments through the payroll are monitored on an ongoing basis and any non compliance is immediately flagged by management and adequate provision made against non performing loans. The credit risk on liquid funds is limited because the counterparties are first-class banks.

Ageing of past due but not impaired

	2008	2007
60 - 90 days	**170,200**	192,890
90 - 120 days	**221,098**	209,878
	391,298	402,768

Included in the Authority's loan receivable balance are debtors with a carrying amount of **ZK391 million** (2007: ZK402 million) which are past due at the reporting date for which the Authority has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Authority does not hold any collateral over these balances.

The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the expected liquidation proceeds.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2008

K'000

10 BANK AND CASH BALANCES

	2008	2007
Zambia National Commercial Bank Plc	**16,249,613**	30,344,737
Finance Bank Zambia Limited	**4,242,589**	2,462,393
Bank of Zambia	**1,064,593**	455,519
Cavmont Capital Holdings Plc	**120,308**	81,704
Union Bank Zambia Limited (In Liquidation)	**15,976**	35,799
Investrust Ban Plc	**3,942**	-
	21,697,020	33,380,152
Cash on-hand	**832,611**	53,971
	22,529,631	33,434,123

Bank balances are represented by:

	2008	2007
Call accounts	**18,869,134**	30,792,045
Revolving fund accounts	**2,827,886**	2,588,107
Imprest accounts for stations	**832,611**	53,971
	22,529,631	33,434,123

The revolving fund accounts are held with Zambia National Building Society and Zambia National Commercial Bank Plc and are for employee loans.

11 BANK OVERDRAFT

	2008	2007
Zambia National Building Society	**49,626**	**-**

The overdraft position at the year end was a result of the timing differences between the transfer of monies from one bank account into the Zambian National Building Society account on which charges were passed.

12 CUSTOMS DEPOSITS ACCOUNTS

The Customs deposits accounts relate to monies held on behalf of importers pending assessments. The Customs & Excise Act requires that after 30 days any monies not refunded to importers be estreated to the Government. The corresponding liability to refund importers is included as a payable.

13 TAX REFUNDS ACCOUNTS

	2008	2007
Value Added Tax ("VAT") refund	**36,780,000**	38,262,882
Customs refund	**2,890,000**	5,464,784
Income tax refund	**400,000**	4,460,746
	40,070,000	48,188,412

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

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14 TRADE PAYABLES

Trade payables principally comprise amounts outstanding in respect of trade purchases and ongoing costs, as well as amounts accrued in respect of operating costs.

The average credit period on purchases of certain goods is **30 days** (2007: 30 days). No interest is charged on trade payables. The Authority's Finance Department ensures that all payables are paid within the credit timeframe.

Management consider that the carrying amount of trade payables approximates their fair value.

15 OTHER PAYABLES

	2008	2007
Deferred liabilities (note 16)	**19,592,645**	18,632,427
Sundry payables and accruals	**10,438,852**	10,171,998
Pay As You Earn	**7,286,546**	5,712,430
NAPSA	**643,721**	668,684
	37,961,765	35,185,539

Other payables principally comprise amounts outstanding in respect of employee related accruals and sundry suppliers, as well as amounts accrued in respect of operating costs.

The Governing Board consider that the carrying amount of other payables approximates their fair value.

16 DEFERRED LIABILITIES

Deferred liabilities comprises amounts accrued in respect of employee related liabilities and due after more than one year.

End of contract gratuity	**30,036,455**	28,762,732
Leave pay	**7,067,955**	6,970,083
Other	**1,722,735**	1,414,677
	38,827,145	37,147,493
Less: Employee related accruals		
- included under non-current liabilities	**(19,234,500)**	(18,515,066)
Included under current liabilities (note 15)	**19,592,645**	18,632,427

Management consider that the carrying amount of deferred liabilities approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

K'000

16 DEFERRED LIABILITIES (CONT'D)

Included in employee related accruals are the following:

	End of contract gratuity	Leave pay	Other	Total
Balance at the beginning of the year	28,762,732	6,970,083	1,414,677	**37,147,492**
Additional provisions for the year	16,716,565	8,271,282	1,200,500	**26,188,347**
Payments during the year	(15,442,842)	(8,173,410)	(892,442)	**(24,508,694)**
At end of the year	**30,036,455**	**7,067,955**	**1,722,735**	**38,827,145**

Maturity analysis

	End of contract gratuity	Leave pay	Other	2008 Total	2007 Total
Amounts falling due within one year					
- included under current liabilities	11,349,410	6,520,500	1,722,735	**19,592,645**	18,632,427
Amounts falling due after more than one year					
- included under non-current liabilities					
as deferred liabilities	18,687,045	547,455	-	**19,234,500**	18,515,066
	30,036,455	**7,067,955**	**1,722,735**	**38,827,145**	37,147,492

17 FINANCIAL INSTRUMENTS

The Governing Board manage the Authority to ensure that the Authority will be able to continue as a going concern while maximising the revenue collection on behalf of the government. The Authority does not borrow funds.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies to the financial statements.

Categories of financial instruments

	2008	2007
Financial assets		
- Loans advances and receivables	**9,452,246**	8,108,678
Financial liabilities		
- Other payables	**19,234,500**	65,113,171

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17 FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management objectives

The Authority's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates. 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.

Risk management is carried out by the management under policies approved by the Governing Board. Management identify, evaluate and hedge financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk.

The Authority does not enter into or trade financial instruments, including derivative financial instruments, to hedge it's risk exposure.

Market risk

The Authority's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Authority does not enter into contracts to manage its exposure foreign currency risk, such as forward foreign exchange contracts to hedge the exchange rate risk arising on investments denominated in foreign currency and investments in offshore investments.

Foreign currency risk management

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 Governing Board.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

At 31 December 2008, if the Kwacha had appreciated or depreciated by 5% against the US dollar with all other variables held constant, the increase or decrease in net assets for the year would have been **K252 million** (2007: K2.8 billion) higher or lower, mainly as a result of US dollar receivables and bank balances.

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17 FINANCIAL INSTRUMENTS (CONT'D)

Interest rate risk management

The Authority is not exposed to interest rate risk as the Authority uses funds received from the Government for its operations.

Credit risk management

Credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Authority. The Authority is exposed to credit risk in respect of loans and receivables to employees that leave.

The Authority has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Authority's maximum exposure to credit risk is analysed below:

	2008	2007
Bank and cash balances	**22,529,631**	33,434,123
Loans and other receivables	**9,452,246**	8,108,678
	31,981,877	41,542,801

No collateral is held for the loans and advances except for mortgage and car loans.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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17 FINANCIAL INSTRUMENTS (CONT'D)

The Authority manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

Year ended 31 December 2008

	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Liabilities					
Other payables and accruals	26,801,548	20,119,400		-	46,920,948
Deferred liabilities	-	-	19,234,500	-	19,234,500
	26,801,548	20,119,400	19,234,500	-	66,155,448
Assets					
Receivables due within 1 year	-	12,017,081	-	-	12,017,081
Receivables due after 1 year	-	-	(3,865,334)	1,300,500	(2,564,834)
	-	12,017,081	(3,865,334)	1,300,500	9,452,246
	(26,801,548)	**(8,102,319)**	**(23,099,834)**	**1,300,500**	**(56,703,202)**

Year ended 31 December 2007

	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Liabilities					
Other payables and accruals	26,983,722	19,614,383	-	-	46,598,105
Deferred liabilities	-	-	18,515,066	-	18,515,066
	26,983,722	19,614,383	18,515,066	-	65,113,171
Assets					
Receivables due within 1 year	-	2,984,326	-	-	2,984,326
Receivables due after 1 year	-	-	4,567,394	556,958	5,124,352
	-	2,984,326	4,567,394	556,958	8,108,678
	(26,983,722)	**(16,630,057)**	**(13,947,672)**	**556,958**	**(57,004,493)**

18 CONTINGENT LIABILITIES

The Authority is involved in various claims and lawsuits incidental to its business. In the opinion of the Governing Board, these claims and lawsuits in the aggregate will not have a significant adverse effect on the financial statements.

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19 OPERATING LEASE ARRANGEMENTS

Operating leases relate to the buildings owned by the Authority with lease terms of between 3 to 10 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessees do not have options to purchase the properties at the expiry of the lease period.

The property rental income earned by the Authority from its buildings, which is leased out under operating leases, amounted to **ZK320million** (2007: ZK292 million).

20 RELATED PARTY TRANSACTIONS

In the context of the Authority, related party transactions include any transactions made by any of the following:

- The Government of the Republic of Zambia;
- Government ministries and parastatals; and
- Members of the Governing Board and key management personnel.

The transactions to be reported are those that affect the Authority in making financial and operating decisions.

Examples of such transactions include:

- Funding;
- Rental;
- Investments;
- Financial (loans);
- Procurement and investment contracts; and
- Disposal of assets.

The Authority undertakes to disclose the nature of related party relationships, types of transactions necessary for the understanding of the annual financial statements.

Transactions

The effect of related party transactions on the results for the year are as follows:	**2008**	2007
- Government funding received	**210,790,000**	217,000,854
Year end balances		
Tax refund accounts - included in current assets and liabilities (note 11)	**40,070,000**	48,188,412
Customs deposit accounts - included in current assets and liabilities (note 10)	**3,099,959**	4,692,380

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2008

K'000

20 RELATED PARTY TRANSACTIONS (CONT'D)

Compensation of key management personnel

The remuneration of Commissioners, Directors and other members of key management is determined by the Governing Board having regard to Government funding received and market trends.

The remuneration of Commissioners, Directors and other members of key management during the year was as follows:

	2008	2007
Short term benefits	**9,231,782**	8,872,677
Post employment benefits	**1,856,172**	1,146,260
	11,087,954	10,018,937

21 EVENTS AFTER THE BALANCE SHEET DATE

There have been no subsequent events that require adjustment to or disclosure in these financial statements.

ZAMBIA REVENUE AUTHORITY

EXPENDITURE ANALYSIS

for the year ended 31 December 2008

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EMPLOYEE BENEFITS EXPENSES	2008	2007
Basic pay	**70,421,927**	62,238,506
Other allowances	**44,757,312**	39,181,687
Housing allowances	**28,846,733**	26,640,472
NAPSA: employer's contributions	**3,822,601**	3,755,807
Medical expenses	**2,671,057**	2,678,725
Insurance	**2,257,102**	2,629,169
Training	**2,116,945**	1,187,113
Staff welfare	**1,527,651**	1,396,488
Workers' compensation	**390,815**	1,058,175
	156,812,143	140,766,142

ADMINISTRATIVE EXPENSES		
Repairs and maintenance	**10,229,697**	3,337,838
Postage and telephones	**4,158,274**	3,469,849
Security	**4,069,214**	1,450,026
Travel expenses	**3,456,148**	1,936,326
Legal and professional fees	**3,187,697**	9,060,389
Printing and stationery	**2,349,940**	2,377,183
Advertising and public relations	**1,546,851**	127,355
Sundry expenses	**705,039**	121,487
Electricity, water and rates	**666,967**	622,953
Bank charges and interest	**651,289**	724,051
Cigarette stamps	**555,804**	613,428
Insurance	**491,960**	220,559
Conferences and seminars	**464,941**	162,450
Staff uniforms	**451,686**	165,706
Subscriptions and publications	**393,395**	617,620
Office rentals	**290,787**	481,173
Board expenses	**113,620**	182,098
Audit expenses	**105,750**	225,040
Bad debt	**-**	962,987
	33,889,059	26,858,518

EXPENDITURE ANALYSIS (CONT'D)
for the year ended 31 December 2008

K'000

OTHER OPERATING COST	2008	2007
Professional fees	**11,199,794**	8,555,062
Local travel	**5,825,575**	4,119,233
Field work - fuel	**2,919,976**	1,717,302
Repairs	**1,726,195**	1,386,332
Advertising/promotional material	**860,166**	288,869
Insurance	**771,647**	556,437
Fuel	**670,311**	534,937
Relocating	**606,130**	403,832
Foreign travel	**546,201**	565,239
Net exchange losses	**158,059**	-
Disturbance allowance	**98,626**	6,642
Licenses	**46,917**	49,813
Tyres and tubes	**3,560**	172,501
	25,433,157	18,356,199

NOTES

ZAMBIA REVENUE AUTHORITY'S TAXPAYER CHARTER

No	Service	Standard
1	Tax Registration	We undertake to complete the registration process within 3 days.
2	VAT Refund	We undertake to pay the refund within 30 days from the date of lodgment of a VAT refund claim.
3	Income Tax Refund	We undertake to pay the refund within 45 days of submission of lodgment of an income tax return.
4	Customs Refund (Duty Drawback, General, Estreated deposits)	We undertake to pay the refund within 30 days from the date of lodgment.
5	Customs Deposit Refund (except refund for estreated deposits)	We undertake to pay the refund within 48 hours (2 days) of the submission of a refund claim.
6	Customs Declaration	We undertake to process a clean customs declaration within 1.5 days.
7	Tax Clearance Certificate	We shall issue a Tax Clearance Certificate within 48 hours (2 days) upon receipt of an application.
8	Service Efficiency	We undertake to attend to clients within 20 minutes of the ir arrival at the Customer Service Centre.
9	Fairness	We undertake to allow our clients their right to appeal; inform them of their rights and obligations and treat them equitably, and in accordance with the law.
10	Information	We undertake to provide clear information on tax matters.
11	Acknowledge comments and complaints	We undertake to acknowledge comments, complaints and queries within 5 working days of their receipt.
12	Respond to comments and complaints	We undertake to respond to all comments complaints and queries within 14 days of their referral to the appropriate manager.
13	Privacy	We shall treat tax matters with privacy and confidentiality.

ZRA CORPORATE VALUES

Integrity
Exhibiting the highest standards of personal probity and behaviour.

Professionalism
Performing official duties with skill, care and diligence and provide the public with service and advice in a professional manner.

Fairness
Performing official duties in an impartial manner free of political, personal or other bias.

Equity
Treating all taxpayers, colleagues and members of the public equitably in accordance with the provisions of legislation and procedure in force.

Courtesy
Treating all taxpayers, colleagues and members of the public with courtesy and being sensitive to their rights, duties and aspirations.

Goal Orientation
Participating in setting of personal goals and working onwards personal development.

Team work
Working as a team, not only to reinforce each others' divisional functions, but also at collegiate level in order to strengthen mutual confidence and trust.

Value for Money
Avoiding wastage and extravagant use of resources.

ZAMBIA REVENUE AUTHORITY

Working To Serve You Efficiently

www.zra.org.zm